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Singapore Budget 2022: Key tax updates

In brief

Singapore Budget 2022 makes significant strides in charting Singapore's path into the future. As the nation faces an ageing population and seeks to recover from a prolonged pandemic amidst an increasingly volatile global landscape, Budget 2022 aims to prepare Singapore to meet these challenges while securing the opportunities of the future.

What is of particular note in Budget 2022 is the announcement of changes to the tax system that are broadly aimed at building a fairer and more resilient revenue structure for Singapore. Importantly, Singapore is exploring the possible introduction of a minimum effective tax rate for multinational enterprise groups. While the oft-mentioned Goods and Services Tax (GST) increase will not take place this year, the government has confirmed that the increase will be implemented in a staggered, two-step process beginning 1 January 2023. Adjustments will also be made to the carbon tax, property tax and personal income tax rates.

We highlight below the key tax developments from Budget 2022.

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Key takeaways

- The Ministry of Finance is exploring the introduction of a minimum effective tax rate of 15% for multinational enterprise (MNE) groups with annual revenues of at least EUR 750 million.
- The GST rate increase will not take place in 2022 and will remain at 7% for the remainder of the year. Instead, the increase will be staggered over a two-year period and implemented in two steps, taking effect on 1 January 2023 (from 7% to 8%) and on 1 January 2024 (from 8% to 9%).
- The carbon tax rate will be progressively increased from 2024 onwards, with a view to reaching SGD 50 to SGD 80 per tonne by 2030. To support businesses, a transition framework will be introduced to provide companies with allowances for a share of their emissions.
- There have been extensions and enhancements to various tax schemes, including the Approved Royalties Incentive scheme, the Approved Foreign Loan scheme and the withholding tax exemption for the financial sector. Some schemes have also been allowed to lapse, such as the tax incentive scheme for infrastructure trustee-managers/fund management companies.
- Adjustments will be made to the personal income tax rates and property tax rates for residential properties. The top marginal personal income tax rate will be increased with effect from Year of Assessment (YA) 2024, with two additional tax brackets introduced for chargeable income in excess of SGD 500,000 and SGD 1 million. Additionally, property tax rates for residential property will generally be increased across the board, with significantly greater increments for non-owner-occupied residential property and owner-occupied residential property with higher annual values.

In more detail

Budget 2022 was delivered by Singapore's Minister for Finance, Lawrence Wong, on 18 February 2022. As Singapore's economy rebounds from its worst recession (in 2020) since independence, Budget 2022 sets out various measures to not only maintain Singapore's competitiveness in a rapidly changing world, but also raise additional revenue to meet the increased spending needs of the future.

A significant announcement is the potential adjustment of Singapore's income tax system in response to Pillar Two of the Base Erosion and Profit Shifting (BEPS) 2.0 developments, which is to be primarily effected through the Global Anti-Base Erosion (GloBE) rules. A top-up tax termed the minimum effective tax rate (METR) is being explored. If implemented, this will require an in-scope MNE group to pay a top-up tax, such that its income in Singapore will be subject to an effective tax rate of 15%. The minister acknowledged the reduced scope for tax competition internationally, but highlighted the likely intensification of global competition for investments. This will require careful consideration of global tax developments and a tailored calibration of corporate tax measures to suit the Singapore economic landscape.

One of the key trends recognized in Budget 2022 is the rising spending needs of Singapore, driven in part by a rapidly ageing population and a stronger push for investments into social infrastructure. To meet this growing need, the government has announced an array of increases in tax rates aimed at bolstering Singapore's future income stream. This includes increases to the GST rate, the property tax rates for residential properties and the top marginal personal income tax rate. At the same time, the changes to the personal income tax and property tax rates also reflect the government's desire to achieve greater progressivity in the tax system.

Another topic that featured heavily this year is the global climate crisis. The minister reaffirmed the government's commitment to fighting climate change and has accelerated Singapore's target of achieving net zero emissions, aiming to do so by or around 2050. In an effort to propel Singapore's transition toward a greener economy, carbon tax rates will be increased progressively from the current rate of SGD 5 per tonne, with the aim of reaching SGD 50 to SGD 80 per tonne by 2030. To give businesses some breathing room and support them in making the move to cleaner technologies, a transition framework will be put in place to mitigate the impact on business costs while continuing to encourage decarbonization.

