Hogan Lovells

Three months, three budgets: Singapore's response to COVID-19 from a tax perspective

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The Singaporean response to the COVID-19 outbreak has been comprehensive and coordinated. The 18 February 2020 "Unity Budget" introduced a raft of measures designed to help protect jobs and businesses from the economic fallout of the outbreak. As it became clear that the situation was by no means a quick-fix, on 26 March 2020 a second stimulus package dubbed the "Resilience Budget" was announced, followed swiftly on 6 April 2020 by a third enhancement package dubbed the "Solidarity Budget." To date, the government has deployed SG$60+ billion (US$42+ billion) in measures aimed at alleviating the effect of the deadly virus on the city state's economy.

Aside from the unprecedented fiscal measures announced in this tripartite (at the time of writing) response, the government has been prepared to introduce an array of tax-related measures to give both immediate breathing space and long-term support to individuals and enterprises at this testing time. Understandably, these measures go above and beyond those that would generally be expected of a Singapore budget. We therefore outline below the noteworthy tax measures that have been implemented across the Unity, Resilience, and Solidarity Budgets.

The measures are divided into two baskets:

a) Temporary measures aimed at providing support for enterprises affected by the COVID-19 outbreak.

b) Measures aimed at ensuring the long-term resilience and competitiveness of the Singapore tax system.

Stabilization and support package – temporary measures to provide support for enterprises

The below temporary measures were introduced in the Unity Budget. A note has been made where a measure has subsequently been enhanced by either the Resilience or Solidarity Budget.

a) **Corporate Income Tax (CIT) Rebate:** To help companies with cash flow issues brought about as a result of the COVID-19 outbreak, a CIT Rebate of 25 percent of tax payable, capped at SG$15,000, will be granted for Year of Assessment (YA) 2020. It is estimated that this measure will save companies a total of SG$400 million.

b) **Automatic extension of interest-free installments of two months for payment of CIT on Estimated Chargeable Income (ECI) filed three months from the companies' fiscal year-end (FYE):** Companies paying their CIT by GIRO (an automated payment system which enables payments to be made in instalments automatically) enjoy an additional two months of interest-free installments, when they file their ECI within three months from their FYE. This measure will apply to:

(i) Companies that file their ECI from 19 February 2020.

(ii) Companies that file their ECI before 19 February 2020, and have ongoing installment payments to be made in March 2020.

c) **Deferment of CIT payments:** In addition to the automatic extension of interest-free installments on ECI outlined above, all companies with CIT payments due in the months of April, May, and June 2020 will be granted an automatic three-month deferment of these payments. The CIT payments deferred from April, May, and June 2020 will instead be collected in July, August, and September 2020, respectively.

d) **Property tax rebate and remission of benefit:** Nonresidential properties will be granted an enhanced rebate for property tax payable for the period 1 January 2020 to 31 December 2020. This measure is reported to apply to owners of more than 58,000 qualifying retail and food and beverage properties including commercial shophouses; 2,000 properties in education, recreation, health care, and services; and 450 hotels and serviced apartments. The COVID-19 (Temporary Measures) Act introduced as part of the Resilience Budget compels landlords to pass on these property tax rebates in full to tenants. Property owners who fail to fully pass on the property tax rebate unconditionally to their tenants, without good reason, will be criminally liable.

e) **Number of YAs for which the current year unabsorbed capital allowances (CA) and trade losses for a YA (qualifying deductions) may be carried back increased:** The carry-back relief scheme will be enhanced for YA 2020 (i.e., FY 2019). Under the enhanced scheme, qualifying deductions for YA 2020 may be carried back up to three immediate preceding YAs, as opposed to only the immediate preceding YA, capped at an aggregate of SG$100,000 of qualifying deductions and subject to conditions.

Taxpayers may elect to carry back to the relevant preceding YAs an estimated amount of qualifying deductions available for YA 2020, before the actual filing of their income tax returns for YA 2020.

f) **Option to accelerate the write-off of the cost of acquiring plant and machinery (P&M):** A taxpayer which incurs capital expenditure on the acquisition of P&M in the basis period for YA 2021 (i.e., FY 2020) will have an option to accelerate the write-off of the cost of acquiring such P&M over two years, as opposed to the ordinary three years. This option, if exercised, is irrevocable.

The rates of accelerated CA allowed are as follows:

(i) 75 percent of the cost incurred to be written off in the first year (i.e., YA 2021).

