

# Singapore Budget 2023

## Tax Alert

The Budget 2023 speech delivered by Deputy Prime Minister and Finance Minister Lawrence Wong on 14 February 2023 titled “MOVING FORWARD IN A NEW ERA” addresses the challenges ahead for Singapore businesses and families amidst these times of global economic slowdown, geopolitical tensions and rising inflation. The Budget focuses on boosting Singapore’s resilience by introducing tax and non-tax measures for businesses and her people. The enhanced Assurance Package and enhanced permanent Goods and Services Tax (“GST”) Voucher scheme help Singaporean families to tide through higher inflation and cushion them from the impact of the GST rate increases. Whilst there are generous support measures announced, the Budget also announced higher marginal buyer stamp duty rates for higher-value residential and non-residential properties. On the global front, the Budget has announced Singapore’s intention to implement Pillar 2 Base Erosion and Profit Shifting 2.0 project with effect from 2025.

### On Corporate Tax

In this Budget, there is no proposal for any change to the current corporate income tax rate of 17% and the partial exemption scheme for companies. The partial tax exemption for normal chargeable income of up to S\$200,000 remains as follows:

- 75% exemption of up to the first S\$10,000; and
- 50% exemption of up to the next S\$190,000.

### On Personal Tax

Since the introduction of the two new income bracket tiers at the tax rates of 23% and 24% in Budget 2022, which will take effect from the Year of Assessment (“YA”) 2024, there is no change proposed to the personal income tax rates in the current Budget.

### On Goods & Services Tax

The increase in GST rate from 8% to 9% with effect from 1 January 2024 will go ahead as planned. While we await the new e-Tax Guide for the GST rate change from 8% to 9% that will be published by the Inland Revenue Authority of Singapore (“IRAS”) by April 2023, we expect little or no change to the transitional rules in the new e-Tax Guide. Businesses can therefore rely on their experience from the first GST rate change to prepare themselves for the next round of GST hike.

This tax alert highlights some of the key tax and non-tax measures.

# Developing Local Enterprises

As part of the Government's initiative to develop local enterprises, efforts have been taken to strengthen the enterprise financing ecosystem via a wide range of private equity and venture capital funds, as well as financing from other financial institutions based here. The Government has also been mobilising investments in small and medium-sized enterprises ("SMEs") through Heliconia Capital, which deploys equity financing to SMEs and catalyses additional growth capital from the private sector.

To date, the Government have committed S\$1 billion to this effort, and invested in about 60 Singapore-based companies. This has in turn catalysed around S\$2 billion of additional investments into these companies.

It has been announced in the Budget that the Government will set aside an additional S\$150 million via the SME Co-Investment Fund to invest in promising SMEs and to catalyse an additional S\$300 million of private investments to support the SMEs.

The Government will also set aside S\$1 billion to provide a further boost to the Singapore Global Enterprises initiative to help promising companies grow into globally leading enterprises.

## Enterprise Financing Scheme ("EFS")

With effect from 29 October 2019, Enterprise Singapore ("EnterpriseSG") streamlined their existing financing schemes into one umbrella scheme known as the EFS. EFS is to enable Singapore enterprises especially SMEs to access financing more readily throughout their various stages of growth. It has been announced in the Budget that the EFS will be extended for another year till 31 March 2024. This includes the 70% Government risk-share for trade loans, the enhanced maximum quantum for trade and working capital loans, and support for domestic construction projects via project loans. Given the current high interest rate environment, this extension of the scheme is a welcome move by the Government especially for SMEs to obtain affordable alternative funding.

## Maintaining the Competitiveness and Resilience of the Tax System

### Implementing the Global Anti-Base Erosion ("GloBE") Rules and Domestic Top-up Tax ("DTT")

We were pre-empted in Budget 2022 that the minimum effective tax rate under the GloBE Rules was being studied. This year, the Budget has announced that Singapore plans to implement the GloBE rules and DTT from businesses' financial year starting on or after 1 January 2025.