Corporate tax changes and tax incentives

Introduction of the METR regime

The minister noted that Singapore is exploring a top-up tax, the METR, in response to the global minimum effective tax rate under the Pillar Two GloBE rules of the BEPS 2.0 project. Broadly, the GloBE rules will impose top-up taxes on an in-scope MNE group where the affected MNE group is subject to an effective tax rate of below 15% in any jurisdiction. A coordinated tax charge is then imposed to bring the effective tax rate of the affected MNE group up to the METR.

In line with the GloBE rules, if adopted, the METR will apply to MNE groups operating in Singapore with annual revenues of EUR 750 million and above, based on the consolidated financial statements of the ultimate parent entity.

The Inland Revenue Authority of Singapore (IRAS) will be studying the design of the regime and industry stakeholders will be consulted. MOF will be tracking international developments on the Pillar Two GloBE rules before deciding on the METR. If adopted, the METR will be aligned with the Pillar Two GloBE rules as far as possible.

Commentary:

By way of background, Pillar Two introduces, among others, global minimum tax rules for MNEs with the agreed minimum tax rate of 15%. The idea of the GloBE rules is that jurisdictions should have the right to tax income of MNEs if those jurisdictions with the primary taxing right do not exercise their taxing right over the income to an adequate extent. Generally, an MNE group with annual revenue of at least EUR 750 million will be in-scope.

The announcement that Singapore is exploring a domestic minimum tax regime is not unexpected, given that countries like the UK and Switzerland have similarly stated their intention to implement a domestic minimum tax.

While Singapore has a standard corporate tax rate of 17%, MNEs with substantive operations in Singapore may be awarded tax incentives and benefit from a lower concessionary tax rate, thereby having an effective tax rate lower than 15%. Even if a company does not enjoy any tax incentive, it could still have an effective tax rate lower than 17% (or even 15%), as the tax base under the GloBE rules (termed "GloBE income") is broader than that under Singapore's current income tax regime and includes items such as capital gains and unrealized revaluation gains on investment assets (which are not currently taxed in Singapore). In such a case, without a domestic minimum tax regime like the METR, Singapore would effectively be allowing other countries to receive the tax revenue that Singapore does not collect, be it as a result of tax incentives or structural features of our domestic income tax regime. If the METR is adopted, the expectation is that the Singapore entities of in-scope MNEs will need to pay a top-up tax on its income to the minimum effective tax rate of 15%. This ensures that Singapore safeguards its taxing rights.

Does that signal the end of tax incentives? This should not be the case as there are MNE groups that might not be in-scope and so could continue to benefit from tax incentives, based on significant economic commitments that they are prepared to make in Singapore.

We welcome the minister's commitment to having IRAS consult the industry on the design of the METR. There will be uncertainties and an anticipated increase in cross-border tax disputes, as countries and businesses alike navigate the rules in the new international tax environment. Businesses today place a growing premium on tax certainty and a close and trusted partnership with the government will be valued. It is also hoped that any domestic minimum tax regime that may be implemented will result in little additional compliance burden for in-scope entities.

Extension and enhancement of the Approved Royalties Incentive

The Approved Royalties Incentive (ARI) was introduced to encourage companies to access cutting-edge technology and knowhow for substantive activities in Singapore. Singapore's domestic royalty withholding tax rate is 10%. Under the ARI, a withholding tax exemption or a reduced withholding tax rate may be granted on approved royalties, technical assistance fees or contributions to R&D costs made to a nonresident for providing cutting-edge technology and knowhow for the purpose of substantive activities in Singapore. The ARI was previously scheduled to lapse after 31 December 2023.

In an effort to continue driving companies to leverage new technologies and knowhow to further develop the capabilities of the local workforce and seize new growth opportunities, the ARI will be extended till 31 December 2028.

