KPMG

SINGAPORE BUSINESS FEDERATION
Apex Business Chamber

Rising to a new reality

Building a future-ready city amidst growing complexities

Singapore Budget 2024 proposal

Foreword

Singapore, amidst economic uncertainties and burgeoning competition, stands at a pivotal juncture. The country faces challenging macroeconomic conditions and the end of "benign globalisation" as identified by Singapore's Deputy Prime Minister Lawrence Wong. These circumstances, also reflected in the Singapore Business Federation's (SBF) National Business Survey (NBS) 2023/2024, point towards a weakened business outlook due to rising costs and manpower constraints.

The proposed Singapore Budget 2024 recommendations by KPMG in Singapore and SBF present a strategic blueprint for enduring prosperity. Drawing on insights from SBF's NBS and KPMG's CEO Outlook, our proposal focuses on 3Es: (1) Elevating Singapore's leadership as a competitive regional hub, (2) Empowering local enterprises for global growth and competitiveness; and (3) Enhancing enterprise resilience and capabilities.

Firstly, Singapore's influential position as a trusted hub in Southeast Asia is undisputed. The country has been a beacon of stability and economic prosperity. As we move forward, it is imperative that Singapore continues to adapt responsively to global tax developments to maintain its allure for businesses. This can also be realised by championing regional innovation and digitalisation across critical growth sectors such as financial services and technology, among others. As the world grapples with the existential threat of climate change, Asia is emerging as a key battleground. Already recognised as an Environmental, Social, and Governance (ESG) hub, Singapore is well-positioned at the forefront of decarbonisation and climate financing initiatives. Moreover, with its innovative prowess, Singapore is poised to become an exporter of green solutions in energy and infrastructure, further solidifying its leadership role in the region.

Secondly, as we look towards the future, there are abundant opportunities for Singaporean enterprises on the global stage. However, to seize these opportunities, our businesses must be prepared and supported to stay competitive. Digitalisation and sustainability are two key areas where Singaporean enterprises can gain a competitive edge. By leveraging the transformative potential of digital technologies, businesses can reshape their operational landscape, enhance productivity and deliver superior customer experiences. The transition towards a net-zero future presents another significant opportunity. The Government can play a crucial role here by bolstering businesses in their green transition, endorsing green buildings, and advocating climate reporting. Such measures can not only help Singaporean businesses secure a competitive advantage but also contribute to global sustainability goals.

Thirdly, amid mounting pressures such as inflation and escalating costs, it is essential for Singapore to maintain robust fiscal policies while equipping its enterprises with the capabilities to tackle immediate challenges. This means helping them digitally transform and gaining business momentum with greater ease, investing in their workforce development and facilitating talent needs, as well as providing financial aid where necessary. Such support can enable them to thrive amidst fluctuating economic conditions, which will be critical for ensuring the long-term success of Singaporean businesses, and by extension, the country's continued prosperity.

In conclusion, by leveraging its leadership role, supporting enterprises, and building business resilience, Singapore can continue to prosper in an increasingly complex and uncertain global economic landscape. It is incumbent upon us all - Government, businesses, and individuals alike - to work together towards this shared goal as we advance Singapore forward.

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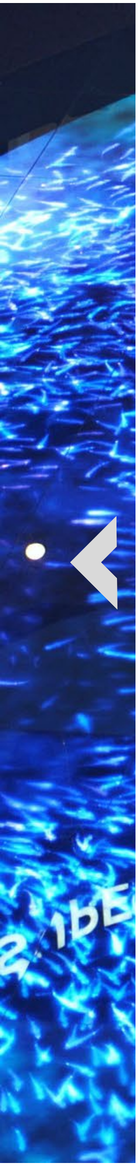


Elevating Singapore's leadership as a competitive regional hub

1A Singapore's regional leadership in driving innovation

→ Background, Issues, Opportunities

In the face of an uncertain future, Singapore is assertively strengthening its regional leadership amid global changes. The nation is skilfully navigating economic challenges by placing a strong emphasis on data utilisation, artificial intelligence (AI), and intellectual property (IP) creation.

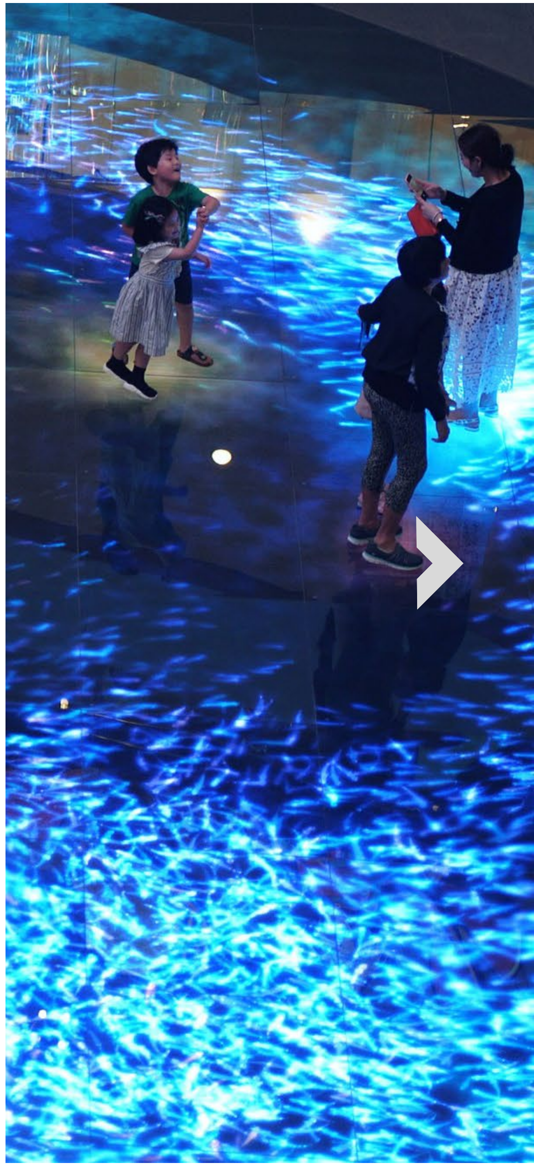
Data innovation, AI, and IP have become indispensable drivers of significant innovation in today's digital age. Organisations that effectively harness data stand to gain increased profitability and innovation, leading to improved efficiency, the discovery of new opportunities, and the ability to make strategic decisions. Notably, businesses leading in data innovation often deliver superior customer experiences and more rapid product innovation.

IP serves as a cornerstone for business resilience, fostering innovation. A robust IP regime in Singapore will foster trust among enterprises and encourage them to locate IP related activities in the country, hence boosting Singapore as an IP hub. As Singapore continues to assert its global leadership position, the integration of AI into its innovation strategy underscores its commitment to staying ahead of technological advancements and ensuring competitive growth.

According to the SBF's NBS 2023/2024, many businesses have been affected by rising interest rates and increasing financing costs. Approximately 42 percent of businesses are reassessing risks from current variable loans, while 41 percent are reducing their business plans. However, Singapore's robust infrastructure, innovative practices, and commitment to a circular economy provide a solid foundation to manage these challenges.

By proactively diversifying its export markets and exploring opportunities in emerging economies, Singapore is shielding its economy from single-market volatility and thus bolstering its economy to ensure stability.

The upcoming year offers a pivotal opportunity for growth and transformation for Singaporean businesses. The nation's emphasis on innovation, particularly in the realms of data, AI, and IP, will continue to fuel its regional leadership. By leveraging these strengths and reaffirming its position as a driver of innovation, Singapore is poised to stand out as a competitive regional hub.



1A Singapore's regional leadership in driving innovation

Our Recommendations

01

Establish a data innovation hub

Recommendation Establish a data innovation hub to bolster Singapore's regional leadership, and enhance domestic and international efficiency through seamless data sharing and connectivity across industries.

Singapore can consider establishing a data innovation hub to foster seamless data sharing and connectivity between businesses and government agencies across industries. This would drive efficiency and productivity improvements at both domestic and international levels.

As an example, the hub could serve as a platform for Singaporean businesses to connect with counterparts in other regions or countries. This would facilitate the exchange of information and skills, particularly beneficial for markets that are still experiencing advancements in technological innovation. In doing so, Singapore can maintain its regional thought leadership and technological prowess, thereby boosting its competitiveness.

1A Singapore’s regional leadership in driving innovation

02

Build partnerships with other technology hubs to strengthen AI strategies

Recommendation Strengthen links with other countries to boost the regional technology talent pool, such as establishing shared centres across different locations.

Singapore should take the lead in strengthening links with other countries to boost the regional technology talent pool, such as establishing shared service centres across different locations. This will allow talent to be rotated across different geographies, enabling the cross-pollination of skills, points of view and capabilities.

Beyond creating a vibrant ecosystem, such partnerships will also contribute towards mitigating the bias and risks in developing AI-based solutions. Having a diverse team set-up, comprising of experts with both regional and local perspectives, will ensure that solutions created can be robust, unbiased and trusted.

While Singapore has inked Digital Economy Agreements with other countries, it will need to look beyond governments and international organisations and also include stakeholders such as non-governmental organisations, academic institutions and technology companies. Such public-private partnerships will contribute towards building trust in an AI-driven future. To build the required capabilities, partnerships with private and public IT service providers is recommended. The shared service centres should be a mix of onshore and off-shore delivery locations to maximise talent availability and skills required, also to leverage both low cost and higher cost locations. Through this, more resources from the private sector will facilitate immediate scale needed, thus enabling price stabilisation in the market – which ultimately provides support for smaller enterprises.

03

Expand Intellectual Property (IP) Protection and Exploitation

Recommendation Expand the scope of qualifying IP for corporate tax purposes and enhance the IP Development Tax Incentive, establishing Singapore as a premier R&D market and an attractive business hub.

To fortify Singapore's status as an innovation hub, it may be beneficial for the Government to broaden the definition of qualifying IP for corporate tax purposes. This could include incorporating a wider range of IP for writing down allowances such as customer lists and other marketing intelligence on an approval basis.

The IP Development Tax Incentive could also be enhanced to encompass patentable IP, taking into account the various forms of IP that businesses may not want to officially register to safeguard sensitive information like formulas and proprietary knowledge.

Implementing these measures could establish Singapore as a prime market for research and development (R&D) or IP-based businesses, serving as an access point to other economies. As a data hub with a respected and reliable reputation, this could also strengthen Singapore’s standing as a desirable business hub.

1A Singapore's regional leadership in driving innovation

04

Align sourcing of equity-based remuneration rules with OECD norms to facilitate global movement of talent

➔ Recommendation Align the sourcing of equity-based remuneration rules to align with OECD norms and avoid double taxation of foreign employees.

Technology companies, including startups and established multinational enterprises, often provide stock options as a form of remuneration to their employees. This enhances the attractiveness of companies and help them attract the best talent in their ongoing drive for innovation and excellence.

To facilitate the international movement of talent with a view to elevating Singapore's leadership in driving innovation, the Government should consider aligning sourcing of employment income arising from equity-based compensation (such as stock options) over the grant-to-vest period, rather than imposing an exit tax on a deemed vest/ exercise basis. This will put Singapore in line with the Organisation for Economic Co-operation and Development's (OECD) approach and avoid double taxation for foreign employees, and thereby aid Singapore in its ambition as a leading innovation hub.

The Government has dealt with double taxation partially through foreign tax credit (FTC) and unilateral tax credit (UTC) claims for the post-departure portion that is taxed. The time limit for claiming FTC has also been increased from two years to four years from the end of the year of assessment. However, this does not address cash-flow issues that foreign employees face when they cease employment in Singapore. Whether FTC or UTC is granted is also subjected to Inland Revenue Authority of Singapore's approval and remains an administrative burden.

