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INCOME TAX CHANGES FOR BUSINESSES IN SINGAPORE BUDGET 2021

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The Singapore Budget for fiscal year 2021 was announced on 16 February 2021 (Tuesday).

The main income tax changes for businesses are summarized below:

1. Extension of the enhanced carry-back relief scheme

The enhanced carry-back relief scheme allows the carry-back of the current year unabsorbed capital allowances ("CA") and trade losses for the year of assessment ("YA") 2020 to three immediate preceding YAs (i.e. YA 2017, YA 2018 and YA 2019), subject to a cap of S$100,000 and other qualifying conditions.

The above enhancements are extended to the YA 2021, with the same parameters.

2. Extension of the option for accelerated write-off of the cost of acquiring plant & machinery ("P&M")

In the 2020 Budget, taxpayers were given an irrevocable option to claim CA on the cost of acquiring P&M in the financial year ("FY") 2020 (i.e. YA 2021) on the following accelerated basis (no deferment of CA is allowed), instead of over 3 years or the prescribed working life of the P&M:

a. 75% of the cost incurred to be written off in the YA 2021; and

b. 25% of the cost incurred to be written off in the YA 2022.

The above option is extended to the YA 2022, with the same parameters.

3. Extension of the option for accelerated deduction of renovation and refurbishment ("R&R) expenses

In the 2020 Budget, taxpayers were given an irrevocable option to claim accelerated deduction of qualifying R&R expenses incurred in FY 2020 (i.e. YA 2021) for the purposes of their trade, profession or business in one YA, subject to the existing spending cap of S$300,000 for every relevant period of three consecutive YAs.

The above option is extended to the YA 2022, with the same parameters.

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4. Enhancement of the Double Tax Deduction Internationalization ("DTDi") scheme

The DTDi allows 200% tax deduction for qualifying expenditure incurred on certain internationalization activities. No prior approval from Enterprise Singapore ("ES") or Singapore Tourism Board ("STB") is required for tax deduction on the first S$150,000 of qualifying expenses. The DTDi is scheduled to lapse after 31 December 2025.

Effective 17 February 2021, the DTDi is enhanced to as follows:

a. Coverage of certain specified expenses (e.g. package fees charged by event organizers for virtual exhibition hall and booth access, collateral creation, third-party costs for design and production of digital collaterals and promotion materials for virtual fairs, logistics costs incurred to send materials/samples overseas to potential clients met at virtual trade fairs, etc.) incurred to participate in approved virtual trade fairs.

b. Expansion of the existing list of qualifying expenses for overseas investment study trips to include logistics costs to transport materials / samples used during the investment trips.

c. Enhancement of the existing scope of qualifying activities which do not require prior approval from ES or STB to cover certain additional activities, such as product / service certification (primarily to increase buyer's acceptance in overseas markets) approved by ES, overseas advertising and promotional campaign, design of packaging for overseas markets and participation in virtual trade fairs approved by ES, etc.

ES will release further details of the changes by 28 February 2021.

5. Extension and refinement of the Double Tax Deduction ("DTD") for qualifying upfront cost attributable to retail bonds issued under the Monetary Authority of Singapore ("MAS")'s Seasoning Framework and Exempt Bond Issuer Framework

The existing DTD scheme available to bond issuers who carry on a trade or business in Singapore is scheduled to lapse after 18 May 2021.

Effective 19 May 2021, the DTD scheme is extended for qualifying upfront cost attributable to rated retail bonds (instead of all retail bonds) issued from 19 May 2021 to 31 December 2026. All other conditions of the DTD Scheme remain unchanged.

MAS will release further details of the changes by 31 May 2021.

6. Extension and rationalization of the withholding tax ("WHT") exemption for financial sector

The withholding tax ("WHT") exemption for financial sector for all interest and other payments in connection with any loan or indebtedness ["Section 12(6) payments"] will be extended and rationalized:

a. The existing WHT remission for interbank / interbranch transactions will be legislated as a WHT exemption effective 1 April 2021, along with a review date of 31 December 2031.

Under this WHT exemption, all Section 12(6) payments made by banks in Singapore for the purpose of their trade or business, to their branches / head offices outside Singapore or other banks outside Singapore will be exempt from tax, where such payments:

i) are made from 1 April 2021 to 31 December 2031 under a contract effective before 1 April 2021; or

ii) are made under a contract effective from 1 April 2021 to 31 December 2031. In such cases, the WHT exemption will apply to the entire contract duration, including payments made beyond 31 December 2031.

b. The existing WHT exemption applicable to all Section 12(6) payments made to any non-resident person [excluding any permanent establishments ("PEs") in Singapore] by certain specified entities, for the purpose of these entities' trade or business, will be extended till 31 December 2026, where such payments:

i) are made from 1 April 2011 to 31 December 2026 under a contract effective before 1 April 2011; or

ii) are made under a contract effective from 1 April 2011 to 31 December 2026. In such cases, the WHT exemption will apply to the entire contract duration, including payments made beyond 31 December 2026.

c. Presently, certain specified entities are not required to withhold tax on all Section 12(6) payments made to any PE in Singapore if the payments are made under a contract within certain specified period ending 31 March 2021. The end date has been extended to 31 December 2026. All other conditions of the WHT exemption remain unchanged.

As per the existing tax treatment, the PEs in Singapore are required to declare the Section 12(6) payments received in their annual income tax returns and are assessed to tax on such payments, unless they qualify for tax exemption.

MAS will release further details of all changes by 31 May 2021.

7. Extension of the WHT exemption on payments made for structured products

The current WHT exemption on payments made to a non-individual, non-resident person (excluding any PE in Singapore) from structured products offered by a financial institution will be extended for another five years after 31 March 2021, and will cover payments made under a contract effective from 1 January 2007 to 31 December 2026. All other conditions of the WHT exemption remain unchanged.