Another significant announcement was that the ARI approval process will be simplified. The ARI currently takes an agreement-based approach, such that approval is granted in respect of agreements specified at the time of application. Under the simplified approach, approval may be granted to cover classes of agreements based on an activity-set-based approach, rather than individual agreements.

The Singapore Economic Development Board (EDB) will provide more information on the changes by 30 June 2022.

Commentary:

The extension of the ARI to 31 December 2028 provides much needed certainty to companies that continue to use Singapore as their base to access technology required for their businesses.

The simplification of the ARI approval process would be a welcome change for many companies in Singapore, though it remains to be seen what is meant by the activity-set-based approach. Under the current process, specific agreements have to be submitted and approved by the EDB for the purposes of the ARI. Further, the minister for trade and industry's prior approval has to be obtained for most amendments to the approved agreements. For companies that frequently enter into new agreements due to commercial needs or companies that require regular updates to the terms of their agreements, the need to seek approval to include a new agreement or to vary the agreement does add to their compliance burden.

It is hoped that the migration to an activity-set-based approach to cover classes of agreements would ease the compliance burden for companies, therefore allowing businesses to take advantage of the benefits offered by the ARI with greater ease.

Enhancement of tax incentive scheme for funds managed by Singapore-based fund managers ("Qualifying Funds")

Singapore currently offers a number of attractive tax incentives for Qualifying Funds under Sections 13D, 13O and 13U of the Income Tax Act 1947 (ITA), where Qualifying Funds may enjoy tax exemption on "Specified Income" derived from a broad list of "Designated Investments." With effect from 19 February 2022, the list of "Designated Investments" has been refined in respect of investments in physical investment precious metals (IPMs), as follows:

1. The trading of investments in physical IPMs is no longer required to be incidental to the trading of derivative IPMs.
2. The trade volume of investments in physical IPMs is capped at 5% of the total investment portfolio of the Qualifying Fund (for other physical commodities, trade volume remains capped at 15% of the total trade volume of those physical commodities and related commodity derivatives in the relevant basis period).

More details are expected to be released by the Monetary Authority of Singapore by the end of May 2022.

Commentary:

The tax incentives for Qualifying Funds were previously extended and enhanced during Budget 2019, including an expansion in the scope of "Specified Income" and "Designed Investments". The present refinements reflect the government's continued efforts to ensure that Singapore's fund management sector remains globally competitive, and will certainly contribute toward Singapore's attractiveness as an asset and wealth management hub. That said, it remains to be seen whether the government will expand the list of "Designated Investments" to include digital assets. We think that this would be a welcome liberalization in light of the robust growth in demand for cryptocurrency and other digital assets among fund managers and their clients.

Extension and rationalization of tax incentives for project and infrastructure finance

Under the current incentive regime for project and infrastructure finance, the following schemes are available:

1. Exemption of qualifying income from qualifying project debt securities
2. Exemption of qualifying foreign-sourced income from qualifying offshore infrastructure projects/assets received by approved entities listed on the Singapore Exchange (SGX)
3. Concessionary tax rate of 10% on qualifying income derived by an approved infrastructure trustee-manager/fund management company from managing qualifying SGX-listed business trusts/infrastructure funds in relation to qualifying infrastructure projects/assets

While the above incentives were previously scheduled to lapse after 31 December 2022, the schemes under (i) and (ii) will be extended till 31 December 2025, while (iii) will lapse as scheduled. These extensions are in line with the continued support for Singapore's development as an infrastructure financing hub.

The Monetary Authority of Singapore will provide any consequential details by 31 May 2022.

Extension and rationalization of withholding tax exemption for the financial sector

Interest payments made to non-tax residents are generally subject to withholding tax at 15%. Currently, withholding tax exemptions apply in respect of the following payments:

1. Payments made under cross-currency swap transactions by Singapore swap counterparties to issuers of Singapore dollar debt securities
2. Interest payments on margin deposits made under all derivatives contracts by approved exchanges, approved clearing houses, members of approved exchanges and members of approved clearing houses
3. Specified payments made under securities lending or repurchase agreements by specified institutions
4. Payments made under interest rate or currency swap transactions by MAS
5. Payments made under interest rate or currency swap transactions by financial institutions

Although the above exemptions were previously scheduled to lapse after 31 December 2022, the exemptions in (i) to (iv) have been extended till 31 December 2026 while (v) will lapse as scheduled. The extensions are to provide continued support for the competitiveness of Singapore's financial sector.