Alternatively, the Government could consider easing the stringent conditions in order for employers to apply for a "tracking option" (this allows employers to track the occurrence of income realisation events of foreign employees and report the gains at that point). However a balance needs to be struck between widening the base of eligible employers for the tracking option and ensuring that those employers will be able to fulfil their obligations in tracking and ensuring the correct reporting of gains as and when the income from vesting of shares, exercising of stock, occurs. It could also legislate the UTC for the post-departure portion that is taxed in the location of employment, provided the cost of the remuneration is borne by an entity in that location of employment and not in Singapore.

1A Singapore's regional leadership in driving innovation

05

Refine existing corporate tax rules to ease talent costs

➔ Recommendation Permit expense deductions for equity-based remuneration costs, and amend Income Tax Act 1947's Section 15(1)(q) to enable expense deductions for Singapore firms.

Singapore currently does not allow tax deductions where the employee equity-based remuneration involves issuance of new shares (as opposed to the transfer of existing shares to employees).

Furthermore, Hong Kong's position is similar to Singapore's in that share-based payments are tax deductible only in respect of shares acquired from the market. However, Hong Kong has since 2021, published guidelines in relation to recharge arrangements between group companies, to allow for tax deduction for both new issue of shares as well as shares acquired from the market.

Singapore should adopt the same position. This is on the basis that actual expenditure will be incurred by the Singapore company under the recharge arrangement, regardless whether the underlying shares are new shares or existing shares.

In addition, the existing Section 15(1)(q) of the Income Tax Act 1947 should be amended, such that deductions will be available to Singapore companies that incurs actual expenses, whether in the form of reimbursements or otherwise, in respect of rights granted to its employees to acquire shares of the Singapore company or its holding company. Where actual expenditure and staff costs are incurred by companies (as opposed to notional accounting costs), companies should not be unduly denied a tax deduction under Section 15(1)(q). As an example, when a company pays or reimburses its employees who acquired listed shares of the ultimate parent company, a deduction should be allowed to the company. This would place the company and employee in the same position as if a cash bonus was paid to the employee and the employee then chose to purchase shares in the employer.

Currently in Singapore, the distinction between the tax treatment of charges on treasury shares and issued share creates disadvantages to Singapore and inequity in attracting talent in its drive to be a leading innovation hub. The above recommendations to fine-tune the existing rules pertaining to pertaining to employee equity-based remuneration (e.g. stock options) will put Singapore on par with Hong Kong.

Elevating Singapore's leadership as a competitive regional hub

1B Singapore as a top investment destination in a post-BEPS future

➔ Background, Issues, Opportunities

Leveraging its robust fiscal policies, Singapore has strategically established itself as a premier destination for businesses and wealth management in the region. This positioning is a testament to the country's unwavering commitment to nurturing a business-friendly environment, underscored by its continuous efforts to strengthen its tax regime, uphold the rule of law, ensure global connectivity, and implement measures that stimulate business growth. These initiatives align directly with Singapore's ambition to elevate its leadership as a competitive regional hub.

The OECD's new global minimum tax of 15 percent, designed to impact multinational enterprises (MNEs) with revenues of EUR 750 million and above, has set off a global re-evaluation of tax strategies. In response, jurisdictions like Hong Kong and Malaysia in this region have announced their plans to implement the Minimum Effective Tax Rate and Qualifying Domestic Minimum Top-Up Taxes (QDMTT) from 2025.

In the face of this shifting tax landscape, it is imperative for businesses to stay focused on their core objectives - growth, productivity, cost reduction, and market expansion. As per the SBF's NBS 2023/2024 report, businesses' primary goals for the coming year include revenue growth (77 percent), cost reduction (62 percent), and market share expansion (30 percent).

Countries across Southeast Asia, including Singapore, have effectively utilised tax incentives to attract foreign direct investments. According to recent Budget announcements, Hong Kong will offer tax concessions for profits sourced in Hong Kong from qualifying patents derived from R&D activities. It also plans to revitalise its economy through the issuance of retail green bonds totalling HKD15 billion and an injection of HKD55 million to aid enterprises in exploring new markets.

As we transition into a post-BEPS era, Singapore's persistent efforts to improve its tax incentives and rules will be instrumental in preserving its competitive advantage and appeal to global businesses. Through judicious planning and strategic policy adaptations, Singapore is poised to not only maintain its status as a leading global investment destination but also reinforce its leadership as a competitive regional hub.

1B Singapore as a top investment destination in a post-BEPS future

Our Recommendations

01

BEPS 2.0: Enhancing tax incentives amid global reforms

Recommendation Strengthen Singapore's tax incentive regime by introducing a 15 percent tax rate for tax incentives and introduce new incentives that would fit into category of Qualified Refundable or Marketable Tax Credits (QRTCs or MTTCs).

i. Countries in Southeast Asia, including Singapore, have long been using tax incentives as one of the tools to attract foreign direct investments into the country.

Considering upcoming international tax reforms, such as the implementation of BEPS 2.0, Singapore can also consider strengthening its tax incentive regime, such as by introducing a 15 percent tax rate for tax incentives. By offering multinational companies with an incentivised tax rate of 15 percent, Singapore can still retain a competitive edge over other countries which have a higher corporate tax rate. It may also provide benefits to companies raking in large amounts of profits. More flexibility can also be accounted into incentive tax rates, factoring in the impact of rules like substance-based income exclusion or non-deductible amortisation, such that the effective tax rate under Pillar 2 rules do not exceed 15 percent.

ii. To mitigate the impact of Pillar 2 and ensure that Singapore remains competitive with global competitors, Singapore should also consider the introduction of new incentives that would fit into category of QRTCs or MTTCs. These incentives could be targeted at a broad spectrum of activities ranging from R&D to sustainability as well as to other manufacturing-related activities. These incentives could be offered as an alternative to existing tax incentives such as Investment Allowance schemes and R&D enhanced deductions. Offering QRTCs and MTTCs could be better alternatives to outright grant schemes in view that these specific incentives have been provided specific treatments under the global minimum tax framework. This enhances tax certainty of these incentives, which is something global investors highly value.

Currently, countries such as Ireland and the United Kingdom have made decisive changes to their tax systems to ensure relevant tax incentives are "BEPS-protected" in line with the implementation of BEPS 2.0.

1B Singapore as a top investment destination in a post-BEPS future

02

Targeted tax incentive schemes to attract fund managers and investors

→ Recommendation Renew funds tax incentive schemes without an increase in tied economic conditions.

In the asset and wealth management space, existing fund vehicle tax exemption schemes are due for renewal after December 2024. Many funds in this space are not expected to fall within the scope of BEPS 2.0 and would therefore not be impacted by the implementation of global minimum tax.

We propose that these funds tax incentive schemes are renewed without an increase in economic conditions tied to them (e.g. minimum S$200,000 business spending requirement, minimum fund size requirement and minimum professional headcount requirement).

In a rapidly evolving fund landscape amidst rising competition from other financial centres in the region, any tightening of the qualifying conditions could hamper the potential growth of the Singapore's asset and wealth management industry. Properly targeted tax incentive schemes will be important in attracting fund managers and international investors and result in a steady flow of foreign investments into Singapore. Having a much higher threshold of economic conditions would deter start-up / first-time fund managers who may not be able to meet these conditions without being able to first build good track record.

1B Singapore as a top investment destination in a post-BEPS future

03

Relook tax incentive schemes to attract quality family offices

Recommendation Re-examine tax incentives schemes, such as by considering the investment culture and landscape.

Family offices are getting more sophisticated and are becoming an important class of investors in the fund management space. The explosive growth of wealth has expanded direct investment opportunities for many Asian families and are shaping the venture and private equity space in this part of the region.

However, the conditions associated with the tax incentive schemes accorded to single family offices have become more stringent over the past year (e.g. tiered business spending requirement, minimal capital deployment requirement, non-family member investment professional requirement), there are also restrictions under these schemes against the single family office holding controlling stakes even in private equity and venture capital investments whereby the family members hold executive or management roles.

While the above changes in conditions are generally applauded by many in the industry and shows that Singapore is intent on attracting quality family offices, some of the requirements introduced can pose challenges. For example, there are restrictions under these schemes against the single family office holding controlling stakes even in private equity and venture capital investments whereby the family members hold executive or management roles. This would appear counterintuitive in terms of encouraging investments in the private equity and venture capital space as investors in this space are very often involved in the strategic operations of such businesses.

A re-look of the tax incentives schemes, such as by considering the investment culture and landscape will ensure that family offices here remain up to standard while not being caught up in regulatory nets.

1B Singapore as a top investment destination in a post-BEPS future

04

Enhance tax rules to boost Singapore's business environment

Recommendation Expand Safe Harbour Rule's exemption to cover preference shares and common financial instruments, and reduce its shareholding threshold

Currently, the safe harbour rule under Section 13W of the Income Tax Act is currently only available in respect of disposal of ordinary shares and excludes insurance/ reinsurance.

We recommend the Government to enhance the Safe Harbour Rule. The minimal 20 percent shareholding threshold should be further reduced to 5 percent in line with the participation exemption rules in other countries.

In addition, the scope of the exemption should be extended to preference shares as well as other common type of financial instruments (e.g. bonds). The Safe Harbour Rule should also be expanded to include insurance/ reinsurance companies as there are circumstances where insurance/ reinsurance companies can also hold investments as capital assets.

The proposed changes will enhance Singapore's attractiveness as a location to set up businesses, conduct businesses, and re-organise businesses.

Minimal 20% shareholding threshold to reduce to 5%

Elevating Singapore's leadership as a competitive regional hub

1C Singapore's regional role in tackling climate change

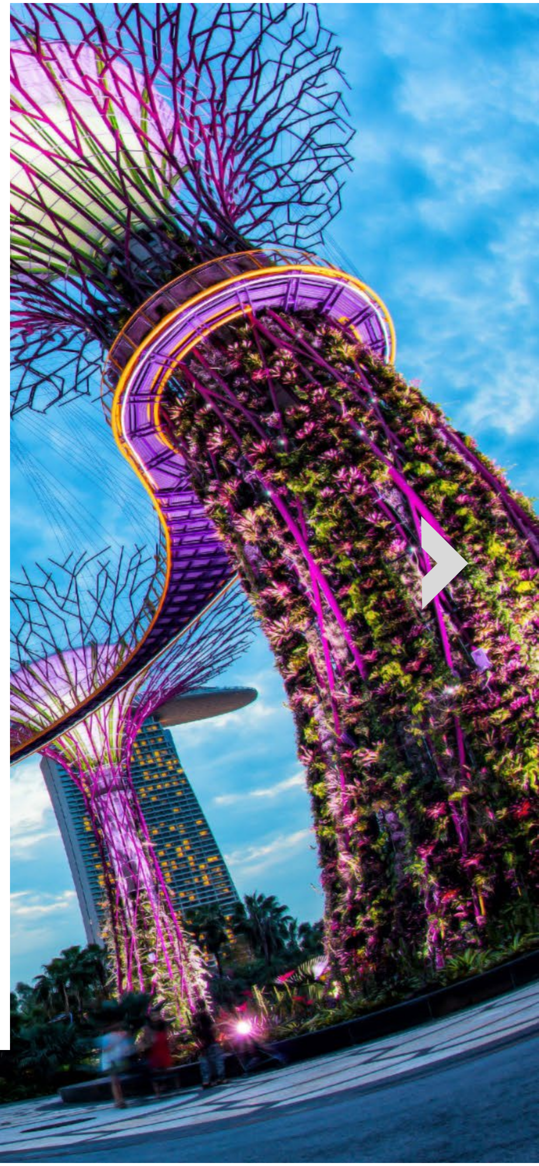
→ Background, Issues, Opportunities

Positioning itself as a regional leader of sustainability, Singapore is charting an ambitious course towards environmental responsibility with its Green Plan 2030 and unwavering commitment to reaching net-zero emissions by 2050. Despite the significant strides already taken, the urgency for further action remains, especially within sectors notorious for high greenhouse gas (GHG) emissions, such as real estate, energy, transport, and logistics. The quest for decarbonisation transcends mere environmental necessity and serves as a catalyst for economic growth and innovative development.