(ii) 25 percent of the cost incurred to be written off in the second year (i.e., YA 2022).

g) **Option to accelerate the deduction of expenses incurred on renovation and refurbishment (R&R):** A taxpayer which incurs qualifying expenditure on R&R during the basis period for YA 2021 (i.e., FY 2020) for the purposes of its trade, profession, or business will have an option to claim R&R deduction in one YA (i.e., accelerated R&R deduction), as opposed to across three consecutive YAs. The cap of SG$300,000 for every relevant period of three consecutive YAs will still apply. This option, if exercised, is irrevocable.

Measures to ensure the resilience and competitiveness of the Singapore tax system

The below measures aimed at ensuring the resilience and competitiveness of the Singapore tax system in the long-term were introduced in the Unity Budget.

a) **Extension of Double Tax Deduction for Internationalisation scheme:** The Double Tax Deduction for Internationalisation scheme (a 200-percent tax deduction on eligible costs of overseas market expansion, development, and internationalization) which was set to lapse after 31 March 2020 has been extended until 31 December 2025.

b) **Extension of the Mergers & Acquisitions (M&A) scheme:** The Mergers & Acquisitions (M&A) scheme (an allowance granted to a company that acquires the ordinary shares of another company during the relevant period) due to lapse on 31 March 2020 was extended to cover qualifying acquisitions made on or before the end of 2025.

c) **Extension and refinement of the upfront certainty of nontaxation of companies' gains on disposal of ordinary shares:** Under existing legislation, (Section 13Z of the ITA), gains derived from the disposal of ordinary shares by companies will not be taxed if:

    (i) The divesting company holds a minimum shareholding of 20 percent in the company whose shares are being disposed (the "Investee Company").

    (ii) The divesting company has maintained the minimum 20 percent shareholding for a minimum period of 24 months prior to the disposal.

This scheme, which was due to lapse on 31 May 2022, has been extended to cover disposals of ordinary shares by companies from 1 June 2022 to 31 December 2027. It should be noted that the scheme will not apply to disposals of unlisted shares in an Investee Company that is in the business of trading, holding, or developing immovable properties in Singapore or abroad.

d) **Extension of the tax incentive schemes for insurance businesses:** Under the Insurance Business Development (IBD) umbrella scheme, the following schemes which were scheduled to lapse after 31 March 2020 have been extended until 31 December 2025:

    (i) IBD scheme: approved insurers are granted a concessionary tax rate of 10 percent for a period of 10 years on qualifying income derived from the carrying on of onshore and offshore life reinsurance, onshore and offshore general insurance and reinsurance, excluding fire, motor, work injury compensation, personal accident, and health insurance.

    (ii) IBD-Captive Insurance (IBD-CI) scheme: approved insurers are granted a concessionary tax rate of 10 percent for a period of five years on qualifying income derived from the carrying on of onshore and offshore life reinsurance, onshore and offshore general insurance and reinsurance, excluding fire, motor, work injury compensation, personal accident, and health insurance.

e) **Extension and enhancement of the Maritime Sector Incentive (MSI):** Under the MSI, ship operators, maritime lessors, and providers of certain shipping-related support services can enjoy tax benefits. To continue developing Singapore as an international maritime centre, the MSI scheme has been extended until 31 December 2026. In addition, a number of enhancements will be made to the MSI scheme.

f) **Enhancement of the withholding tax (WHT) exemption for interest on margin deposits:** The WHT exemption for interest on margin deposits is part of a range of WHT exemptions granted for the financial sector up until 31 December 2022. The current qualifying scope of entities and products covered by the WHT exemption for interest on margin deposits are:

(i) Covered entities:

(1) Members of approved exchanges.

(ii) Covered products:

(1) Spot foreign exchange (other than those involving SG$).

(2) Financial futures.

(3) Gold futures.

To further develop Singapore's derivative market, the scope of the WHT exemption for interest on margin deposits has been enhanced to cover, in addition to the above mentioned covered entities and covered products:

(iii) Covered entities:

(1) Members of approved clearing houses.

(2) Approved exchanges.

(3) Approved clearing houses.

(iv) Covered products:

(1) All other derivative contracts traded or cleared on approved exchanges and approved clearing houses.

g) **Extension and refinement of the Global Trader Programme (GTP):** The GTP grants a concessionary tax rate of 5 percent or 10 percent on income derived by approved global trading companies from qualifying transactions. Approved global trading companies enjoy a concessionary tax rate of 5 percent on their income from qualifying transactions in liquefied natural gas (LNG), regardless of whether a concessionary tax rate of 5 percent or 10 percent applies to their income from qualifying transactions in other GTP-qualifying commodities. The GTP is scheduled to lapse after 31 March 2021.