The Monetary Authority of Singapore will provide any consequential details by 31 May 2022.

Extension of tax framework for facilitating amalgamations under Section 34C to licensed insurer

Section 34C of the ITA treats qualifying corporate amalgamations as a continuation of the existing business of the amalgamating companies by the amalgamated company for Singapore income tax purposes where certain conditions are met.

The Section 34C tax framework will be extended to include amalgamations of Singapore-incorporated companies involving a scheme of transfer made on or after 1 November 2021 under Section 117 of the Insurance Act 1966.

For a licensed insurer to avail of the Section 34C treatment, all the following conditions must be met:

1. The amalgamated company takes over all property, rights, privileges, liabilities and obligations, etc. of the amalgamating company on the date of amalgamation.

2. The amalgamating company becomes dormant (i.e., ceases to conduct any business or any other activities, and does not derive any income) on the date of the amalgamation and remains so until it is dissolved or wound up.
3. The amalgamating company is dissolved or wound up before the filing due date of the income tax return for the year of assessment related to the basis period in which the scheme of transfer was effected.

IRAS will provide further details by 31 October 2022.

Extension of Approved Foreign Loan scheme

The current Approved Foreign Loan scheme allows a withholding tax exemption or a concessionary withholding tax rate to be granted for interest payments made to non-tax residents in respect of loans for the purchase of productive equipment. The scheme, previously scheduled to lapse after 31 December 2023, will be extended till 31 December 2028. This demonstrates a continuing intention to encourage companies to invest in productive equipment to facilitate the performance of substantive activities in Singapore.

Extension of withholding tax exemption for ship and container lease payments under finance lease agreements for Maritime Sector Incentive recipients

Presently, a withholding tax exemption applies to ship and container lease payments made by specified Maritime Sector Incentive (MSI) recipients to non-tax-resident lessors under finance lease agreements entered into on or before 31 December 2023.

In an effort to continue promoting and developing Singapore as an international maritime center, the withholding tax exemption will be extended to cover both ship and container lease payments made by specified MSI recipients to non-tax-resident lessors under finance lease agreements entered into on or before 31 December 2028.

Extension of withholding tax exemption for container lease payments made to nonresident lessors under operating leases

Currently, container lease payments made to non-tax-resident lessors under operating lease agreements entered into on or before 31 December 2022 for the carriage of goods by sea qualify for a withholding tax exemption.

In order to continue supporting local demand for containers, the withholding tax exemption will be extended to cover container lease payments made to non-tax-resident lessors under operating lease agreements entered into on or before 31 December 2027.

Extension of the Aircraft Leasing Scheme

The Aircraft Leasing Scheme (ALS) aims to encourage companies to develop aircraft leasing capabilities and grow the aircraft leasing industry in Singapore. Under the ALS, an approved aircraft leasing company or an approved aircraft investment manager is eligible for the following tax benefits:

1. An approved aircraft leasing company may enjoy a concessionary tax rate of 8% on income derived from the leasing of aircraft or aircraft engines and qualifying ancillary activities.
2. An approved aircraft investment manager may enjoy a concessionary tax rate of 10% on income derived from managing an approved aircraft leasing company and qualifying activities.
3. An automatic withholding tax exemption on qualifying payments made by an approved aircraft leasing company to non-tax residents (excluding a permanent establishment in Singapore) in respect of qualifying loans and finance leases entered into on or before 31 December 2022 for the purchase of aircraft or aircraft engines, subject to conditions.

The ALS is currently scheduled to lapse after 31 December 2022.

In order to continue encouraging the growth of the aircraft leasing sector in Singapore, the ALS will be extended till 31 December 2027.

Indirect taxes — GST and carbon tax changes

Staggered GST rate increase

The current GST rate on standard-rated goods and services is 7%. It was announced that the GST rate will increase to 8% on 1 January 2023 and to 9% on 1 January 2024.