Businesses form the backbone of this transformational journey. In line with the insights from the SBF's NBS 2023/2024 report, many businesses are actively seeking easier access to funding and state-of-the-art technology to track their ESG initiatives. Recognising this trend, Singapore has responded with determined steps towards climate financing, launching comprehensive initiatives specifically tailored to finance green projects.

Beyond the domestic frontiers, Singapore is assuming a key role in international, regional, and bilateral initiatives aimed at mitigating climate change, particularly within the ASEAN region. This collective endeavour by ASEAN represents a flourishing market teeming with investment opportunities, with projections estimated at a staggering US$10 trillion over the next decade.

While the country has made significant progress in addressing climate change, the path to a fully realised green transition still requires concerted efforts. As a financial and R&D powerhouse with a proven track record in the green transition, Singapore stands at the forefront of this movement. By mobilising national and regional actions, endorsing green projects, and striving towards climate goals, Singapore is consolidating its position as a competitive regional hub in the global effort to combat climate change.



1C Singapore's regional role in tackling climate change

01

Climate financing:
i. Set up special fund under a holistic scheme to meet climate goals

➔ Recommendation Set-up a special fund under a scheme dedicated to mobilise and finance green energy projects across the economy.

To solidify Singapore's regional leadership as a competitive hub in the fight against climate change, a comprehensive approach towards climate financing is paramount. A key hindrance in achieving our climate objectives is the scarcity of adequate funding for nascent technologies that hold the potential to revolutionise the green sector in the forthcoming years. To circumvent this, we recommend the establishment of a special fund under a holistic scheme dedicated to mobilising and financing green energy initiatives across the economy.

This scheme would entail a concerted effort from public and private entities, complemented by philanthropic organisations, to create blended and impact funds. These funds would serve as a catalyst for the adoption of low and zero carbon technologies, thus driving the green transition at an accelerated pace.

The proposed scheme aims to mobilise an ambitious S$100 billion over the next seven years through a tripartite partnership between the Government, private sector, and philanthropies. The Government's commitment could involve earmarking up to one percent of our gross domestic product (GDP) delivered through an amalgamation of existing and new tax incentives, grants, and loan guarantees. This strategic move could act as a magnet for additional capital from the private sector and philanthropies, culminating in the creation of a blended finance hub in Singapore.

Deploying all green initiatives under a unified scheme will not only foster job creation in the clean energy sector (an estimated 50,000 jobs within the next decade in Singapore) but also augment the flow of public and private investments to support clean energy manufacturing and trade. This could contribute to 7 to 8 percent of Singapore's GDP over the next decade, including robust economic spin-off activities such as the electric vehicle (EV) supply chain, solar manufacturing, and the green hydrogen ecosystem.

Furthermore, the scheme could incentivise individuals and corporations to adopt the use of EVs or replace inefficient electrical appliances or processes with more energy-efficient alternatives. By doing so, the scheme would bolster Singapore's economic competitiveness, innovation, and manufacturing productivity, benefiting the entire ecosystem. Proposed initiatives under this new scheme could span clean transportation, energy efficiency and electrification, agriculture technology, coastal conservation, sustainable buildings, and green technology.

By implementing this recommendation, Singapore can reinforce its position as a regional leader in climate financing, setting a strong example for other nations to follow.

Mobilise $100 billion over the next 7 years

1C Singapore's regional role in tackling climate change

01

Climate financing:
ii. Deploy a tiered credit line

➔ Recommendation Explore the implementation of a tiered credit line for climate financing, collaborating with government agencies and FIs to address aggregate demand.

In a bid to strengthen Singapore's position as a regional leader and competitive hub in climate action, the exploration and implementation of a tiered credit line for climate financing warrant consideration. This initiative should involve close collaboration with government agencies and financial institutions (FIs) to effectively address aggregate demand.

The proposed tiered credit line system is designed to cater to a wide range of stakeholders from large corporations to small enterprises, as well as individuals keen on developing or utilising innovative green energy solutions. By offering different credit tiers, this approach ensures that companies embarking on smaller-scale green projects can access necessary funding without incurring undue financial stress.

Such a strategy aligns with Singapore's objective of facilitating a sustainable, greener transition across all sectors of the economy. It not only encourages the development and adoption of green energy solutions but also enhances financial resilience by preventing excessive debt burdens.

In essence, the tiered credit line system serves as a catalyst for sustainable innovation, fostering an environment where businesses, regardless of their size, can pursue their sustainability goals with confidence and financial support. By implementing this recommendation, Singapore can further assert its regional leadership in climate financing, setting a precedent for other nations in the region and beyond.

Singapore's regional role in tackling climate change

01

Climate financing:
iii. Mobilise institutional climate financing

Recommendation Accelerate project origination and conceptualisation and draw in private capital for the region to drive institutional financing for climate change in the region.

Singapore is a vibrant ecosystem for Southeast Asia as numerous commercial banks, multilateral organisations and large energy companies are headquartered in the country. With both public sector commitment and increased private sector investments, Singapore can play an important role in driving institutional financing for climate change in the region.

i. Accelerate project origination and conceptualisation - Singapore is able to encourage companies with green project origination and project conceptualisation by creating an ecosystem that fosters innovation, providing financial incentives, and offering expert guidance. For example, a 200 percent tax deduction on financing costs to companies engaged in green project origination which can help to cover initial research and conceptualisation costs. Another example is to offer capacity building tailored to educate companies about the grants and credits available, covering eligibility criteria, application processes, documentation requirements and reporting obligations for compliance to switching to low carbon solutions.

ii. Drawing in private capital for the region - Public funds alone are not sufficient for Singapore's infrastructure and economy to adjust to higher temperatures. Hence, Singapore can encourage private sources of capital from regional banks, insurance players and financial markets in addition to blended finance projects involving public-private partnerships. For example, Singapore can use public funds to de-risk private investments in climate projects by offering guarantees, insurance, or co-investment mechanisms. This can be further strengthened by creating public-private partnerships within Southeast Asia that share the financial risks and rewards of climate-related initiatives.

Singapore's regional role in tackling climate change

01

Climate financing:
iv. Tax incentives to encourage green investments

➔ Recommendation Explore ways to encourage green financing in Singapore – 10 percent concessionary tax rate under the FSI-ST or tax exemptions.

There are funding support schemes offered by the MAS, Enterprise Singapore and other non-tax incentives to encourage green financing and green investments. However, the Government can consider exploring ways to encourage green financing in Singapore, which can include 10 percent concessionary tax rate under the Financial Sector Incentive-Standard Tier (FSI-ST), which is currently at 13.5 percent tax rate, or tax exemptions on income derived from investing in green bonds or loans for acquisition and development of green properties. This would help to boost Singapore's standing as a green finance hub in Asia.

Singapore's regional role in tackling climate change

02

Energy interconnections:
i. Mobilise funding to encourage private sector in distribution infrastructure

Recommendation

- **Establish financial incentives, tax benefits, or subsidies to boost private investment in transmission and distribution infrastructure projects.**
- **Adopt a blended finance strategy merging public and private funds.**

Singapore can mobilise funding for the private sector's engagement in the creation of a robust transmission and distribution infrastructure for the ASEAN region. While there has been considerable emphasis on the generation side, particularly in the utilisation of hydrogen and renewable energy sources, there remains an unaddressed gap in private sector involvement in the critical domain of transmission and distribution infrastructure.

i. Establish financial incentives, tax benefits, or subsidies to encourage private sector investment in transmission and distribution infrastructure projects. This approach can help mitigate the financial risks associated with such endeavours. A good use case could be the Energy Market Authority's power import programme that envisages the setting up of high voltage direct current (HVDC) and heating, ventilation, and air conditioning (HVAC) transmission infrastructure with neighbouring countries. This is a critical aspect of Singapore's energy transition plan and will ensure its energy security in the long term.

ii. Implement a blended finance approach that combines public and private funds with a focus on sustainability. Leveraging green finance sources will enable Singapore to mobilise the necessary capital to support private sector projects dedicated to building a reliable ASEAN energy grid.

1C Singapore's regional role in tackling climate change

02

Energy interconnections:
ii. Advance energy storage solutions

→ Recommendation Boost energy storage solutions, promote R&D, and back pilot projects in storage tech.

As a regional leader and competitive hub, Singapore is poised to make significant strides in advancing energy storage solutions. By incentivising R&D, supporting pilot projects in storage technology, and exploring the burgeoning intersection of EVs and electricity storage systems, Singapore can set a new standard for energy efficiency and sustainability.

Enhancing energy storage solutions is key to tackling the intermittency of renewable energy sources. When done effectively, it guarantees a consistent power supply, thereby boosting grid stability and resilience. Furthermore, the convergence of EVs and electricity storage systems presents an exciting opportunity to innovate and transform our energy landscape.

To realise this potential, the Government could introduce financial incentives and grants to stimulate R&D in these areas. By fostering a conducive environment for innovation, Singapore can remain at the forefront of technological advancements in energy storage. Additionally, the Government can facilitate research partnerships between academia and industry, promoting collaboration and knowledge sharing.

By taking these steps, Singapore can reinforce its position as a regional leader in energy solutions, further solidifying its reputation as a competitive hub. This recommendation serves as a call to action for Singapore to continue pushing boundaries in energy innovation, setting a global benchmark for sustainability and efficiency.

Empowering local enterprises for global growth and competitiveness

Empowering local enterprises for global growth and competitiveness

2A Adapting to a digitalised world

→ Background, Issues, Opportunities

As the tides of digitalisation surge forward, it's increasingly evident that innovative technology is no longer a value-add but a critical cornerstone of every company's competitive strategy. Therefore, for Singapore firms to distinguish themselves on the global stage, they must not only embrace digital transformation but master it.

The swift ascension of disruptive technologies such as generative AI, epitomised by ChatGPT, has made it imperative for businesses to adapt swiftly or risk obsolescence. The 2023 KPMG CEO Outlook underscores this urgency, identifying generative AI as the foremost investment priority for global CEOs in the medium term.

Despite Singapore's established status as a coveted technology hub, the journey towards securing and expanding its leadership position is far from over. Enterprises face a myriad of challenges in adopting novel technologies, including a dearth of talent, tools, and competencies in specialised areas like machine learning (ML) algorithms, AI, automation, data engineering, and data analytics. While larger enterprises might be able to tap into their global resource pool to bridge skill gaps temporarily, smaller enterprises primarily depend on local capabilities and talent.

Simultaneously, as companies grapple with the pressure to innovate and transform, they must also navigate the risks associated with security, privacy, ethics, and accuracy. In response, Singapore has devised the AI Verify governance testing framework and toolkit to facilitate transparent AI deployment across industries. However, there remains a pressing need to address a broader spectrum of cybersecurity concerns, encompassing risks associated with the Internet of Things (IoT), AI, blockchain, and beyond.

To ascend as a leader in digitalisation, Singaporean businesses must be spurred to undertake innovative projects, exploring ways to leverage technology effectively to meet productivity goals. Unattended, these challenges could have repercussions that extend beyond individual companies, potentially incurring substantial costs for Singapore and its key institutions. The call to action is clear: Empower local enterprises for global growth and competitiveness through robust support in their digitalisation journey, from financial assistance to the provision of a clear digitalisation roadmap.