The GTP (Structured Commodity Financing) (GTP(SCF)) grants a concessionary tax rate of 5 percent or 10 percent on qualifying income derived by approved GTP(SCF) companies. The GTP(SCF) is scheduled to lapse after 31 March 2021.

As part of the Unity Budget:

(i) The qualifying activities of GTP(SCF) were subsumed under GTP from 19 February 2019.

(ii) The GTP(SCF) will lapse after 31 March 2021.

(iii) The concessionary tax rate of 5 percent on income from qualifying transactions in LNG will lapse after 31 March 2021. With the lapsing of this concession, LNG will be treated no differently from other GTP-qualifying commodities under the GTP.

Existing recipients of GTP(SCF) awards can continue to enjoy the tax concession under the GTP(SCF) until the expiry of their awards, if the conditions for approval of their awards continue to be met.

Existing recipients of GTP awards can continue to enjoy the concessionary tax rate of 5 percent on income from qualifying transactions in LNG until the expiry of their awards, if the conditions for approval of their awards continue to be met.

h) **Extension and refinement of the tax incentives for venture capital funds and venture capital fund management companies:** Venture capital funds approved under Section 13H of the Income Tax Act (ITA) enjoy tax exemption on the following income (Section 13H scheme):

(i) Divestment gains from qualifying investments.

(ii) Dividend income from foreign companies.

(iii) Interest income arising from foreign convertible loan stock.

Approved venture capital fund management companies managing approved venture capital funds are granted a concessionary tax rate of 5 percent under Section 43ZG of the ITA on the income derived from managing an approved venture capital fund (Fund Management Incentive).

To continue encouraging venture capital funding for Singapore-based companies, the Section 13H scheme and Fund Management Incentive have been extended until 31 December 2025 and a number of refinements have been made to the incentives.

i) **Extension of the Land Intensification Allowance (LIA) scheme:** The LIA scheme, which encourages enhanced land productivity among industrial users and was scheduled to lapse after 30 June 2020 has been extended until 31 December 2025.

Under the LIA, an initial allowance of 25 percent of the qualifying capital expenditure incurred on the construction or renovation/extension of an approved LIA building will be granted in the YA relating to the basis period during which the capital expenditure is incurred. Upon issuance of the Temporary Occupation Permit for the completed LIA building, annual allowance of 5 percent of the qualifying capital expenditure incurred will be granted, subject to all the qualifying conditions being met.

j) **Streamlining of the number of years of working life of P&M for CA claims:** The Sixth Schedule of the ITA specifies the number of years of working life (prescribed working life) of P&M for the purpose of computing annual allowances for such P&M under Section 19 of the ITA.

Depending on the P&M, businesses may claim annual allowances on their P&M over five, six, eight, 10, 12, or 16 years.

To simplify CA claims under Section 19 of the ITA, the prescribed working life of P&M in the Sixth Schedule will be streamlined. Businesses claiming annual allowance under Section 19 of the ITA may make an irrevocable election to write down their P&M as follows:

(i) If the current prescribed working life of the P&M in the Sixth Schedule is 12 years or less, businesses may choose to claim annual allowance over six or 12 years.

(ii) If the current prescribed working life of the P&M in the Sixth Schedule is 16 years, businesses may choose to claim annual allowance over six, 12, or 16 years.

The above will apply for P&M acquired in or after FY 2022, and in cases where P&M were purchased prior to FY 2022 and no claim for CA (both initial and annual allowances) has been made (i.e., the claim for CA in respect of the entire cost of the P&M has been deferred).

k) **Extension of the withholding tax exemption for non-resident mediators and arbitrators:** Nonresident professionals are subject to withholding tax at a rate of 15 percent on gross income from the profession; or they may elect to be taxed at 22 percent on net income. As a concession, income derived by nonresident mediators and arbitrators from mediation and arbitration work carried out in Singapore is exempt from tax, subject to conditions. This exemption was scheduled to lapse after 31 March 2020 but has been extended until 31 March 2022.

Conclusion

Tax policy has been deployed as a key source of support for the enterprises and individuals of Singapore at this time of immense economic upheaval. A standout feature of the Singaporean response is the carefully struck balance between short-term programs and longer-term incentives, and the comprehensiveness of the set of measures outlined above is impressive. This speaks to a tax system looking to meet the challenges posed by the COVID-19 outbreak head-on, whilst keeping one eye firmly on resilience, recovery, and competitiveness in the future.

Contacts

Stephanie Keen
Office Managing Partner, Singapore
T +65 6302 2553
stephanie.keen@hoganlovells.com

Adam Kania
Trainee Solicitor, Singapore
T +65 6302 2449
adam.kania@hoganlovells.com