Commentary:

The GST rate increase is expected and unavoidable as Singapore has to ensure long-term fiscal sustainability, including supporting the rising healthcare expenditure due to our ageing population.

GST-registered businesses will have to carefully navigate any transitional rules regarding the two rounds of the GST rate increase and ensure they have proper internal systems and processes in place to guard against noncompliance.

The staggered nature of the GST rate increase may help manage worries regarding the higher cost of living in Singapore. Further, to address concerns that the GST rate increase would have a regressive effect on our overall tax system, the government has provided an additional top-up of SGD 640 million to the SGD 6 billion Assurance Package to help lower and middle-income households cope with the higher cost of living.

Updating the GST treatment for travel-arranging services

Currently, travel-arranging services are zero-rated where the service comprises the arranging of international transportation (and related insurance) and the arranging of accommodation outside Singapore. However, the arranging of accommodation where the property is located in Singapore is standard-rated.

From 1 January 2023, the GST treatment for travel-arranging services will be updated to be based on the place where the contractual customer and the direct beneficiary of the service belong. For the service to be zero-rated, the contractual customer must belong outside Singapore, and the direct beneficiary must either belong outside Singapore or be GST-registered in Singapore.

This change will affect services such as (i) the arranging of international transport of passengers (and related insurance), and (ii) arranging of accommodation. However, this change does not affect the treatment of the underlying travel product such as international air transport or hotel accommodation.

IRAS will announce further details by 31 July 2022.

Commentary:

This change ensures that the GST treatment accurately reflects where the travel-arranging services are consumed. The change will also parallel the recent changes to the supply of advertising services, which took effect from 1 January 2022, and more closely align travel-arranging services with other supplies of international services under the Goods and Services Tax Act 1993 (GST Act).

This change may potentially benefit travel companies based in Singapore that focus on inbound travel by foreign visitors to Singapore, as their services in arranging for accommodation in Singapore were previously standard-rated (as the property was located in Singapore) but can now be zero-rated if the relevant conditions are met.

It is timely for GST-registered travel companies to start identifying the customer information they need to collect in order to assess whether their travel-arranging services should be standard-rated or zero-rated, so as to accurately discharge their GST reporting obligations.

Carbon tax rate increase

From 2019 to 2023, Singapore's carbon tax rate is set at SGD 5 per tonne of greenhouse gas emissions, payable by companies that emit at least 25,000 tonnes annually. It was announced that Singapore will be accelerating its net zero emissions goal and aiming to achieve it by or around 2050. In line with this goal, the carbon tax rate will increase to SGD 25 per tonne in 2024, and to SGD 45 per tonne in 2026, with a view to reaching SGD 50 to SGD 80 per tonne by 2030.

Starting from 2024, in lieu of paying the carbon tax, businesses will be able to use high-quality international carbon credits to offset up to 5% of their taxable emissions. There will also be a transition framework that may provide allowances for existing companies for a share of their emissions, though details have yet to be announced.

Commentary:

This increase in the carbon tax is consistent with the growing international consensus that concrete measures must be introduced to combat climate change. This includes higher carbon taxes so that society will be required to internalize the costs of carbon, and businesses and individuals will be incentivized to take actions to moderate their emissions.

The gradual increase in carbon tax rate provides a strong incentive for companies to adopt greener business practices, while giving them enough time to adapt. Further, the transition framework and introduction of allowances pegged to efficiency targets is a nuanced policy that ensures Singapore's businesses are not unduly shackled by the carbon tax regime and can still be competitive regionally.

Personal income tax and property tax changes

Enhancing the progressivity of personal income tax for resident individual taxpayers

The current personal income tax rate structure in Singapore has been in place since YA 2017. At present, the highest tax bracket of 22% applies to chargeable income in excess of SGD 320,000.

To enhance the progressivity of the personal income tax, the top marginal personal income tax rate will be increased with effect from YA 2024. Two additional tax brackets with higher rates of tax will be introduced:

1. The amount of chargeable income in excess of SGD 500,000 and up to SGD 1 million will be subject to tax at a rate of 23%.
2. The amount of chargeable income in excess of SGD 1 million will be subject to tax at a rate of 24%.