To ensure that Singapore remains competitive in attracting and retaining investments, Singapore will review and update its broader suite of industry schemes.

Based on current understanding, the implementation of the GloBE rules would result in the following outcome for multinational enterprises ("MNE"s) with consolidated annual revenue of at least €750 million in two out of the preceding four financial years and with operations in Singapore:-

- a) For MNEs with relevant parent entities in Singapore, if their effective tax rate in any jurisdiction is below 15%, the Singapore parent entity may be subject to a top-up tax to bring the jurisdictional effective tax rate to 15%;
- b) For MNEs with entities in Singapore with low effective tax rates, a domestic top-up tax may apply;
- c) For MNEs whose relevant parent entity and other entities are in jurisdictions which have not implemented the equivalent of (a) or (b) above, the Singapore entity may be denied a tax deduction (or subject to an equivalent adjustment) to the extent that the top-up tax is not charged elsewhere.

Singapore will continue to monitor international developments and if there are additional delays, Singapore will adjust the implementation timeline. Singapore will also continue to engage businesses and give them sufficient notice ahead of any rules becoming effective.

## Introducing the Enterprise Innovation Scheme (EIS)

The EIS is introduced to encourage businesses to press on with research and development ("R&D") innovation. From YA 2024 to YA 2028, businesses may claim:

- a 400% tax deduction / allowance on the first S\$400,000 of qualifying expenditure incurred on qualifying R&D projects conducted in Singapore, qualifying intellectual property ("IP") registration, acquisition and licensing of IP rights (applicable to businesses that generate revenue of less than S\$500 million in the relevant YA), qualifying training expenditure on courses that are eligible for SkillsFuture Singapore funding and aligned with the Skills Framework; and
- a 400% tax deduction on the first S\$50,000 of qualifying expenditure incurred on qualifying innovation projects carried out with polytechnics, the Institute of Technical Education, and other qualified partners.
- In lieu of tax deductions or allowances (and subject to conditions), businesses may opt for a non-taxable cash payout at a cash conversion ratio of 20% of the total qualifying expenditures (capped at S\$100,000 per YA) across all qualifying activities as mentioned above. Applications for the cash payout are to be submitted together with the filing of the businesses' income tax returns.

The sunset dates for sections 14A, 14C, 14D, 14U and 19B of the Singapore Income Tax Act ("SITA") will be extended till YA 2028, in line with the above enhancements.

All other conditions under sections 14A, 14C, 14D, 14U and 19B of the SITA remain the same. The IRAS will provide further details of the changes by 30 June 2023.

## Enhancement of the Double Tax Deduction for Internationalisation (“DTDi”) Scheme

To support businesses to overcome initial challenges and build up capabilities in internationalising via e-commerce, the scope of the DTDi scheme will be enhanced to include a new qualifying activity “e-commerce campaign”. The following qualifying e-commerce campaign startup expenses\* incurred on or after 15 February 2023 and paid to e-commerce platform/service providers will be covered under the enhanced DTDi scheme:

Qualifying activity	Description
Business advisory	Advisory on market promotion and execution plans (e.g. choice of suitable e-commerce platforms).
Account creation	Assistance with setting up accounts on e-commerce platforms, and the right to sell on e-commerce platforms.
Content creation	Design of e-commerce campaign publicity materials (e.g. e-store banners, online product images).
Product listing and placement	Uploading content on products/services to e-commerce platforms, and selection of suitable frequency and timing to display content on products/services.

\* Businesses are required to seek prior approval from EnterpriseSG to enjoy DTDi on the new qualifying activity. The DTDi support on e-commerce campaigns will be approved for a maximum period of one year applied on a per-country basis.

Further details on the changes will be provided by EnterpriseSG by 28 February 2023.