2A Adapting to a digitalised world

Our Recommendations

01

Financial support for businesses adopting digitalisation roadmap

Recommendation Implement a tiered support approach to encourage businesses embarking on a digitalisation roadmap.

Singapore currently has numerous grants to support businesses in their digitalisation efforts. Full digitalisation across the value chain can bring companies to the next level of efficiency, and provide additional bandwidth to build capabilities for innovation.

Hence, Singapore could consider a tiered support approach to encourage businesses embarking on a digitalisation roadmap. Starting with the adoption of basic digitalisation, businesses will be eligible for incremental percentage of grant support as they adopt increasingly advanced technologies - a lower tier of 20 percent for back office and operational digitalisation all the way to the top tier of 60 percent for using digital ledger/AI technology. The following table is an example of tiered support approach across the digitalisation roadmap.

Tier	% of grants	Digital adoption
Tier 1	20%	Automating back office and operational processes to eliminate waste, accelerate speed to market, and help innovation flourish.
Tier 2	30%	Leveraging bots to work around the clock to track inventory, deliver real-time inventory analysis, keep pace with automating customer/vendor support with robotic process automation, and deploying virtual assistance to handle data and systems.
Tier 3	40%	Using cyber physical systems or intelligent systems (mechanisms controlled or monitored by computer-based algorithms) to oversee quality and new product manufacturing simulations.
Tier 4	50%	Tap on blockchain technology to provide common registry of ownership, enabling stakeholders to reduce stocks and improve just-in-time inventory management – these speeds up flow of imports and exports, improve access to trade and finance for smaller enterprises, and digitise other trade documents (for e.g. purchase orders, invoices, packing lists, and transport document.
Tier 5	60%	Leverage digital ledger technology to create digital assets to capture data and support corporate ESG strategies. Businesses connected to ecosystem platforms can understand the true flow of products, identify opportunities to measure and reduce various asset carbon emissions, reduce waste and optimise energy usage.

2A Adapting to a digitalised world

02

Support enterprises in innovation, digitalisation and smart tech adoption

➔ Recommendation Review existing grants and subsidies to enable businesses to pay only net cost of solutions to help them in cash flow.

While digitalisation, smart tech adoption and R&D activities continue to be an important avenue for enterprises to increase their productivity and operational efficiency, the high upfront investment costs are often a significant barrier for them. SBF's NBS 2023/2024 found that the high cost of technology adoption remains the top barrier for 63 percent of businesses, followed by expensive licensing payments and lack of management expertise.

In Singapore, existing government grants to encourage technology adoption, such as the Productivity Solutions Grant are deployed on a reimbursement basis, which can sometimes take months to disburse. This means that smaller enterprises are still required to foot hefty payments upfront.

To further support businesses, the Government could review existing grants and subsidy programmes like the Enterprise Innovation Scheme, Productivity Solutions Grant so that smaller enterprises only need to pay a manageable amount upfront to get started on their technology adoption journey.

Businesses could be required to pay only the net cost of solutions while providers can then claim the rest of the subsidy directly from the Government. Such an arrangement could simplify the grant process for these smaller enterprises, making it easier for them to access funding and reduce the risk of cash flow problems.

03

Expand grant schemes to support digital projects

➔ Recommendation Expand grant schemes such as the Enterprise Development Grant, to support digital projects.

Currently, the digital talent pool in Singapore is still insufficient to meet demand. Yet, there is much opportunity to leverage talent in the ASEAN market to quickly grow and develop digital solutions that are homegrown from Singapore. The Government can consider expanding grant schemes such as the Enterprise Development Grant, to support digital projects where development work is led out of Singapore but involves resources from outside the region - with the understanding that the eventual tangible and intangible assets belongs in Singapore. Currently, our incentives require the work to be done in Singapore, which can hinder the growth of many of our start-ups and enterprises if they cannot tap on the skillsets required in a timely and competitive manner.

2A Adapting to a digitalised world

04

Expand grants to cover costs related to AI and ML adoption

➔ Recommendation Launch a universal grant scheme to cover upskilling, AI & ML adoption costs, and simplify R&D tax claims for AI and ML projects.

Beyond investments into right AI and ML tools, businesses also find that they will need to invest significant time and money into creating and training their AI and ML models to produce accurate real-world results, before these can be fully adopted into their operations and processes. Steps could include developing training datasets, initial training of the models, and adjusting and retraining the AI algorithm. However, businesses often struggle with having good quality data to support the training required in order to produce results that can be relied on for business process automation, reporting and regulatory purposes.

Currently, under MAS' Financial Sector Technology and Innovation 3.0 scheme, the Artificial Intelligence and Data Analytics grant is restricted to small Singapore based financial institutions and fintechs.

Hence, we propose for the Government to consider introducing a grant scheme that is open to all enterprises to support costs related to employee upskilling and adoption of AI and ML. These could include costs for the training of employees, employee costs in building training datasets, data management, data analysis and testing, which will support businesses in accelerating their roll-out of AI and ML with confidence. The Government could also consider providing a secure centralised platform for smaller enterprises to access these upskilling services, similar to the Government on Commercial Cloud platform.

In administering Singapore's R&D tax incentive schemes, assessors should be made aware that data gathering, cleansing and reiterative dataset training activities are all essential R&D activities in the creation of AI and ML solutions. These may not involve the step-by-step methodical systematic and investigative processes usually seen in other types of R&D projects. Accordingly, it is hoped that the assessment of AI-and ML-related projects for R&D tax incentive claims purposes would be more streamlined and subject to less disputes.

2A Adapting to a digitalised world

05

Raise cybersecurity posture of enterprises

Recommendation Enhance existing programmes to aid smaller enterprises in cybersecurity, including training and AI upskilling to manage evolving threats.

Cybersecurity concerns, including the increase in cyber attacks, have emerged as the top new trend impacting businesses over the next 12 months, according to SBF's NBS 2023/2024. With the cyber landscape becoming increasingly fraught, we recommend the Government to enhance existing programmes, such as the current Chief Information Security Officer-as-a-Service programme, to help smaller enterprises take action on the recommendations with support for training and implementation. These could include cybersecurity professionals who can support companies with their cyber security health checks, and provide implementation strategies to raise their cyber defence and incident response.

At the same time, companies will also need Government support in upskilling and reskilling their existing employees in emerging technologies, such as AI. This will help them gain greater awareness and the necessary capabilities to manage the risks involved, especially with new and evolving cyber threats.

Empowering local enterprises for global growth and competitiveness

2B Moving towards a net-zero future

→ Background, Issues, Opportunities

As we stand on the cusp of a significant societal shift towards sustainability, the path to a net-zero future is fraught with challenges and opportunities. Singapore, with its ambitious vision for environmental stewardship, is poised to empower local enterprises to navigate this transition, fostering global growth and competitiveness.

While the development of the Singapore-Asia and ASEAN taxonomies is still in progress, major FIs have forged ahead, crafting their own sustainable finance product frameworks based on globally recognised taxonomies and standards. However, the emergence of disparate frameworks amplifies the risks of 'transition-washing' within Southeast Asia, potentially exposing businesses to reputational and legal risks, and consequently deterring potential financiers.

Emerging technologies, such as hydrogen fuel, despite their potential, currently lack large-scale commercial viability. This misalignment with the risk tolerance of FIs could undermine their bankability. Concurrently, the higher costs associated with proven technologies, such as solar photovoltaic, in Southeast Asia could limit the financing available for such projects.

Notably, smaller enterprises, which constitute over 90 percent of Southeast Asia's businesses, often grapple with insufficient ESG data and competencies for sustainability disclosures. This impedes FIs' ability to assess the credibility of these enterprises' green transition plans, thereby restricting their access to sustainable financing. The SBF NBS 2022/2023 further reveals that many Singapore businesses focus predominantly on the social and governance aspects of ESG, often neglecting GHG emissions. With the advent of new climate reporting requirements for both listed and large non-listed companies, scalable tracking solutions will be paramount.

In light of these challenges, spanning financing, talent, and regulatory changes, it is evident that businesses require robust support as they journey towards a greener future. Government intervention is critical in cultivating Singapore as a regional hub for an ESG workforce, implementing financing schemes and tax incentives to promote green initiatives, and fostering public-private collaboration for ESG initiatives. The path towards a net-zero future is not a solitary one - it is a collective endeavour demanding concerted efforts from all sectors of society.

2B Moving towards a net-zero future

Our Recommendations

01

Build ESG and sustainable finance expertise

Recommendation Advance Singapore as an ESG hub through a talent development roadmap, tax incentives for training, curriculum updates at IHLs, and grant schemes for sustainable finance or ESG hubs.

Singapore is currently facing a talent crunch, resulting in a shortage of resources and capabilities required to support the transition to net-zero. We recommend the following:

i. Support development of Singapore as a regional hub for ESG workforce: Singapore can facilitate the rollout of a comprehensive roadmap encompassing strategies for talent augmentation, upskilling, and reskilling across various industries. As part of this, Singapore can enhance tax deduction for accredited training programmes, provide tax credits or subsidies for employers committed to developing a dedicated training pathway and meet qualifying headcount growth targets. This enables Singapore to bridge the skills gap and equip its workforce for the demands of ESG-focused and sustainable finance roles.

ii. Curriculum Enhancement at Institutes of Higher Learning (IHLs) : IHLs can be encouraged and supported to refresh their curricula to align with the current needs of industries transitioning towards ESG principles and sustainable finance. This ensures that the graduate pool is well-prepared and possesses the relevant skills and knowledge to contribute effectively to ESG initiatives.

iii. Expand support for the placement of global or regional sustainable finance or ESG hubs in Singapore through grant schemes

2B Moving towards a net-zero future

02

Decarbonisation: Create decarbonisation industry roadmaps

➔ Recommendation

- **Collaborate with aggregators, offer 50%-70% grant support for early adopters of sector solutions, and establish a tax deduction scheme like the Productivity and Innovation Credit Scheme.**
- **Develop a tech platform to guide industry in adopting solutions.**

The Government should contemplate partnering with aggregators, such as sectoral agencies and Trade Associations and Chambers (TACs), to chart these decarbonisation industry roadmaps for a greener transition. This approach would empower smaller enterprises to expedite their sustainability journey by adopting industry-specific solutions, technologies, and applications.

To encourage early adoption of these sector-identified solutions, the Government could consider providing substantial grant support, ranging from 50 to 70 percent. This financial backing would catalyse a broader sustainability transformation among smaller enterprises. Moreover, a green financing facility, established through local banks' participation, could stimulate wider adoption.

A tax scheme, similar to the Productivity and Innovation Credit Scheme, could be introduced to offer additional tax deductions for qualifying investments aimed at enhancing sustainability. To align with decarbonisation objectives, one of the criteria could necessitate companies demonstrating a reduction in their carbon footprint or emissions after making these investments.

This approach is particularly crucial for hard-to-abate sectors facing economic headwinds, such as real estate or smaller enterprises. Transformation initiatives that require government incentives and co-funding could encompass energy efficiency, low carbon technologies, renewable energy options, and integrating ESG practices across the value chain.

To facilitate the adoption of innovative low carbon and energy-efficient solutions, a project matching, technology, and capacity development platform could be developed. This marketplace would provide industry-specific use cases and foster an environment conducive to innovation.

Additionally, more targeted support should be provided to smaller enterprises in their decarbonisation journeys. For instance, revamping grant programmes to cater to the unique challenges, resource constraints, and green transition strategies of these businesses would be a step in the right direction.

Grant support from 50% to 70% for early adopters

2B Moving towards a net-zero future

03

Support adoption of data-driven energy solutions and sustainability-as-a-service offering

➔ Recommendation Promote sustainability-as-a-service to leverage technical expertise and create a national recognition system for sustainability professionals to aid in recruitment.