MAS will release further details of the changes by 31 May 2021.

8. Extension of the WHT exemption on payments for over-the-counter ("OTC") financial derivatives

The current WHT exemption on payments made to any non-resident person (excluding any PE in Singapore) from OTC financial derivatives made by a financial institution in Singapore will be extended for another five years till 31 December 2026, where such payments:

a. are made from 20 May 2007 to 31 December 2026 under a contract effective before 15 February 2007; or

b. are made under a contract effective from 15 February 2007 to 31 December 2026. In such cases, the WHT exemption applies to the entire contract duration, including payments made beyond 31 December 2026.

MAS will release further details of the changes by 31 May 2021.

9. Extension of the Not-for-Profit Organization ("NPO") tax incentive

The existing NPO tax incentive (conditions apply) scheduled to lapse after 31 March 2022, will be extended till 31 December 2027.

10. Discontinuance of the Automation Support Package ("ASP") and retention of the 100% Investment Allowance ("IA") scheme to support automation

The ASP provides 100% IA support on the net approved capital expenditure for approved automation projects from 1 April 2016 to 31 March 2021, subject to a spending cap of S$10 million per project.

The ASP will lapse after 31 March 2021. However, the 100% IA scheme to support automation for approved projects will be extended by two years till 31 March 2023. All other conditions of the scheme remain unchanged.

11. Extension and enhancement of the IA (Energy Efficiency) ("IA-EE") scheme

The existing IA-EE scheme provides for IA for EE improvement projects, subject to conditions. Meanwhile, data centres are subject to additional qualifying conditions.

The scheme will be renamed the "Investment Allowance for Emissions Reduction" scheme, with the following revisions:

a. Expansion in the scope of qualifying projects to include projects involving reduction of greenhouse gas emissions; and

b. Streamlined and updated eligibility conditions, applicable to all projects (i.e. no distinction between data centres and non-data centres will be made).

The revised conditions will apply to approved projects by Singapore Economic Development Board ("EDB") from 1 April 2021 to 31 December 2026.

EDB will release further details of the changes by June 30, 2021.

12. Discontinuance of the Insurance Business Development-Specialized Insurance ("IBD-SI") scheme

The IBD-SI scheme provides for 8% or 10% concessionary tax rate on qualifying income derived by a (re)insurer from carrying on specialized insurance and reinsurance business. It is scheduled to lapse after 31 August 2021.

Following the above, insurers engaged in the specialized insurance and reinsurance business can apply for the IBD scheme.

13. Withdrawal of the Accelerated Depreciation Allowances for Highly Efficient Pollution Control Equipment ("ADA-PCE") scheme

The scheme allows taxpayer to accelerate the write-off of the capital expenditure of acquiring the qualifying equipment over one year.

The scheme has been withdrawn from 17 February 2021.

14. Extension of the 250% tax deduction for approved donations made to Institutions of a Public Character ("IPCs") and other qualifying recipients

Donor will continue to enjoy 250% enhanced tax deduction for approved donations made until 31 December 2023. All other conditions remain unchanged.

15. Extension of the Business and IPC Partnership Scheme ("BIPS")

A qualifying person will continue to enjoy 250% enhanced tax deduction for qualifying expenditure until 31 December 2023. All other conditions remain unchanged.

ABOUT THE WRITER

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Louis is an accredited tax advisor of the Singapore Chartered Tax Professionals and is currently a tax manager in Aoyama Sogo Accounting Office Singapore Pte Ltd.

Louis has over 20 years of tax work experience in various capacities. Louis started his career in the enforcement division of the Inland Revenue Authority of Singapore, after which he moved into tax consulting where he spent most of his career mainly in the corporate tax departments of first and second tier public accounting firms including PwC Singapore, KPMG Singapore, RSM Singapore and Nexia TS, handling both compliance and advisory works. Louis also spent a year as an assistant tax manager in a Singapore listed company with operations in Singapore, Malaysia, Hong Kong and Thailand.

Louis has extensive experience managing a portfolio of corporate tax clients and are responsible for a range of tax services. His clients include multinational enterprises as well as companies with local and overseas operations.

Louis holds a diploma in accountancy from Singapore Polytechnic and certificate from the Association of Chartered Certified Accountants.

HOW WE CAN HELP

We, Aoyama Sogo Accounting Office Singapore Pte. Ltd., is a well-established consultancy firm set up in 2011.

We provide a wide range of professional services such as direct & indirect tax compliance, international tax advisory, transfer pricing, accounting, payroll, corporate secretarial and other business support services. Our clients include multinational and local businesses of different industries including maritime, fund management and trading.

Our specialization includes tax and business advisory on maritime and fund-related matters, including the application for the following tax incentives in the Singapore Maritime and Financial Sectors, which provide for tax exemption or concessionary tax rates on qualifying income:

- MSI - Approved International Shipping Enterprise Award for international ship owners and ship operators establishing commercial shipping operations in Singapore;
- MSI – Maritime Leasing Award for entities using Singapore as their capital and funding base to finance their vessels or sea containers;
- MSI – Shipping Related Support Services Award for ancillary shipping service providers and shipping conglomerates establishing corporate services functions in Singapore;
- Withholding tax exemption on interest and related payments made by qualifying shipping enterprises for arrangements to finance the purchase and/or construction of vessels, containers and intermodal equipment; and
- Financial Sector Incentive (FSI) Award for licensed financial institutions with plans to establish or expand their operations in Singapore.

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For more information on how we can help to address your tax compliance and advisory needs, please contact the personnel below:

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