## Option to accelerate the write-off of the cost of acquiring plant and machinery (“P&M”)

Businesses that incur capital expenditure on the acquisition of P&M in the basis period for the YA 2024 (i.e., financial year ending in 2023) will have an option to accelerate the capital allowance (“CA”) claims over two years, in addition to options currently available under sections 19 and 19A of the SITA. If exercised, this option is irrevocable and no deferment of CA claims is allowed.

The rates of accelerated CA allowed are as follows:

- 75% of the cost incurred in the first year (i.e., YA 2024); and
- 25% of the cost incurred in the second year (i.e., YA 2025).

## Option to accelerate the deduction for renovation or refurbishment (“R&R”) expenditure

Businesses that incur qualifying expenditure on R&R during the basis period for the YA 2024 (i.e., financial year ending in 2023) will have an option to claim R&R deduction in one YA.

This option is in addition to the existing option of claiming the deduction over three YAs (also known as section 14N of the SITA deduction). This one YA claim option, if exercised, is irrevocable. The cap of S\$300,000 for every relevant period of three consecutive YAs will still apply.

## Extension of various tax incentive schemes

The following tax incentive schemes will be extended till 31 December 2028:

Tax incentive schemes	Overview of the tax incentive schemes
Investment allowance ("IA") scheme	An additional tax allowance is provided on approved projects, calculated based on a percentage of the amount of qualifying fixed capital expenditure (net of grants) incurred.
Pioneer Certificate Incentive ("PC")	Exemption from corporate income tax on income from qualifying activities.
Development and Expansion Incentive ("DEI")	Concessionary tax rates of 5% or 10% on qualifying income.
IP Development Incentive ("IDI")	Concessionary tax rates of 5% or 10% on a percentage of qualifying IP income.
Submarine Cable Systems	<ul style="list-style-type: none"> <li>a) Withholding tax exemption on payments made to non-Singapore tax residents for the use of international telecommunications submarine cable capacity under the indefeasible right to use ("IRU") agreements.</li> <li>b) Writing down allowance for the acquisition of an IRU over their useful life.</li> <li>c) IA for the construction and operation of submarine cable systems in Singapore.</li> </ul>

The following tax incentive scheme will be extended till 31 March 2026.

IA-100% scheme for Automation Projects	100% tax allowance is provided on the amount of approved capital expenditure (net of grants) on automation projects approved by EnterpriseSG.
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## Withdrawal of tax deduction for expenditure incurred on building modifications for benefit of disabled employees

In light of the implementation of other support measures (e.g., the Open Door Programme Job Redesign Grant) which has similar objectives in providing support to employers in recruiting and retaining disabled employees, or to add or alter business premises for the purpose of facilitating the mobility or work of any disabled employee, this scheme has been withdrawn with effect from 15 February 2023.

# Building a Fairer and More Resilient Tax System

## Working Mother's Child Relief ("WMCR")

For qualifying Singapore citizen child born or adopted before 1 January 2024, the amount of WMCR claimable by the working mother is as follows:

Child order	WMCR amount (S\$)
1 <sup>st</sup>	15% of working mother's earned income
2 <sup>nd</sup>	20% of working mother's earned income
3 <sup>rd</sup> and beyond	25% of working mother's earned income

With effect from YA 2025, eligible working mothers whose children are Singapore citizens born or adopted on or after 1 January 2024, can claim WMCR amount as follows:

Child order	WMCR amount (S\$)
1 <sup>st</sup>	8,000
2 <sup>nd</sup>	10,000
3 <sup>rd</sup> and beyond	12,000

The total WMCR claimable is capped at 100% of the mother's earned income for the YA and the total qualifying child relief / handicapped child relief plus WMCR is capped at S\$50,000 per child.

## Foreign Domestic Worker Levy Relief ("FDWLR")

With effect from YA 2025, FDWLR will lapse.

## Grandparent Caregiver Relief ("GCR")

With effect from YA 2024, working mothers will be able to claim GCR in respect of caregivers who have trade, business, profession, vocation or/and employment income not exceeding S\$4,000 in the year preceding the YA of claim.

