Singapore Budget 2024 — key tax updates

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In brief

Singapore Budget 2024 seeks to provide a roadmap for Singapore's way forward in light of the uncertain global geopolitical and macroeconomic environment.

Singapore has affirmed its plan to implement the Income Inclusion Rule (IIR) and domestic top-up tax (DTT) under Pillar 2 of the Base Erosion and Profit Shifting (BEPS) 2.0 initiative from 2025, in view of similar steps taken by major jurisdictions and those in the region. The announcement of related measures, including the introduction of a new Refundable Investment Credit (RIC) scheme and new tiers for various concessionary tax rate incentives, also appears to be strategically timed to soften the impact for businesses. Other tax measures, including enhanced support for businesses and support for the asset and wealth management industry, were also announced.

We highlight the key tax developments from Budget 2024 below.

In this issue

Key takeaways

- Singapore will implement the IIR and DTT under Pillar 2 from businesses' financial years starting on or after 1 January 2025, while reserving its position on the Undertaxed Profits Rule (UTPR) at this time.
- A new RIC scheme will be introduced, consistent with the Global Anti-Base Erosion (GloBE) Rules for Qualifying Refundable Tax Credits (QRTCs), which is to be offset against the corporate income tax (CIT) payable by a company and refunded in cash within four years from when the conditions for receiving the credits are met.
- New tiers for various concessionary tax rate incentives will be available from 17 February 2024. These will allow a wider range of companies to access these tax benefits and have more room to rightsize their investments in Singapore in proportion to the benefits that they expect to reap.
- The fund tax incentive schemes have been extended until 31 December 2029. Section 13O will extend to Singapore limited partnerships (LPs), and the economic criteria of the schemes will be revised with effect from 1 January 2025.
- The government has also introduced various schemes providing support for businesses, including a new CIT Rebate for year of assessment (YA) 2024 and a CIT Rebate Cash Grant, enhanced Energy Efficiency Grant (EEG), enhanced tax deductions for renovation or refurbishment expenditure, and revisions to Additional Buyer's Stamp Duty (ABSD) remission clawback rates for housing developers.

In more detail

Budget 2024 was delivered by Singapore's Deputy Prime Minister and Minister for Finance Lawrence Wong (Minister) on 16 February 2024.

Significantly, the Budget announcement confirmed that Singapore will be going ahead with its implementation of the IIR and DTT under Pillar 2 of the BEPS 2.0 initiative. Singapore remains intent on implementing these rules from businesses' financial years starting on or after 1 January 2025. A slew of related measures, including the introduction of a new RIC scheme and adjustments to the concessionary tax rates under various existing Singapore tax incentives, were also announced.

One of the key issues recognised in Budget 2024 was the troubled international environment and global economy in 2023, and a mixed outlook looking forward for 2024, given the global geopolitical conflicts and macroeconomic uncertainties. Budget 2024 seeks to provide a roadmap and take some concrete steps for Singapore to deal with these issues by tackling immediate challenges for households and businesses and securing Singapore's fiscal positions, among others.

In this update, we focus on the key tax changes that will impact businesses in Singapore.

1. Implementation of Pillar 2 and changes to investment promotion tools

A. Implementation of the IIR and DTT from 2025 as planned

Singapore will move forward to implement Pillar 2 partially, in the form of the IIR and DTT regimes. The IIR and DTT will apply to in-scope businesses with respect to their financial years starting on or after 1 January 2025, as planned. In line with the GloBE Rules, the IIR and DTT will apply to multinational enterprise (MNE) groups with annual revenues of at least EUR 750 million, and require in-scope businesses to pay a top-up tax on their profits to bring their effective tax rate (ETR) up to 15%.

Singapore has chosen to reserve its position on the UTPR at this time, as it focuses on implementing these major changes to Singapore's corporate tax regime.

B. Introduction of the RIC

In step with the implementation of Pillar 2 in Singapore, the government will introduce a new RIC scheme, adding to its suite of existing investment promotion tools. The scheme is intended to be consistent with the GloBE Rules for QRTCs.

The RIC is a tax credit that is to be offset against the CIT payable by a company. Unutilised credits will be refunded to the company in cash within four years from when the company satisfies the conditions for receiving the credits. The RIC is aimed at high-value and substantive economic activities, such as (i) investing in new productive capacity, (ii) expanding or establishing headquarter activities or Centres of Excellence, activities in supply chain management, digital services and professional services, and activities by commodity firms, (iii) carrying out R&D and innovation activities, and (iv) implementing solutions with decarbonisation objectives.