The Sustainability Reporting Advisory Committee (SRAC) aims to promote sustainability reporting to evaluate companies' ESG performance systematically. However, it is crucial to extend support to ecosystem players in Singapore to facilitate companies' transformation and transition efforts. We are proposing the following initiatives:-

Support sustainability-as-a-service offering - to boost green skills to meet the demands of companies in Singapore and the region, we recommend that the Government explore ways to support administering a sustainability-as-a-service offering to optimise the technical expertise available to handhold companies in kickstarting their sustainability transformation. We also recommend that the Green Skills Committee formed by the Ministry of Trade and Industry (MTI) and SkillsFuture Singapore (SSG), can also oversee the establishment of a national recognition pathway for sustainability professionals that will enable companies to hire suitable talents for their transformation agenda.

04

Expand EFS-Green to include adopters of green solutions or technology

➔ Recommendation Broaden the EFS-Green scheme to incentivise lending to smaller enterprises adopting green solutions or technologies.

Enterprise Financing Scheme-Green (EFS-Green) primarily targets project developers, system integrators, technology, and solution enablers focused on reducing waste, resource use, and GHG emissions, particularly in sectors like clean energy, circular economy, green infrastructure, and clean transportation. However, enterprises that are only adopters of green solutions or technologies are not eligible under this programme while there is strong interest among smaller enterprises in exploring sustainability-linked finance.

Hence, we recommend for Singapore to expand the EFS-Green to include adopters of green solutions or technologies. This would also entail encouraging qualifying FIs under EFS-Green to increase lending to smaller enterprises to help them kick-start their sustainability journey by providing a 70 percent risk-sharing approach.

2B Moving towards a net-zero future

05

Support transition to clean energy

Recommendation

- **Boost incentives for companies to use energy-efficient practices and equipment.**
- **Offer government incentives for older buildings to refurbish and adopt sustainable solutions.**

To support businesses in their efforts to reduce carbon emissions, we propose that projects related to energy transition become eligible for specific tax incentives or enhanced allowances or deductions, aimed at alleviating a portion of these expenses. Hence, we recommend strengthening incentives to encourage companies to adopt energy-conserving production processes and invest in more energy-efficient equipment by:

i. Augment the Energy Efficient Fund (EEF) by reviewing the types of energy efficient equipment that can be supported under the EEF, such as solar- or hydrogen-related equipment and technologies.

ii. Government incentives, such as a gross floor area bonus or tax deductions can also be introduced to encourage old buildings and shophouse owners to refurbish and adopt sustainable solutions. Such a scheme would encourage old commercial shophouse owners to adopt energy-efficient appliances.

06

Establish supportive framework to mitigate green risks

Recommendation **Provide support mechanisms to help companies comply with green regulations.**

Singapore can help companies minimise their exposure to green penalties, whether from exports, imports, or legal actions related to climate, biodiversity, or greenwashing issues. This can be done by providing the necessary facilitation and structures, such as support mechanisms to assist companies in complying with green regulations related to exports and imports. This may include dedicated agencies or advisory services that help businesses navigate the complexities of international sustainability standards and ensure that their products meet green criteria.

2B Moving towards a net-zero future

07

Enhance reporting competence and ISSB adoption

➔ Recommendation Launch comprehensive upskilling programme for companies affected by new climate reporting requirements.

To support Singapore businesses in aligning with new climate reporting requirements and global sustainability standards, we recommend launching a comprehensive upskilling programme for affected companies. This includes educating employees on reporting requirements and the broader implications for business. For example, providing guidance to support companies in swiftly adopting to the International Sustainability Standards Boards (ISSB) standards with a central repository of resources, tools, and case studies that can help companies navigate the complexities of ISSB reporting.

08

Foster data collaboration and transparency for reporting

➔ Recommendation Establish data sharing platform for ESG data.

Singapore can establish data sharing platforms that facilitates the sharing of ESG data such as GHG emissions associated with certain activities. This allows companies to perform reasonableness checks on internal data or perform an estimation when such information is not available.

2B Moving towards a net-zero future

09

Green buildings: Establishing an institutional mechanism for the retrofitting space

Recommendation Establish an institutional framework through a public-private collaboration where the Government takes the lead.

Singapore has the potential to lead the way in a burgeoning retrofitting industry within its business ecosystem. We recommend establishing an institutional framework through a public-private collaboration where the Government takes the lead while partnering with other financial institutions.

This framework will create a unified taxonomy to determine eligibility for financing, streamlining processes for both government-led and private s. It will also involve deploying a team of environmental advisors with expertise in energy-efficient technology and implementation. These advisors will assist real estate players in evaluating the most suitable technologies and energy-saving solutions for retrofitting. This mechanism will not only drive the growth of a new retrofitting and energy efficiency industry for real estate in Singapore but also position it for regional export potential.

10

Green buildings: Encouraging developers to provide EV charging facilities

Recommendation Motivate developers to integrate EV charging infrastructure and promote sustainable energy use at these stations.

Singapore can continue to incentivise property developers to include EV charging infrastructure in developments, such as residential buildings, commercial complexes, and public parking facilities. The Government could also encourage the use of sustainable energy sources for EV charging stations, such as solar power, by allowing property developers to integrate solar panels into the charging infrastructure to reduce reliance on the grid and lower the carbon footprint of EV charging.

2B Moving towards a net-zero future

11

Green buildings: Incentivising climate-responsive building practices for sustainable temperature management

Recommendation Set definitive temperature control rules and promote sustainable building methods and technologies.

Singapore can (i) establish clear temperature control guidelines for commercial buildings to maintain their indoor temperatures at 1.5 degrees Celsius higher than the current average temperature per the policy stipulated by the building (e.g. to increase to 23.5 degree Celsius if the average is currently set at 22 degree Celsius) to save energy on cooling and (ii) encourage the adoption of sustainable building practices and technologies that help maintain desired indoor temperatures, including solar roofs, energy-efficient insulation, and advanced HVAC systems. Buildings that adhere to these guidelines and practices should receive incentives or waivers on property tax.

2B Moving towards a net-zero future

12

Shift tax policies to promote green accountability

Recommendation Revise tax policies to align with global sustainability goals and encourage climate-conscious behaviour in consumers.

Singapore can encourage greater environmental responsibility by revising tax policies to shift the financial burden from corporations to end-users and consumers. This approach not only motivates green behaviours but also aligns with global sustainability goals. For example, implement environmental levies or taxes on products or services that have a significant ecological footprint. This creates a direct financial incentive for consumers to make eco-conscious choices, such as opting for energy-efficient appliances.

13

Green buildings: Refine property tax regime

Recommendation Adjust property tax system to offer lower rates for "green" commercial and industrial buildings.

Property tax is imposed on all immovable properties situated in Singapore. The applicable tax rate does not distinguish whether the immovable property is “green”. The property tax regime should be refined such that commercial and industrial buildings which are “green” are subject to a lower property tax rate, and those which are not “green” are subject to a higher property tax rate.

The built environment generates 40 percent of annual global carbon emissions. Having different property tax rates for “green” and “non-green” buildings will provide building owners with the impetus to ensure that their building meets the definition of a “green” building.

Empowering local enterprises for global growth and competitiveness

2C Putting Singapore businesses on the global stage

→ Background, Issues, Opportunities

In an era of escalating inflation worldwide, Singaporean businesses find themselves grappling with steadily increasing operating costs. The SBF's Business Competitiveness Review paper underscores this reality, highlighting significant upswings in key business cost components such as labour, rental, and utilities since the onset of the pandemic. Given the anticipated persistence of resource constraints and geopolitical tensions, these heightened expenses may well become a long-term fixture.

This inflationary business environment, juxtaposed against the backdrop of softening economic growth, could pose severe threats to Singapore's global competitiveness. The Institute for Management Development (IMD) World Competitiveness Ranking 2023 reflects this trend, indicating a slight slip in Singapore's position to fourth among the world's most competitive economies. Concurrently, data compiled by the Ministry of Trade and Industry (MTI) reveals a continual rise in the relative unit labour cost (RULC) in the first quarter of 2023, signalling a comparative lack of competitiveness as Singapore's unit labour cost (ULC) outpaces that of 16 other economies.

However, in spite of these challenges, Singapore continues to attract robust demand from businesses of all sizes, drawn to its global connectivity, world-class infrastructure, and burgeoning status as a financial hub. These factors present a wealth of opportunities for Singapore to bolster its appeal and stimulate foreign investments. To capitalise on these opportunities, it is imperative for Singapore to uphold its global competitiveness, empowering local enterprises to expand internationally and cultivating a conducive environment for businesses.

Government support plays a crucial role in this endeavour, ensuring access to financing, facilitating overseas expansion, and nurturing top talent for international roles. By doing so, we can place Singaporean businesses firmly on the global stage, ready to seize the opportunities of the future.

2C Putting Singapore businesses on the global stage

Our Recommendations

01

Support for local businesses on global trade

Recommendation Set-up EXIM Bank to support smaller enterprises in international trade and investment

Singapore has a well-established financial sector with a reputation for stability and expertise. Leveraging this strength to establish an Export-Import (Exim) Bank can position the country as a hub for international trade finance, attracting global businesses and investors. Moreover, establishing an Exim Bank sends a strong signal that the Government is committed to supporting smaller enterprises, which form the backbone of the Singaporean economy. It demonstrates a proactive approach to addressing the unique challenges faced by smaller enterprises in the global market.

Under the current uncertain economic environment, traditional FIs may be cautious about extending credit to smaller enterprises involved in international trade due to perceived risks. An Exim Bank can step in to fill this financing gap, ensuring that smaller enterprises have access to the financial resources they need to expand their global footprint.

International trade involves various risks, including currency fluctuations, political instability, and payment default. An Exim Bank can offer risk mitigation tools, such as export credit insurance and guarantees, to protect smaller enterprises against potential losses, thereby encouraging them to explore new markets. By providing financial support and risk mitigation, an Exim Bank can enhance the competitiveness of smaller local enterprises in the global marketplace. This support can enable them to offer competitive terms to overseas buyers and navigate the complexities of international trade more effectively.

An Exim Bank can foster innovation in trade finance by introducing new financial instruments and products tailored to the needs of smaller enterprises engaged in international trade. This innovation can further enhance the competitiveness of local businesses. An Exim Bank can actively support smaller enterprises in diversifying their export markets. By doing so, it reduces dependence on a single market and helps Singaporean businesses withstand economic shocks in specific regions. Facilitating international trade for smaller enterprises can contribute significantly to economic growth. Increased exports can lead to higher production, job creation, and a positive impact on GDP. This, in turn, helps Singapore maintain and strengthen its position as a global economic hub.

2C Putting Singapore businesses on the global stage

02

Cost management support for businesses

Recommendation Form an Action for Alliance to collaborate with businesses to examine cost issues

Co-chaired by a senior representative from both the public and private sectors, the Alliance's primary objective is to create a comprehensive and detailed assessment of overall cost trends. Its aim is to pinpoint specific opportunities for implementing targeted measures aimed at mitigating cost escalation, particularly in areas that significantly impact Singapore's cost competitiveness. Some of the key responsibilities of the committee may include:

i. To facilitate engagement between the public and private sector on concerns, constraints, and courses of action going forward.
ii. To analyse the cost of doing business in Singapore and identify areas of practical intervention.
iii. To propose policy recommendations to enhance the competitiveness, innovation, and fairness in the business environment.

The Alliance plays a pivotal role because currently, business cost data that the Government collects could be slightly dated and may not necessarily reflect ground realities. Furthermore, the Government tends to look at the impact of business cost increases on the average firm, which could underestimate the impact on specific sectors or activities where a particular cost component has a higher-than-average impact.