## Buyer's Stamp Duty ("BSD")

For properties acquired on or after 15 February 2023, new marginal BSD rates will be applicable for higher-value residential and non-residential properties as follows:

Higher of purchase price or market value of the property	BSD Rate	
	Residential property	Non-residential property
First S\$180,000	1%	1%
Next S\$180,000	2%	2%
Next S\$640,000	3%	3%
Next S\$500,000	4%	4% (new)
Next S\$1,500,000	5% (new)	5% (new)
Amount exceeding S\$3 million	6% (new)	

Under the transitional provision, BSD rates on or before 14 February 2023 will apply to properties acquired that meet all the conditions below:

- The Option to Purchase ("OTP") was granted by sellers to potential buyers on or before 14 February 2023;
- This OTP is exercised on or before 7 March 2023; or within the OTP validity period, whichever is earlier; and
- This OTP has not been varied on or after 15 February 2023.

## Fostering a Culture of Giving

### Extend the 250% tax deduction for qualifying donations made to Institutions of a Public Character ("IPCs") and eligible institutions

The 250% tax deduction for qualifying donations made to IPCs and other eligible institutions will be extended to qualifying donations made from 1 January 2024 to 31 December 2026. All other conditions of the scheme remain the same.

## Eligibility Criteria

Eligible donations	Eligible recipients	Eligible donors
Cash donations	Any IPC and the Singapore Government	All donors
Gifts of shares listed on the Singapore Exchanges ("SGX") or of units in unit trusts traded in Singapore or listed on the SGX	Any IPC	Individual donors only
Gifts of artefacts	Approved museums (approval by the National Heritage Board)	All donors
Donation of public sculptures	Approved recipients (approval by the National Heritage Board)	All donors
Gifts of parcels of land or buildings	Any IPC	All donors

## Extend and enhance the Corporate Volunteer Scheme ("CVS")

The Business & IPC Partnership Scheme will be renamed to CVS with effect from 1 April 2023. The CVS provide businesses with 250% tax deduction on qualifying expenditure incurred when their employees volunteer, provide services or are seconded to IPCs.

The CVS will be extended from 31 December 2023 to 31 December 2026 and, with effect from 1 January 2024, will be enhanced with the following:

- The scope of qualifying volunteering activities will be expanded to include activities which are conducted virtually or outside of the IPCs' premises.
- The cap on qualifying expenditure per IPC per calendar year has been doubled from S\$50,000 to S\$100,000.

The qualifying expenditure cap of S\$250,000 per business per YA, as well as all other conditions of the scheme, remain the same.

## Philanthropy Tax Incentive Scheme for Family Offices

A tax incentive scheme, which allows qualifying donors to claim 100% tax deduction for overseas donations made through qualifying local intermediaries, will be introduced for Family Offices operating in Singapore. The tax deduction is capped at 40% of the donor's statutory income.

The Family Offices must have a fund that qualify for the section 13O or 13U tax incentive schemes and meet eligibility conditions. The Monetary Authority of Singapore will provide further details by 30 June 2023.



# Strengthening our social compact

## Increase in senior worker Central Provident Fund (“CPF”) contribution rates

As announced in 2019, CPF contribution rates for senior workers will gradually increase for Singaporean and Permanent Resident workers aged above 55 to 70. The next increase will take place on 1 January 2024. To mitigate the rise in business costs, employers will be provided with a one-year CPF Transition Offset equivalent to half of the year 2024 increase in employer CPF contribution rates for every Singaporean and Permanent Resident worker they employ aged above 55 to 70. This will be provided automatically to employers and employers do not need to apply for the offset.

## Increase in minimum CPF monthly payouts for seniors on the Retirement Sum Scheme (“RSS”)

With effect from 1 June 2023, the minimum CPF monthly payouts will increase from S\$250 to S\$350 for all seniors on the RSS.