The RIC will be awarded on an approval basis with a qualifying period of up to 10 years. The support rates may be up to 50% for each qualifying expenditure category (e.g., capital expenditure, manpower, training, intangible assets, work outsourced in Singapore, etc.) and will be commensurate with the expected economic outcomes of the projects (or decarbonisation outcomes for decarbonisation projects).

The Economic Development Board (EDB) and Enterprise Singapore will release more details on the RIC by the third quarter of 2024.

C. New tiers for concessionary tax rate incentives

With effect from 17 February 2024, Singapore will introduce new tiers for certain concessionary tax rate incentives, as follows:

(i) A new 15% tier will be available for the Development and Expansion Incentive (DEI), Intellectual Property Development Incentive (IDI) and the Global Trader Programme (GTP) — this supplements the concessionary tax rates of 5% or 10% currently offered.

(ii) A new 10% tier will be available for the Finance and Treasury Centre incentive and the Aircraft Leasing Scheme — this supplements the current concessionary tax rate of 8%.

The EDB and Enterprise Singapore will release more details on the new tiers for the incentives under their respective purview by the second quarter of 2024.

Commentary

Singapore's announcement to move forward with the implementation of the IIR and DTT from 2025 is of no surprise to industry watchers and the wider international tax community, as the government had already shared its indicative implementation timeline in Budget 2023. This Budget, the government appears to have strategically timed the affirmation of the timeline with the introduction of the RIC scheme and new tiers for concessionary tax rate incentives to signal that the government is prepared to support businesses through these changes.

A. Implementation of the IIR and DTT

In his Budget speech, the Minister harkened back to the government's statement in Budget 2023 that it will continue to monitor international developments and will adjust the Pillar 2 implementation timeline if there are delays internationally, amid much uncertainty surrounding the implementation of the complex rules. There have since been shifts in the outlook of the global Pillar 2 environment, and Singapore's decision to follow through with the implementation of the IIR and DTT from 2025 comes on the back of steps taken by major jurisdictions, including the European Union, the UK, Switzerland, Japan, and Korea, to implement the rules (or parts of them) from 2024, and other jurisdictions like Hong Kong and Malaysia from 2025. The pause in implementing the UTPR may suggest that Singapore does not expect a significant amount of top-up taxes to be collected through that mechanism, in view of the adoption of Pillar 2 by a considerable number of major jurisdictions and those in the region.

For certain groups of taxpayers, the decision may be a hard pill to swallow. For example, as the US has held off on implementing the global minimum tax of 15%, US-headquartered MNE groups that enjoy tax incentives in Singapore will have to confront the prospect of an ETR of 15% in Singapore (under the DTT) that would not otherwise be applicable in the absence of an applicable IIR in the US (the ultimate parent entity jurisdiction), and other jurisdictions of intermediate parent entities. That said, the US' refusal to implement the IIR or an equivalent rule may not fully insulate US-headquartered MNE groups once the other Pillar 2 components are widely adopted (i.e., the UTPR and the Subject-to-Tax Rule).

We expect Singapore to make the draft Pillar 2 legislation publicly available for further study soon, ahead of the implementation in 2025. It is anticipated that the Singapore DTT will be designed as a Qualified Domestic Minimum Top-up Tax (QDMTT) within the GloBE Rules and meet the requirements of the QDMTT Safe Harbour, which will allow MNE groups to mitigate their Pillar 2 compliance obligations in other jurisdictions.

With Singapore's declaration of its position on Pillar 2, MNE groups with a substantial economic footprint in Singapore should kickstart conversations with the economic agencies (if these are not already ongoing) to consider concretely how their existing and future investments in Singapore might be impacted. Incentive companies may need to consider the benefits under their concessionary tax rate incentives, and whether other forms of subsidies that would be more compatible with the GloBE Rules would also be relevant.

B. RIC

Singapore is the first jurisdiction in the region to introduce a new tax credit as a QRTC. QRTCs have generated much interest as they represent a way of delivering subsidies to companies without being rendered ineffective by way of the mechanism for computing the top-up tax under the GloBE Rules, with the added advantage of not needing governments to provide an upfront cash outlay.