To drive clear and tangible outcomes, the Action for Alliance can focus on cost burdens that are specific to or shaped by the local operating context and adopt a constructive approach towards identifying interventions that are within the control and remit of stakeholders in Singapore, including the Government.

The Alliance can also take a long-term view of business costs, so that the recommendations and solutions explored go beyond just alleviating immediate pain towards more competitive cost structures that can drive greater industry transformation and economic development.

To alleviate business costs impact on companies, it is critical to ensure mitigating measures are issued with greater immediacy. The formation of an Action for Alliance to collaborate with businesses to examine cost issues can help address that.

2C Putting Singapore businesses on the global stage

03

Fostering business resilience

→ Recommendation Enact policies to ease cost pressure and introduce steps to moderate utility and fuel cost hikes.

The Government could consider various policy instruments to alleviate cost pressures for businesses. For instance, while the Singapore Overnight Rate Average (SORA) has been influenced by global macroeconomic factors, practical interventions such as increasing the availability of funding especially to smaller enterprises and providing support on credit premium above SORA can be considered to moderate the impact of SORA fluctuations on business costs.

Another example is utility and fuel costs. While the increases reflect global energy costs, there could be measures to smoothen out these increases to help businesses better manage cashflow.

2C Putting Singapore businesses on the global stage

04

Finetuning the Market Readiness Assistance (MRA) Grant to support overseas expansion and nurture local talent for top international roles

→ Recommendation Increase the MRA Grant cap to S$150,000, add flexibility in its different funding categories, and enhance support for local talent including incentives for employees' spouse relocation assistance.

With the re-opening of borders following the pandemic, overseas expansion plans may now take a higher priority for our enterprises. Approximately half (56 percent) of businesses surveyed in SBF's NBS 2023/2024 are also facing a largely stagnant international performance. Various market surveys have noted however that these enterprises face challenges, with rising business costs being one of the biggest barriers to overseas expansion, further driven by rising interest rates, high energy and manpower costs as well as supply chain disruptions.

To alleviate internationalisation costs for businesses and groom local talent, we propose that:

i. The Government review the overall quantum of the MRA Grant, raising the cap to S$150,000 and consider implementing quantum flexibility to the current activity sub-cap applicable to the MRA Grant:
   - S$20,000 for Overseas Market Promotion
   - S$50,000 for Overseas Business Development
   - S$30,000 for Overseas Market Set-up

ii. It is important for Singapore to provide more support for local talent who excel in their respective industries and set them up for regional or global roles in leading multi-national corporations. The proposed support and criteria could include:
   - 50 percent base annual salary support in first year, up to S$50,000
   - 30 percent base annual salary support in second year, up to S$30,000
   - Managers/Leaders with a minimum of three years full time employment with the applying smaller business
   - Singaporean / PR only
   - Consider providing financial and/or non-financial incentives to encourage companies to provide employment support and training for employees' spouses as part of the overseas relocation package.

Enhancing enterprise resilience and capabilities

Enhancing enterprise resilience and capabilities

3A Empowering businesses to thrive amid current challenges

→ Background, Issues, Opportunities

The SBF's NBS 2023/2024 report reveals a noticeable dip in Singaporean businesses' confidence, with only 38 percent expressing satisfaction with the current business climate, a significant dip from 52 percent in 2022. About four out of ten enterprises have reported negative impacts due to rising business costs over the past six months, especially within logistics, transportation, and manufacturing sectors. This highlights an increasingly challenging and unpredictable global environment for enterprises.

Yet, these substantial challenges also serve as catalysts for strategic transformation and innovation. The Government can play a pivotal role in fortifying the resilience and capabilities of Singaporean businesses, enhancing their competitiveness, and fostering sustainable growth. For instance, government initiatives such as the Energy Efficiency Grant (EEG) aim to help businesses cope with rising energy costs source; and through the Enterprise Development Grant (EDG), the Government supports projects that help businesses upgrade, innovate, or venture overseas.

The Government can support businesses in capitalising on new markets and customers through digital transformation, and enhancing their positioning and perceived capabilities when participating in government tenders. Streamlining digital payments and managing business costs, particularly for smaller enterprises, will also be key factors in ensuring their competitiveness.

Businesses play a crucial role in driving Singapore towards its aspirations of building an inclusive and prosperous future, as outlined in the Forward Singapore exercise. By ensuring easy access to business opportunities, the Government can empower businesses to thrive amid current challenges and seize new opportunities within their respective sectors. By gaining a first-mover advantage in these emerging areas, the Government can pave the way for Singapore's economic growth, while growing the capabilities of local enterprises.

3A Empowering businesses to thrive amid current challenges

Our Recommendations

01

Streamlining and digitising payment verification processes for smaller enterprises

Recommendation Streamline and digitalise Singapore's payment verification for smaller enterprises to reduce time spent on verification and certification, and introduce clear certification criteria to facilitate quicker payments.

Lengthy payment cycles or delayed disbursement of funds can impact cash flow and financial stability of smaller enterprises. To address the challenges posed by delayed payments and lack of transparency, Singapore could explore the streamlining and digitisation of payment verification processes. This could involve the implementation of e-signatures and user-friendly digital interfaces to expedite payments by reducing the time-consuming verification and certification procedures.

Additionally, the introduction of clear certification criteria, potentially accompanied by key performance indicators (KPIs), would facilitate quicker payments, providing substantial benefits to smaller enterprises. Therefore, it would be beneficial to explore guidelines that promote milestone payments, enhancing cash flow for cash-strapped smaller enterprises. Implementing transparent milestones and certification criteria, will expediate the payment process, alleviating the financial burdens faced by smaller enterprises.

Successful practices for example the Prompt Payment Code[1] in UK established in December 2008 (and strengthened in 2021), and the Australian Supplier Payment Code[2] implemented in May 2017 had incentivised prompt payments and fostered a culture of financial transparency. Singapore could consider adopting a similar code, serving as a framework that emphasises fair and timely payments. Incentives, such as priority consideration for future contracts or streamlined payment processes, can be offered to suppliers adhering to the code.

1. https://www.smallbusinesscommissioner.gov.uk/ppc/about-us/
2. https://www.bca.com.au/supplier_payment_code

3A Empowering businesses to thrive amid current challenges

02

Enhance capability building programmes

→ Recommendation Enhance capability building programmes with more incentives to motivate businesses to accelerate the execution of business strategies for growth.

Grant support is currently available for businesses keen to develop strategic roadmaps for growth and transformation. Current capability programmes can be enhanced with further incentives to motivate businesses to expedite the execution of the formulated strategies. For example, businesses can claim 100 percent grant support (instead of the current maximum support of 50 percent) for strategy formulation if they demonstrate strategy execution within the near term with measurable indicators of implementation.

Implementation of strategies to strengthen one or more core capabilities of a business requires consistent team effort over a time frame with designated employees assisting with its execution. The capability building programmes can be further enhanced to contain incentives to promote retention of designated staff that can assist with the implementation of these strategies. For example, one of the criteria to obtain the incentives could include a requirement for businesses to develop career progression roadmaps for the designated employees that would align with the execution of strategies.

3A Empowering businesses to thrive amid current challenges

03

Foster inclusivity and fairness in procurement tenders

➔ Recommendation Promote inclusivity in Singapore's procurement tenders for smaller enterprises by revising tender strategies, improving evaluation criteria, tiered allocation of tender packages, and enforcing subcontracting requirements for larger companies.

Government projects represent an important revenue stream for businesses in Singapore. Against the backdrop of a volatile economic climate, one way to help smaller enterprises continue to build capacity and grow is to foster an environment in which they can compete fairly for government procurement tenders by eradicating roadblocks that may hinder them from bidding for such opportunities.

To promote inclusivity among smaller enterprises, Singapore could consider the following areas:

i. Review of tender packaging strategies - The current packaging of government tenders often excludes smaller enterprises from participating independently, as tenders are often bundled together making the aggregate value or size of the contracts substantial and out of reach for financial and resource challenged smaller enterprises to meet. The Government should assess any limits imposed on tender packages or consider breaking them down into smaller, more manageable portions to ensure inclusivity and a level playing field for smaller enterprises.

ii. Enhance the evaluation criteria – Categorisation of tenders based on scale and scope as well as to give precedence to partnerships, innovation, and sustainability which can establish a more equitable playing field for smaller enterprises, guaranteeing them a fair opportunity to compete effectively. Categorisation of tenders based on scale and scope would enable smaller enterprises to vie for projects that align with their resources and capabilities, thus nurturing healthy competition.

iii. Allocating tender packages according to different tiers and/or quantum sizes through set-asides or quotas would create dedicated opportunities and foster fairer competition. This approach would ensure that smaller enterprises have an equitable chance to engage in government tenders, enabling them to independently secure contracts that align with their capabilities.

iv. Implement subcontracting requirements that mandate larger companies awarded government tenders to allocate a portion of the work to smaller enterprises. This approach encourages collaboration between larger and smaller enterprises, enabling smaller enterprises to gain valuable experience, establish a track record, and build credibility in the process.

3A Empowering businesses to thrive amid current challenges

04

Simplifying tender process to empower smaller enterprises

➔ Recommendation Boost Singapore's smaller enterprises by streamlining the tender process; this includes simplifying tender requirements, adding flexible contract terms, implementing standard templates and pre-qualification processes, and enhancing evaluation criteria for clarity and transparency.

Smaller enterprises often face burdensome and complex registration processes, including excessive paperwork, lengthy procedures, and high compliance costs. Some tender specifications are over 60 pages long. These onerous requirements create barriers for smaller enterprises, who have limited manpower and resources to plough through these details. Singapore could consider reviewing and simplifying the documentation and requirements associated with procurement tenders, including:

i. Tender documents – Review and simplify the documentation and requirements associated with government tenders, especially smaller value projects. This can reduce the burden on smaller enterprises by minimising the need for extensive financial or technical capabilities that may be challenging for smaller enterprises to meet. Specifications should be clear, concise, and easily understandable. This involves breaking down complex requirements into simpler terms, avoid excessive technical jargons, and present information in a user-friendly format.

ii. Contractual provisions – To incorporate provisions to handle unforeseen events and provide flexibility to adapt to abnormal situations.

iii. Introduce standardised templates and pre-qualification processes for common procurement categories. This allows businesses, especially including smaller enterprises, to pre-register their information and qualifications once, reducing repetitive paperwork and streamlining the tender process.

iv. The evaluation criteria and process used in tender assessments should also be clear, transparent, and focused on the essential requirements. This can prevent unnecessary complexities and subjective criteria that could disadvantage smaller enterprises.

3A Empowering businesses to thrive amid current challenges

05

Encouraging sustainability and innovation efforts among smaller enterprises

→ Recommendation Adjust tender sustainability scoring for smaller firms' capabilities and stimulate innovation with specific evaluation criteria, prompting businesses to exhibit unique competencies.

Singapore could consider adjusting sustainability scoring mechanisms or sustainability criteria in government tender requirements to account for smaller enterprises' capabilities in achieving sustainability goals. This will ensure that all businesses, regardless of size, can actively contribute to sustainability efforts, fostering a more environmentally conscious and responsible business community.

Incorporating distinct evaluation criteria tailored to innovation could stimulate the emergence of novel ideas, innovative approaches, and imaginative problem-solving techniques. Earmarking a portion of the evaluation criteria for these dimensions, smaller enterprises will be motivated to demonstrate their competencies beyond conventional benchmarks, thus nurturing a more diverse and competitive procurement environment.