## Increase in CPF monthly salary ceiling

The CPF monthly salary ceiling will be increased from S\$6,000 to S\$8,000 over 4 years. With effect from 1 September 2023, the CPF monthly salary ceiling will be S\$6,300. From 1 January 2024, 1 January 2025 and 1 January 2026, the CPF monthly salary ceiling will be increased to S\$6,800, S\$7,400 and S\$8,000 respectively. There will be no change to the CPF annual salary ceiling, currently set at S\$102,000.

## Platform Workers CPF Transition Support (“PCTS”) scheme

CPF contribution rates by platform workers (“PWs”) and platform companies will be aligned with the rates of employees and employers respectively (“Aligned CPF contribution rates”) over a phase-in period of 5 years. This will be mandatory for PWs who are below the age of 30 in the first year of implementation. PWs who are aged 30 and above have the option to opt in to the full CPF contribution regime in the first year of implementation.

The PCTS will be introduced to offset part of the PW’s share of the year-on-year increase in CPF Ordinary and Special Accounts contribution rates from Years 1 to 4. Singaporean PWs earning S\$2,500 or less per month (including from platform work and other employment sources) will be eligible if they are required to or opt in to make contributions based on the Aligned CPF Contribution Rates. More details about the PCTS will be announced at the Ministry of Manpower’s Committee of Supply 2023.

# How can Baker Tilly assist?

Baker Tilly in Singapore ranks among the top 10 largest accounting and business advisory firms locally.

With a rich heritage, the firm is well-positioned to provide a comprehensive range of services to businesses, including assurance, tax, deal advisory, governance and risk, restructuring and recovery, outsourcing and corporate secretarial services. Our diverse client base ranges from family-owned businesses to listed companies and multinational organisations operating in a variety of sectors.

To learn more, visit [www.bakertilly.sg](http://www.bakertilly.sg).

At Baker Tilly Singapore, we offer a full suite of tax services that ranges from corporate and personal tax compliance services, tax advisory services, merger and acquisition tax services, tax governance services, tax incentive services, Goods and Services Tax services and transfer pricing services.

Our tax team is well placed to assist you to understand how this Budget impacts your business. Examples of some of the areas that we can assist are:

## Implementing the GloBE Rules and DTT in 2025

Baker Tilly, with the support of Baker Tilly's integrated global network, can help you navigate the complex rules and assess potential impacts to your organisation. We will give you the insights you need to communicate with senior executives, audit committees and other stakeholders and evaluate appropriate actions so that your organisation is ready when the rules are implemented.

## Introduction of EIS to encourage R&D innovation

The key question is how to identify eligible R&D innovation projects that would qualify for this enhanced tax deduction/allowance. This requires a deep understanding of the definition of R&D for tax purposes and how this applies to the business activities and projects undertaken by the company. We can assist with this assessment of eligible activities/projects and prepare and submit applications including the application for cash payout.

## Enhancement of the DTDi Scheme and various tax incentive schemes

As part of Baker Tilly's tax incentive services, our team can assist you to assess which of the various tax incentives available is most appropriate for your business/organisation. We will support you in the application process to the relevant authorities including assisting with any subsequent compliance reporting to the authorities.

## Various changes on corporate tax and personal tax matters

Getting tax compliance right is increasingly complicated with the accelerating pace of legislative and regulatory changes. As part of the tax compliance services at Baker Tilly, we will consider the various changes introduced in this Budget carefully for tax implications with you, upon legislated, when preparing your tax returns and computations.

## Contact us

General Line  
T: +65 6336 2828  
general@bakertilly.sg

If you would like further information in relation to the issues outlined above, please contact any of our partners below:

## Tax services



**Sim Siew Moon**  
Senior Partner & Head of Tax  
Tax

D: +65 6213 7019  
siewmoon@bakertilly.sg



**Bernard Yu**  
Partner  
Tax

D: +65 6213 5990  
bernard.yu@bakertilly.sg



**Yvonne Chua**  
Partner  
Goods and Services Tax (GST)

D: +65 6213 7000  
yvonne.chua@bakertilly.sg

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