Under the GloBE Rules, a QRTC is generally taken into account as GloBE income, allowing the recipient to retain most of the benefit of the credit even where the recipient is taxed on the amount of the credit. On the other hand, non-QRTCs are treated as reductions to Covered Taxes in the ETR computation. The Organisation for Economic Co-operation and Development initially designated only QRTCs (i.e., credits that have a refundable feature, among other criteria) as tax credits to be taken into account as GloBE income. Subsequently, the Administrative Guidance issued in July 2023 additionally devised a Marketable Transferable Tax Credit (MTTC) as a tax credit that can still be regarded as GloBE income where certain transferability and marketability standards are satisfied in lieu of the refundability criterion.

The design of the RIC as a QRTC (instead of the more technically complex MTTC) is consistent with Singapore's approach towards keeping its investment promotion toolkits simple and business-friendly, amid a tax compliance environment that has become increasingly complicated.

From a financial modelling and reporting perspective, businesses should consider the interplay between the tax treatment of the RIC for the purposes of computing the amount of CIT under the current Singapore income tax regime, the accounting treatment of the RIC for the purposes of computing the DTT under the GloBE regime and the interaction of these rules with the substance-based income exclusion. The actual value of the RIC may look very different from its face value, and depends on various factors impacting the specific financial position of the company.

European MNE groups may find that the wide range of qualifying activities under the RIC could include objectives that are eligible for support under the European Union state aid rules, and the terms of the RIC may benefit from being discussed and documented from that angle. Across the Atlantic, US MNE groups that are interested in the RIC may need to review how such a tax credit would sit with the US rules on the credibility of foreign taxes.

Consistent with the EDB's signalling on incentives in recent months, the RIC is targeted at new projects or extensions of existing investments in Singapore. MNE groups may wish to compare the features of the new tax credit against existing grants, such as the Research and Innovation Scheme for Companies, and consider which form might work better for their business. Similar to QRTCs, grants are generally taken into account as GloBE income. For instance, while the RIC covers a relatively broad range of activities that may not be covered under existing grant schemes (e.g., headquarter activities, digital services and professional services), the benefit of the RIC is primarily taken via the offset of CIT payable by the company. Otherwise, it may take up to four years for the refundable feature of the RIC to kick in, and for businesses to receive the unutiilised portion of the RIC in cash. This may be a key consideration from a cash flow perspective for capital-intensive businesses that may not be profitable in the short-term.

C. New tiers for concessionary tax rate incentives

With the new tiers of concessionary tax rates available, we expect a wider pool of companies to be able to access these incentives going forward, including smaller companies that may not be able to meet the quantum of investments required for the existing tiers. Both such companies and in-scope MNE groups will also have more room to rightsize their investments in Singapore in proportion to the benefits that they expect to reap.

In-scope MNE groups may have a particular interest in the new 15% tier for the DEI, IDI and GTP as the rate dovetails with the minimum ETR of 15% under the Pillar 2 rules, being a 2 percentage point reduction relative to Singapore's headline corporate tax rate of 17%. In comparison, the majority of the benefit under the current 5%- and 10%-tier incentives is likely to be eroded under the Pillar 2 rules. Companies should, however, undertake financial modelling to consider their specific circumstances in Singapore. The existing 5% or 10% tiers could offer an additional buffer against the 15% ETR if the MNE group has certain income streams taxed at 17% or significant non-deductible expenses in Singapore.

For companies currently taxed at 17%, this may also be an opportunity to consider a concessionary tax rate incentive that may align better with their investment profile.

These collective changes signal to businesses that tax incentives, grants and tax credits will remain part of Singapore's suite of investment promotion tools to encourage enterprises to invest in high-value activities with economic substance in Singapore, even as there will be a floor on the amount of tax paid on corporate profits at the ETR of 15%.

2. Enhanced support for businesses

A. CIT Rebate for YA 2024 and CIT Rebate Cash Grant for eligible companies

A CIT Rebate of 50% of tax payable will be granted for YA 2024. In addition, companies with at least one local employee in 2023 will receive the CIT Rebate Cash Grant, which is a minimum benefit of SGD 2,000 in the form of a cash payout. The CIT Rebate, less any CIT Rebate Cash Grant received by the third quarter of 2024, will be automatically incorporated in companies' tax assessments for YA 2024. The maximum total benefit of the CIT Rebate and CIT Rebate Cash Grant is SGD 40,000.