Both of these amounts of chargeable income are currently taxed at a rate of 22%.

Enhancing the progressivity of property tax for residential properties

The government has announced that changes will be made to the property tax structure for both owner-occupied and non-owner-occupied residential properties, which has been in place since 1 January 2015. Currently, the property tax rate for owner-occupied residential properties ranges from 0% to 16%, while that for non-owner-occupied residential properties is 10% to 20%.

To further enhance the progressivity of property tax, the property tax rates for both owner-occupied and non-owner-occupied residential properties will be revised upwards in two stages, over a two-year period, starting in 2023:

Property tax rate for owner-occupied residential properties				
Annual value (old structure)	**Current**	**Annual value (revised structure)**	**Effective 1 Jan 2023 (first stage)**	**Effective 1 Jan 2024 (second stage)**
First SGD 8,000	0%	First SGD 8,000	0%	0%
Next SGD 47,000	4%	Next SGD 22,000	4%	4%
Next SGD 15,000	6%	Next SGD 10,000	5%	6%
Next SGD 15,000	8%	Next SGD 15,000	7%	10%
Next SGD 15,000	10%	Next SGD 15,000	10%	14%
Next SGD 15,000	12%	Next SGD 15,000	14%	20%
Next SGD 15,000	14%	Next SGD 15,000	18%	26%
Above SGD 130,000	16%	Above SGD 100,000	23%	32%

Property tax rate for non-owner-occupied residential properties				
Annual value (old structure)	**Current**	**Annual value (revised structure)**	**Effective 1 Jan 2023 (first stage)**	**Effective 1 Jan 2024 (second stage)**
First SGD 30,000	10%	First SGD 30,000	11%	12%
Next SGD 15,000	12%	Next SGD 15,000	16%	20%
Next SGD 15,000	14%	Next SGD 15,000	21%	28%
Next SGD 15,000	16%	Above SGD 60,000	27%	36%
Next SGD 15,000	18%			
Above SGD 90,000	20%			

Commentary:

These changes to the personal income tax and property tax rates are not unexpected and represent a broad reflection of the government's aim to achieve greater progressivity in Singapore's tax structure. This is especially evident from the significant increase to the property tax rates for owner-occupied residential properties with higher annual values as well as non-owner-occupied residential properties, which include investment properties.

That being said, these measures have been carefully calibrated to balance the need for a more progressive tax structure against Singapore's desire to remain competitive as a global wealth management hub and as an attractive destination for talent in an increasingly mobile economy. These changes also affirm that real property-related taxes will likely remain as Singapore's principal means of taxing wealth, in light of the practical difficulties in effectively implementing a tax on net wealth as seen from the experiences of other countries.

Others

Facilitating the disclosure of company-related information for official duties

Taxpayer information is regarded as confidential and is protected under Section 6 of the ITA and the GST Act. As the law stands under the ITA, IRAS may only disclose information collected under the ITA to a public officer or an authorized person for the performance of their official duties in administering any written law or public scheme if the relevant taxpayers have given their express consent. In the absence of consent from the taxpayer, IRAS is only permitted to disclose information on taxpayers to certain public agencies where there is specific legislative exemption provided (e.g., to the Department of Statistics).

In order to support data-driven policymaking, operations and integrated service delivery, the ITA and the GST Act will be amended to facilitate the disclosure of taxpayer information for the following purposes:

1. Where the relevant taxpayers have provided their express consent, IRAS may disclose such information to a public officer or an authorized person for the performance of their official duties.
2. In the absence of consent from the taxpayers, IRAS may nonetheless disclose a prescribed list of identifiable information on companies to government agencies for the performance of their official duties. To ensure that taxpayer information is adequately protected, such information may not be disclosed to any person outside of the public sector, even if the person is engaged by the government or a statutory board. Finally, to preserve the confidentiality of the relevant taxpayers, any information shared by IRAS will be less granular in nature, for instance, IRAS may disclose that a company belongs in a certain sales revenue band but not the exact value of the company's sales revenue.

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