Enhancing enterprise resilience and capabilities

3B Paving the way forward with talent as a business priority

→ Background, Issues, Opportunities

As businesses worldwide prepare for growth in the post-COVID-19 era, the battle for talent has reached a fever pitch. According to SBF's NBS 2023/2024 report, a staggering 73 percent of businesses identify attracting and retaining local talent as a significant hurdle, with 88 percent seeking further government support in Budget 2024. In Singapore, companies strive to plug the gaps left by foreign talent who exited during the pandemic, creating a highly competitive talent market. Though 'The Great Resignation' wave may be ebbing, employee expectations around salary increments and flexible work arrangements continue to escalate as businesses adapt to evolving work paradigms.

Singapore's demographic realities further complicate the talent landscape. An ageing population implies older workers face increased difficulty securing employment after retrenchment, especially given their higher salary brackets and long-term financial obligations. These factors could potentially impede their participation in reskilling or upskilling programmes. Concurrently, enterprises grapple with attracting younger talent, who increasingly prioritise purpose-driven organisations offering meaningful career development opportunities alongside competitive compensation packages. The SBF's NBS 2023/2024 report reveals that 44 percent of businesses struggle with attracting and retaining younger employees.

In light of these challenges, Singapore must seize the opportunities presented by emerging growth areas to bolster its local talent pipeline and establish itself as a global talent hub. With the spotlight on digitalisation and sustainability, demand for technology and ESG talent has surged. These sectors, along with healthcare, financial services, and maritime, have been earmarked by the Ministry of Manpower in its Shortage Occupation List. To tap into these burgeoning fields, Singapore must intensify efforts to both groom and attract top-tier talent. By strategically complementing local skillsets through comprehensive upskilling and reskilling initiatives, and at the same time keeping Singapore attractive to international talent, Singapore can demonstrate its commitment as a talent hub to international business.

3B Paving the way forward with talent as a business priority

Our Recommendations

01

Finetune COMPASS framework to support businesses' talent attraction efforts

Recommendation Review COMPASS framework to allow a possible short-term relaxation on the diversity quota criteria to help businesses in attracting talent.

Since September 2023, new Employment Pass (EP) candidates will need to pass the points-based Complementarity Assessment Framework (COMPASS) in addition to meeting the EP qualifying salary. With COMPASS, EP applicants will be assessed on a holistic set of individual and firm-related attributes, such as whether the candidate improves diversity and local professionals, managers, executives and technicians (PMET) percentage share in the firm.

This approach ensures that businesses have greater clarity and certainty in their manpower planning, while allowing them to attract high-quality foreign professionals, improve workforce diversity within the organisation and build a strong local core. However, with the tight labour market and low unemployment rate, organisations may find it difficult to meet the criteria of recruiting local employees to fulfil the diversity quota. Close to six in 10 businesses surveyed in SBF's NBS 2023/2024 say that they are facing foreign manpower challenges.

Hence, we are proposing the Government review the COMPASS Framework to allow a possible short-term relaxation on the diversity quota criteria. This could last about 12 months, for example. The Government should also continue to consult closely with TACs to update and broaden the list of qualifiable skillsets to ensure these remain relevant to businesses.

In the longer term, the Government could consider adding a new criterion under COMPASS to develop Singapore talents in senior corporate leadership roles, in addition to PMET roles.

3B Paving the way forward with talent as a business priority

02

Provide flexibility in quota adjustment for Manpower for Strategic Economic Priorities Scheme (M-SEP)

➔ Recommendation Consider a provision to allow companies to incrementally add foreign workers up to the five per cent threshold if they exceed their local hiring goals or training of locals within the two-year period.

Currently, the M-SEP scheme provides eligible firms with the flexibility to hire S Pass and Work Permit holders beyond their existing Dependency Ratio Ceiling (DRC) and S Pass sub-DRC for a period of two years. Qualified companies can acquire additional S Pass and Work Permit quota of up to five percent of their base workforce headcount, with a maximum cap of 50 workers per firm. This expansion of quota is contingent upon meeting the commitments outlined below.

Condition 1: Participation in key economic priorities:
Firms must engage in one of the specified key economic priorities, which include:
- Promoting investments that align with Singapore's hub strategy.
- Supporting innovation or R&D efforts
- Facilitating internationalisation activities

Condition 2: Commitment to hiring or training locals:
To qualify for the scheme, businesses must commit to either hiring local workers or facilitating their training. This can be achieved by:
- Increasing the local workforce
- Sending existing employees to approved training programs
- Hiring mid-career PMETs through other career schemes

Once a qualifying company secures an increased quota, this allocation remains fixed for the entire two-year duration and the company is not allowed to make any adjustments or additions, even if its approved quota is below the five percent limit.

Hence, while this restriction is in place to ensure predictability and stability in workforce planning, we recommend that the Government consider a provision that will allow companies to incrementally add foreign workers up to the five percent threshold if they exceed their local hiring goals or training of locals within the two-year period. Such an adjustment would provide companies with the flexibility to align their workforce with changing circumstances, while still supporting the overarching goal of enhancing local employment. We believe that this recommendation would remain subject to the overall programme's conditions and continue to ensure a balanced approach to workforce management and local employment enhancement.

3B Paving the way forward with talent as a business priority

03

Review classification of services sector for foreign worker quota

Recommendation Review current foreign worker quota for the services sector to be pegged to job roles.

Amid a tight labour market, businesses in the services industries are not only looking to recruit and retain sufficient local talent but also foreign manpower to support their operations. However, these businesses are subject to the same work permit requirements, such as migrant worker source countries, maximum period of employment, quota on DRC on the number of work permit holders that they can employ, and the corresponding levy rate.

There are a diverse range of businesses classified under the services sector, such as financial, infocomm technology, commerce, hotels and restaurants, and this broad classification does not reflect the labour market dynamics across these different services industries. For some sub-sectors, foreign manpower is necessary to meet the high demand of such services.

Hence, we believe the Government should review the current foreign worker quota for the services sector to allow them to be pegged to job roles, instead of the current classification which includes white and blue-collar roles.

3B Paving the way forward with talent as a business priority

04

Amend tax rules on share option plans and share award schemes to attract top talent

Recommendation Amend income tax legislation in determining the "fully-loaded cost base" of a "cost plus" entity

For the purposes of determining the income of a "cost-plus" entity in Singapore providing services to related companies, the current practice of the Inland Revenue Authority of Singapore (IRAS) is such that a mark-up is imposed on the "fully-loaded cost" of the service provider.

However, in determining the "fully-loaded cost", the current practice of the IRAS is to take into account certain notational accounting cost pertaining to stock options issued to employees, instead of the actual cost incurred by the company on the stock options. Such a practice detract from the tax principle that only actual incurred cost should be taken into account.

The above-mentioned issue gives rise to the inequitable outcome from a corporate income tax perspective. For example, a service company which is to be remunerated an arm's length margin of seven percent on its costs, will as a result of the current practice adopted by the IRAS, end up paying tax on income which is more than seven percent of the company's deductible cost.

There seems to be inconsistences in the approach adopted by the IRAS in the calculation of "fully-loaded cost base" for transfer pricing purposes. The income tax legislation should be amended to make it clear that in determining the "fully-loaded cost base" of a "cost plus" entity, only the actual cost incurred by the company should be taken into account (and notional accounting costs pertaining to stock options should be disregarded).

Share option plans and share award schemes are critical in attracting the best talent to companies. A number of start-ups and technology companies are facing the aforementioned issue (i.e. discrepancy between actual cost incurred vs notional accounting cost of stock option). The abovementioned change will help ensure that Singapore remains attractive to these companies.

3B Paving the way forward with talent as a business priority

05

Tax concessions for overseas travel

Recommendation Consider introducing a concessionary scheme for employees required to travel overseas frequently, regardless of prior year residency status.

Singapore-based employees who are required to travel overseas for businesses purposes currently do not enjoy any tax breaks. Some of these employees were previously able to take advantage of the Time Apportionment concession under the Not Ordinarily Resident (NOR) time apportionment scheme, which has since lapsed with the last applicable year of assessment of 2024.

In view that overseas trips by employees are typically necessary for business expansion, especially with Singapore-based companies looking to venture overseas, the Government should consider introducing a concessionary scheme for this group. The scheme could be catered for those who are required to travel overseas for business reasons, regardless of their prior year residency status. This would support basing regional roles in Singapore, strengthen Singapore's position as the ASEAN hub and spoke for businesses, and facilitating business travel and expansion from Singapore, including for Singapore businesses.

06

Increase Course Fees Relief cap

Recommendation Course Fees Relief cap to be raised to provide greater support for individuals wanting to upskill.

Ensuring that Singapore's talent remains educated and relevant has intrinsic benefits for the Singapore workforce. A workforce that is educated and equipped with new skills will not only benefit the individual, but also raise the overall employability of the talent pool in Singapore.

A talented pool of individuals will ensure that businesses here can readily tap into a steady pipeline of manpower and rely on homegrown talent to fulfil its manpower needs, helping Singapore further its economic ambitions.

Noting that the inflationary environment may disincentivise spending on learning, we are proposing for the Course Fees Relief cap to be raised from S$5,500 a year to S$10,000 to provide greater support for individuals keen on pursuing lifelong learning.

In uncertain times, it is imperative that individuals continue to upskill themselves so that Singapore's talent remains relevant and globally competitive. To encourage more individuals to pursue further education and upgrade their skillsets for the future economy, Singapore will need to step up measures so that learning remains accessible and affordable for the broader population.

Course Fees Relief cap to be raised from S$5,500 a year to S$10,000

Appendix

Key findings from SBF's NBS 2023/2024

Business sentiments

- Amid economic uncertainties, fewer businesses (38 percent) are satisfied with the current local business climate, as compared with 52 percent last year.
- More companies (30 percent) felt that conditions have worsened in the past 12 months, compared to last year (24 percent).
- Looking ahead, businesses are less confident that the economy will improve in the next 12 months (26 percent) compared to 2022 (41 percent).
- Most businesses are impacted by interest rate hikes and increased funding costs in the past year. Key measures adopted to address interest rate hikes include reviewing and assessing risks of current variable rate loans and scaling down business plans.
- 56 percent of businesses are also facing a largely stagnant international business performance.

Business risks

- Four in 10 businesses are negatively impacted by increased business costs in the past six months.
- Businesses in the logistics & transportation, IT & professional services, and manufacturing sectors are more negatively impacted than others.

38% of businesses are satisfied with the current local business climate, down from 52 percent last year.

26% of businesses are less confident that the economy will improve, down from 41 percent last year

Most businesses are impacted by interest rate hikes and increased funding costs in the past year

56% of businesses are also facing a largely stagnant international business performance

40% of businesses are negatively impacted by rising business costs in the past six months

57% Increase in business costs is the top challenge facing mor than half of businesses

90% of businesses currently face manpower-related challenges

6 in 10 businesses face foreign manpower challenges. Top concerns are related to S Pass and EP changes

77% of smaller enterprises and large companies prioritise growing revenues over the next 12 months

Core challenges: Increase in business costs

- Increase in business costs is the top challenge facing 57 percent of businesses.
- Other challenges that businesses need to tackle are manpower-related, including availability (53 percent), retention (40 percent) as well as foreign workforce policies (38 percent).

Business challenge: Manpower

- Nine in 10 businesses currently face manpower-related challenges, including rising manpower costs, new foreign manpower policies and attracting younger workers.
- Close to 6 in 10 businesses said they are facing foreign manpower challenges, with top concerns related to changes in S Pass and EP.

Business priorities

- Top business priorities of smaller enterprises and large companies for the next 12 months include growing revenues (77 percent), reducing costs (62 percent) as well as growing market share (30 percent).