B. Enhanced tax deductions for renovation or refurbishment expenditure

Section 14N of the Singapore Income Tax Act 1947 currently allows businesses to claim tax deductions on renovation or refurbishment expenditure for the purposes of their trade or business on a three-year straight-line basis. This is subject to a cap of SGD 300,000 every three years, starting from the YA in which the business made its first claim under Section 14N. Section 14N will be enhanced from YA 2025 as follows:

(i) The scope of qualifying expenditure will include designer or professional fees (which are currently specifically excluded).

(ii) The three-year period for computing the expenditure cap will be fixed (starting from YA 2025 to YA 2027).

(iii) An option to claim accelerated deductions in one YA, subject to the prevailing expenditure cap, will be introduced.

The Inland Revenue Authority of Singapore (IRAS) will provide further details by the third quarter of 2024.

C. Revisions to ABSD remission clawback rates for housing developers

From 16 February 2024, housing developers will be subject to a lower ABSD remission clawback rate on housing development projects with at least 90% of units sold within five years from acquiring the residential land if the commencement and completion of works criteria are also fulfilled. The ABSD remission clawed back will be reduced by 1% to 10%, depending on the proportion of units sold.

This applies to projects where the residential land was acquired on or after 6 July 2018.

D. Enhanced EEG

The EEG aims to support businesses in their sustainability efforts by co-funding investments in energy-efficient equipment. The EEG will be expanded to include the manufacturing, construction and maritime sectors, and data centres and their users, in addition to the existing food services, food manufacturing and retail sectors.

The EEG will also be enhanced to provide two tiers of support — a Base Tier with a SGD 30,000 support cap for pre-approved energy-efficient equipment, and an Advanced Tier for selected sectors with a SGD 350,000 support cap for energy-efficient equipment that does not need to be pre-approved but must demonstrate sufficient energy savings.

Companies registered and operating in Singapore with (i) at least a 30% local shareholding, (ii) at least one local employee and (iii) a group annual sales turnover of up to SGD 500 million will be eligible for support.

The government will also gradually streamline and subsume other grant schemes for the adoption of energy-efficient equipment under the EEG.

Commentary

The above-mentioned CIT Rebate and enhanced schemes are welcome measures for businesses.

The CIT Rebate and CIT Rebate Cash Grant in particular will allow businesses to enjoy immediate financial benefits and relief from a cash flow perspective. This is certainly helpful in light of the uncertain global geopolitical and macroeconomic environment.

Some of these measures may have more limited impact. For example, the enhanced deductions for renovation or refurbishment expenditure and revisions to the ABSD remission clawback are more targeted at specific activities and housing developers respectively. Nevertheless, these changes provide concrete benefits to these businesses, including greater flexibility to manage cash flows.

The enhanced EEG should also be of interest to businesses in the manufacturing, construction and maritime sectors, and data centres and their users. Given the increasing interest in and importance of sustainability and environmental, social, and governance (more commonly known as ESG) for businesses, the support from the government to co-fund investments in energy-efficient equipment should encourage and make it easier for companies to focus on sustainable solutions and efforts.

3. Support for the asset and wealth management industry

A. Extension and revision of tax incentive schemes for funds managed by Singapore-based fund managers

Under Sections 13D, 13O and 13U of the ITA, funds managed by Singapore-based fund managers (referred to below as Qualifying Funds) are, subject to conditions, granted a tax exemption on specified income derived from designated investments, a withholding tax exemption for interest and qualifying payments, and a goods and services tax remission on relevant expenses incurred. The schemes have been extended for another five years until 31 December 2029.

Two other key changes were announced and are scheduled to take effect from 1 January 2025:

(i) The enhancement of Section 13O to include Singapore-registered LPs

(ii) The revision of the economic criteria for Qualifying Funds under sections 13D, 13O and 13U

The Monetary Authority of Singapore (MAS) will release more details by the third quarter of 2024.

Commentary

Section 13O currently only applies to Qualifying Funds set up as Singapore-incorporated companies. For Qualifying Funds intending to be established as LPs, this is presently only possible under Section 13U, which allows for a wider range of legal forms. The proposed change will offer the industry more flexibility in the choice of a fund's legal form, especially where the Section 13U requirements cannot be met. However, whether this change will encourage a greater adoption of Singapore LPs remains to be seen. Notably, funds established as a standalone Singapore LP without additional structuring cannot avail themselves of tax treaty benefits, which may be a drawback for fund managers and investors.

