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Singapore in prime position to take the next big leap in taxation

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Singapore, 19 November 2015 – PwC Singapore today launched a bold paper,

entitled “**Singapore: Sovereignty, Society, Substance, Success**”, that makes recommendations to reform Singapore’s tax system.

As Singapore celebrates Golden Jubilee, it is timely for Singapore to review our tax system which has served the nation so well since independence. Given the recent global developments that aim to clamp down on Base Erosion and Profit Shifting (BEPS) practices of some multinationals and the increasing emphasis on tax transparency, there is a need for Singapore to re-position itself for value creation to fuel our economy growth.

Said Chris Woo, Tax Leader, PwC Singapore:

“In light of the changing global tax environment and Singapore’s evolving position as a value-creating economy, it is an opportune time to review our current tax policy to solidify our position as an attractive and substantive location of business. This will also help to cater to the growing need for increased government revenue to fund more social and welfare programmes.”

PwC Singapore recommends that-

1. **Singapore should continue to use tax incentives to attract the industries** that will create value for the Singapore economy and society, where such incentives continue to be based on sound principles consistently applied and economic substance being established in Singapore. It is necessary to strike a balance between promoting greater transparency and, preserving taxpayers’ confidentiality and Singapore competitiveness. Singapore would benefit from publishing information such as industry summary data about its incentive schemes, the broad requirements for it to apply, the number of taxpayers enjoying the incentives and other relevant economic features.
2. **Companies which are granted a tax incentive in Singapore should be subject to higher standards of self-assessment.** It is a *quid pro quo*. If tax incentives are used as an economic tool, taxpayers need to do their part to justify the benefits derived: they must show the incremental contributions to Singapore’s economy. Such a demonstration could come from having relevant controls to ensure compliance with international tax principles.
3. **Utilise tax incentives for local enterprises to increase Singapore’s**

tax revenue. New foreign direct investments continue to be targeted but certain high-growth high potential segments of the domestic economy may well be incentivised to grow further. Tax revenues can continue to expand where the economy continues to grow.

4. **Additional government revenue to fund social support and welfare programmes must be raised.** Given the ageing population, Singaporeans will come to need or expect more social support, and Singapore's tax rates are low compared to countries with generous welfare programmes. Enlarging the economic pie, with the resulting broadening of the tax base, would no doubt be the preferred approach. However, nothing should be off the table, including potentially increasing the GST over time to provide a stable income base for funding social expenditure. We are mindful though that any GST rate increase would have a disproportionate financial impact on the less well-off, so consideration should be given to compensatory arrangements to reduce the higher marginal impact on those most affected.
5. **Singapore should establish an Asian/ASEAN tax arbitration hub** by building on its position as a commercial judicial centre for Asia. This will help multinationals settle transfer pricing and other cross-border tax disputes in an equitable way.
6. **Singapore should agree transfer pricing safe harbour rates with other tax authorities.** The uncertainty faced by taxpayers when dealing with transfer pricing disputes is significant. One way to further deal with such disputes is through bilateral Advance Pricing Agreements (APAs). APAs provide taxpayers with certainty through a pricing model which is documented and agreed between revenue authorities up-front, thereby providing certainty. In particular, Singapore should encourage other tax authorities of main trading partners, starting with other members of ASEAN, to agree to a range of transfer pricing safe harbour rates to provide certainty for transfer pricing of common activities. This will save considerable time and cost for multinationals operating on a cross-border basis.
7. **Singapore should continue to expand its treaty network.** While Singapore has an extensive network of double tax agreements with other countries, that network needs to be expanded. Singapore has taken many steps over the years to continually modernise its tax treaties and this should continue as tax competition (including through new treaties being executed

between other countries) is only intensifying. A double tax agreement with the United States (US) is something that the business community should continue to lobby for.

8. **Sanitised versions of the private rulings be published and issued to taxpayers.** The option was considered recently and it was concluded even with sanitised rulings taxpayer confidentiality could not be guaranteed even where the rulings are heavily sanitised. Most other countries have dealt with the issue of confidentiality and do publish versions of their rulings. In this regard, it is also relevant it is likely that it will become necessary to share rulings with other competent authorities.
9. **Singapore can be more appealing for the centralisation of research and development (R&D), and Intellectual Properties management activities.** Tax reform can catalyse and propel Singapore's progress towards its objective of becoming a global IP management hub. A broader interpretation of R&D for tax purposes, a pre-claim framework for Singapore businesses to obtain upfront certainty on eligibility of projects for R&D claims, and a suite of tax incentives can boost Singapore's already beneficial fiscal regime for IP management activities.

Concluded Chris Woo, Tax Leader, PwC Singapore:

“The changes are taking place now. The way tax systems are evolving for all the major economies of the world present a tremendous opportunity for Singapore to reflect on its past success and adapt its tax system for the future Singapore.”

-ENDS-

Notes to Editors

Download a copy of the full report [here](#).

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