Digitalisation and transformation

- Over 90 percent of businesses acknowledge the importance of business transformation
- High cost remains the top barrier to adopting new technology for 63 percent of businesses.
- When considering using new technology, close to a third of businesses face challenges in expensive licensing payments, lack of management expertise and upskilling of staff.
- Cybersecurity concerns, including the increase in cyber attacks, have emerged as the top trend impacting businesses over the next 12 months.

International business landscape

- Key challenges for businesses in internationalisation include uncertainty in overseas demands and geopolitical climate (44 percent), and expansions costs (43 percent).

ESG

- To facilitate ESG transformation, 66 percent of businesses are looking for easy access to funding while 62 percent want to use technology to track ESG initiatives.
- Most businesses are focusing on the social and governance aspects of ESG, neglecting GHG emissions.

Government budget and support

- 88 percent of businesses indicate that they are looking to the Government to provide further support with hiring, developing and retaining talent.

90% of businesses acknowledge the importance of business transformation

63% High cost remains the top barrier to adopting new technology for 63 percent of businesses

Key challenges for businesses in internationalisation include uncertainty in overseas demands and geopolitical climate, and expansions costs

Most businesses are focusing on the social and governance aspects of ESG, neglecting GHG emissions

88% of businesses indicate that they are looking for further support with hiring, developing and retaining talent

Other tax proposals

► Talent

Personal tax

Mortgage interest tax deductions.

► Recommendation

To consider allowing individuals to claim a tax relief on mortgage interest payments on the first property which is used as principal residence.

This would help to reduce the financial burden of homeownership in the face of rising property prices.

Personal tax

Currently there is no tax deduction on health insurance premiums.

As the population ages, there is an increasing demand for healthcare services. The cost of medical care in Singapore is relatively high compared to other countries.

► Recommendation

To consider allowing individuals to claim a tax relief on health insurance premiums paid for self, spouse, dependent children, and elderly parents, perhaps subject to a certain cap.

By allowing health insurance premiums tax deduction, this would help taxpayers with the cost of healthcare.

Personal tax

The Tax Governance Framework ("TGF") currently covers only GST and corporate income tax.

► Recommendation

To expand this scheme to cover employer income tax reporting to also help companies attain and maintain good standards of tax governance in relation to employer tax reporting.

This will align the importance of employer income tax reporting to the other categories of taxes.

▶ BEPS

BEPS

Increase Finance and Treasury Company (FTC) tax incentive rate to 9 percent.

▶ **Recommendation**

With the introduction of the Subject To Tax Rule (STTR), certain intercompany payments that are subject to tax at less than 9 percent will be subject to the STTR. While the impact may not be significant for most companies, the associated tax compliance costs for impacted MNE Groups can be onerous. Hence, we propose that a two-tier FTC rate be introduced, where companies have the option to apply for either a 8 percent tax rate or 9 percent tax rate FTC incentive.

BEPS

There is currently no tax allowances given for capital expenditure incurred on buildings after the phasing out of industrial building allowances in 2010.

▶ **Recommendation**

To consider tax allowances for capital expenditure incurred on buildings.

▶ BEPS

BEPS

Application of QDMTT to only 100 percent owned entities-and option to file GloBE information return to safeguard Singapore’s appeal.

▶ **Recommendation**

The Administrative Guidance has stated that the QDMTT will be imposed based on 100 percent of top-up tax computed regardless of ownership interests in the Constituent Entity. This can result in excessive top-up tax being paid by the Group in cases where there are partially-owned entities.

The Administrative Guidance provides an option for jurisdictions not to apply the QDMTT on partially-owned entities. At risk of not being able to qualify for the QDMTT safe harbour, Singapore’s QDMTT should only apply to 100 percent owned entities so that Singapore can continue to remain as an attractive investment and listing jurisdiction.

The Government should also consider providing the option to file Global Anti-Base Erosion (GloBE) Information Return in Singapore in 2024. Although Singapore is not implementing Pillar 2 in 2024, Singapore groups would still have to file the GloBE Information Return (GIR) as long as any of its Constituent Entities are operating in any implementing jurisdiction in 2024.

▶ Tax changes to promote our competitiveness and be resilient

Corporate tax

WHT exemption is granted to Finance and Treasury centre (FTC) on interest payments to overseas banks and approved network companies where the funds borrowed are used for approved activities.

► Recommendation

Should consider broadening the withholding tax exemption by incorporating FTCs into liberalisation of WHT exemption regime for specified entities under Section 45I(2). This would also align with the move, which started in Budget 2018, to rationalise the WHT exemptions for the financial sector.

This should help to ease the burden of administration for FTC and broaden FTC’s funding sources

Corporate tax

There is currently no incentives or grants available to encourage non-funds business to go into the fund management space (e.g. logistics / warehousing companies).

► Recommendation

We recommend that Singapore considers incentives or grants to encourage non-funds business to go into the fund management space. This will enhance Singapore's position as a fund management hub, resulting in a multiplier effect through creation of new jobs and for banks, accounting firms, etc

▶ Tax changes to promote our competitiveness and be resilient

Corporate tax

With cryptocurrency seeing a rapid rise, the interest in investing in cryptocurrency has also grown significantly. Despite the fluctuations in the market thus far, the interest in cryptocurrency will only continue to grow in the coming years. We have seen growing institutional adoption of cryptocurrencies, and the development of new financial products and services related to cryptocurrencies.

The Monetary Authority of Singapore (MAS) has announced its plans to position Singapore as a fintech hub and to attract leading crypto players to Singapore, as part of its plans to promote the entire digital asset ecosystem in Singapore.

► Recommendation

To support these ambitions, we propose to expand or clarify the list of qualifying activities for the Financial Sector Incentive-Standard Tier (FSI-ST) as well as the “designated investment” list under the fund tax incentive schemes (i.e. Section 13D/13O/13U Schemes) to specifically include trading in cryptocurrency (e.g. Bitcoin, Ether, etc.) and cryptocurrency derivatives activities.

Currently, cryptocurrency trading and cryptocurrency derivatives activities generally do not fall squarely within the ambit of the current qualifying activities for the FSI-ST scheme, although it may be possible to classify such transactions under a pre-existing category (subject to the specific facts and the MAS’ review and agreement). Hence, there is uncertainty for businesses engaging in these types of activities on whether the tax incentive might apply.

The definition of cryptocurrency can be based off the definition of “digital payment tokens” within the Payment Services Act, as well as in the Goods and Services (GST) Tax Act.

Including cryptocurrency trading into the list of qualifying activities would mean that approved FSI-ST companies engaged in these activities would also enjoy tax incentive benefits under the scheme.

With these tax benefits, Singapore can strengthen its identity as a leading fintech hub by attracting both specialized crypto players as well as financial sector incumbents looking to diversify their offerings.

In the future, as the digital asset ecosystem and market develops, further consideration may be given to further expand the list to cover a wider range of digital assets, aligning with the MAS’ policy direction.

► Tax changes to promote our competitiveness and be resilient

Property tax

Property tax is imposed on all immovable properties situated in Singapore, including machinery which are regarded “fixtures”.

A limited exemption is currently available where the machinery is (i) used in the making of articles, (ii) alteration, repairing, ornamenting or finishing of articles, or (iii) adaptation for sale of articles.

In a recent Court of Appeal case, the judges further held that the scope of the exemption is limited to cases where the articles made, altered, repaired, ornamented or finished are “for sale”.

► Recommendation

Grant exemption of property tax for machinery where the taxpayer is able to substantiate that the said machinery automates or facilitate trade / business processes, increase efficiency / productivity, reduce workplace related risks, etc.

Examples of such machinery (which are currently taxable for property tax purposes) include (i) automatic storage and retrieval systems, (ii) automatic sorting systems, (iii) machinery used for the provision of contamination-free or sterile environment for the life sciences industry and (iv) machinery such as robotics, Internet of Things (IoT)-enabled carts and automated guide vehicles used for the lifting and conveying of goods.

The expansion of the scope of the property tax exemption is in line with the Government’s push for companies to automate and adopt technology.

Stamp duty

The current stamp duty legislation does not adequately address the stamp duty treatment of limited partnerships and variable capital companies.

► Recommendation

The stamp duty relief regime should be expanded to specifically include limited partnerships and variable capital companies.

In addition, a specific exemption should be legislated to provide for the non-applicability of stamp duty to the transfer of interests in limited partnerships.

This should help promote Singapore as an asset management hub, given that limited partnerships and variable capital companies are commonly used in the asset management industry as a holding vehicle.

▶ Tax changes to promote our competitiveness and be resilient

Stamp duty

Amid high interest rates, many real estate investment trusts (REITS) are not doing well in recent years, with many of them over-leveraged at this point in time. Given the increase in interest costs, coupled with the drop in value of assets, a lot of REITS may be looking to divest their assets.

▶ Recommendation

There is a buyer stamp duty for buyers looking to acquire Singapore assets (i.e. commercial properties) owned by REITS, and seller stamp duty for sellers when it relates to industrial properties. In this regard, we recommend that Singapore consider a temporary remission on stamp duty for at least a year to aid REITS looking to divest, with possibility to extend the remission period depending on the market conditions.

► Tax changes to promote our competitiveness and be resilient

Goods and services tax

Provision of loans is an exempt supply. The implication arising from the making of exempt supplies is the denial of input tax claim which represents a cost to the business. It is not uncommon for one company within a group of companies to borrow from the bank and on-lends to the companies within the group to enjoy a lower interest rate from banks. Another common feature is a cash pooling arrangement where the group of companies pool together all cash reserve and lend to other related companies to manage the cashflow which in turn reduces the interest cost.

Currently, such activities with local related companies lead to additional GST cost in term of a portion of the input GST being denied when the interest income is significant for the company managing the cashflow.

► Recommendation

For our tax system to remain competitive and be resilient, we urge the review of the GST treatment for the provision of loans to local related entities within a group. We recommend treating such an exempt supply as integral to the business of making taxable supplies so that input GST would not be denied.

Goods and services tax

The accounting for GST on margin earned under a voucher scenario by a Singapore intermediary is prescribed under regulation 93F of the GST (General) regulations where GST is charged despite providing the intermediary services to an overseas person and the underlying products for the voucher are solely used in overseas.

This is not in line with the policy intention of zero-rating all international services.

► Recommendation

To be competitive and align the GST treatment of margin earned by intermediaries from overseas persons, the said GST legislation should be reviewed and allow for zero-rating.

▶ Tax schemes or aspects of our general tax regime which should be rationalised or phased out

Goods and services tax

Currently, provision of accommodation in a serviced apartment is both exempt and taxable supplies. On the other hand, the provision of hotel accommodation is a taxable supply.

▶ Recommendation

In view that a stay in a serviced apartment is no different from that in a hotel, apart from the duration of stay, we urge the review of the GST treatment for these 2 categories of accommodation and rationalise the GST treatment.

This would address the denial of input tax on certain expenses relating to the running of serviced apartment which ends up as a cost to the business on account of the business being a partially exempt business.

Goods and services tax

The deeming rule for gift kicks in when each gift exceeds a threshold of $200.

This amount remains the same since 1994 when GST was introduced.

▶ Recommendation

It is timely to increase this threshold to reduce the compliance cost for businesses.

▶ Miscellaneous

Dependent-related reliefs

Currently, a parent can claim Child Relief on the condition that the child does not have an annual income exceeding S$4,000. To avoid disqualifying deserving taxpayers, we are proposing that an increase in the income cap of the dependent child in education. This will help the parent to encourage their children to continue seeking an education, even while balancing part-time employment to supplement his or her education costs.

► Recommendation

In view of the rising cost of living and calls for an increase in wages, we are proposing that the Government review the income threshold for dependent-related reliefs, such as Parent Relief and Child Relief.

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