On the revision of the economic criteria, the Section 13O and Section 13U conditions have progressively tightened over the past two years. Thus far, only Qualifying Funds managed by single family offices (SFOs) have been impacted. We will have to wait and see whether the proposed revisions will seek to align the conditions across Qualifying Funds managed by SFOs and those managed by licensed fund managers. In any case, these revisions should be carefully calibrated, as the economics of managing a fund and satisfying the criteria of the tax incentive schemes for funds will no doubt factor into the decision of where a fund is being established and managed from, particularly for licensed fund managers managing third-party funds. Finally, the proposed revisions will extend to Section 13D. As Section 13D does not currently require an application to MAS for approval like Section 13O and Section 13U, it will be interesting to see if the proposed revisions will now also subject Section 13D to a similar process.

Overall, these announcements demonstrate the government's continuous efforts in growing Singapore's asset and wealth management industry, which should provide some comfort and certainty to investors and fund managers. However, the full impact of these changes can only be assessed upon the release of details in the third quarter.

4. Others

A. Introduction of an alternative basis of tax for selected Maritime Sector Incentive (MSI) sub-schemes

To better align our tax regime for shipping entities with common international practices, an alternative basis of tax, where the qualifying income of qualifying shipping entities will be taxed by reference to the net tonnage of their ships, will be available under the following MSI sub-schemes from YA 2024:

(i) MSI-Shipping Enterprise (Singapore Registry of Ship)

(ii) MSI-Approved International Shipping Enterprise

(iii) MSI-Maritime Leasing (Ship)

The alternative taxation basis will apply to all qualifying ships of MSI entities that are subjected to it.

For MSI entities that are not under this alternative taxation basis, the existing tax treatment under the relevant MSI sub-schemes will continue to apply. The Maritime and Port Authority of Singapore (MPA) will provide further details by the third quarter of 2024.

Commentary

Globally, a significant number of jurisdictions offer shipping entities the opportunity to be taxed according to their tonnage as opposed to actual profits. As further details will only be released by the MPA in the third quarter of 2024, eligible shipping entities should be prepared to quickly evaluate the alternative taxation basis in time for the YA 2024 tax filing due date of 30 November 2024.

B. Introduction of the Overseas Humanitarian Assistance Tax Deduction Scheme (OHAS)

The OHAS will be introduced to encourage individual and corporate donors to contribute to international humanitarian causes. OHAS will run as a pilot scheme from 1 January 2025 to 31 December 2028.

Under OHAS, individual and corporate donors can claim a 100% tax deduction for qualifying overseas cash donations. To qualify for tax deductions, overseas cash donations must meet the following conditions:

(i) The donations must be made through a designated charity. Designated charities should have emergency humanitarian assistance as part of their charitable objectives, as well as enhanced governance and controls against illicit fund flows.

(ii) The donations must be made towards a fund-raiser for emergency humanitarian assistance with a valid Fund-Raising for Foreign Charitable Purposes (FRFCP) permit from the Commissioner of Charities (COC).

The COC will determine upon reviewing the FRFCP permit application whether the fund-raiser in question is for an emergency humanitarian assistance cause.

The tax deduction is capped at 40% of the donor's statutory income. For donors who also receive tax deductions under the Philanthropy Tax Incentive Scheme for Family Offices (PTIS), the tax deductions under both OHAS and PTIS will be jointly capped at 40% of the donor's statutory income. Any unutilised deductions under the scheme cannot be carried forward to a subsequent YA or transferred to another company of the same group under the Group Relief System for any YA. IRAS will provide further details by 30 June 2024.

Commentary

Presently, overseas cash donations are only tax deductible under PTIS. Through the introduction of OHAS, the scheme will complement the existing 250% tax deduction available for donations to Institutions of a Public Character in Singapore and strengthen a culture of giving beyond Singapore's shores.

C. Withdrawal of the income tax concession on royalty income accorded to authors, composers and choreographers

Presently, royalty income derived by any author, composer, choreographer or any company wholly owned by such individuals in respect of literary, dramatic, musical and artistic works is taxed based on the lower of the (i) net amount of royalties (i.e., gross amount of royalties, less allowable deductions and capital allowances) and (ii) 10% of the gross amount of royalties.

To ensure parity in the treatment of royalty income, this tax concession will be withdrawn in phases from YA 2027. As a transitionary measure, for YA 2027 and YA 2028, eligible taxpayers may report their taxable royalty income based on the lower of (i) the net amount of royalties, and (ii) a specified rate (40% for YA 2027 and 70% for YA 2028) applied on the gross amount of royalties.

The tax concession will lapse after YA 2028. Taxpayers should report the net amount of royalties from YA 2029.

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