CLIENT MEMORANDUM

February 17, 2021

SINGAPORE BUDGET 2021

The 2021 Singapore Budget which was delivered yesterday remains expansionary with an overall expected budget deficit of S$11 billion in financial year ("FY") 2021. The Government will continue COVID-19 support measures worth S$11 billion to targeted industries which continue to be affected such as aviation and tourism.

S$24 billion is set aside to enable SMEs and workers to emerge stronger through three key enablers:

Grow a vibrant business community with a strong spirit of innovation and enterprise, deeply connected with Asia and the world.

Three main enhancements are:

- *Corporate Venture Launchpad* which aims to rekindle a start-up mindset and drive new innovative ventures by providing co-funding for companies to build new ventures.

- *Enhanced Open Innovation Platform* which will increase the scale and speed of digital innovation through 2 new features. A Discovery Engine which will facilitate the search and matching of technology solutions to challenges through automated recommendations and a Digital Bench that aids quicker Proof-Of-Concept ("POC") testing through a virtual POC sandbox and testing environment.

- *Global Innovation Alliance* which seeks to catalyse cross-border collaboration between Singapore and major hubs globally. It will be enhanced through the Co-Innovation Programme by supporting up to 70% of qualifying costs for cross innovation and partnership projects.

Catalyse a wide range of capital to enable businesses to transform and scale.

The Government will set up risk sharing agreements with providers of capital and provide grants to businesses at various stages of growth. Support will include:

- Extending and enhancing the *Venture Debt Programme* by increasing the Government's share up to 70% of the risk on eligible loans with Participating Financial Institutions and increasing the cap on loan quantum supported from S$5 million to S$8 million.

- *Emerging Technology Programme* will co-fund the costs of trials and adoption of frontier technologies to support commercialisation of innovations and diffusion of technology downstreams.
- The *CTO-as-a service* will provide access to professional IT consultancies.
- The *Digital Leaders Programme* will allow companies to hire a core digital team to develop and implement digital transformation roadmap.

Create opportunities and re-design jobs to enable the local workforce to realise their full potential and aspirations.

An additional S$5.4 billion will be allocated to a second tranche of SGUnited Jobs and Skills Package. Of this, S$5.2 billion will be used to extend the hiring window by seven months, up to end September 2021 under Jobs Growth Incentive ("JGI") which supports the hiring of eligible locals and mature workers. Details are set out under "Other changes" on pages 8-9.

CORPORATE INCOME TAX ("CIT")

1. The carry-back relief scheme was enhanced for Year of Assessment ("YA") 2020 by allowing the carry-back of the current year unabsorbed capital allowances ("CA") and trade losses to three YAs immediately preceding YA 2020 (i.e. YA 2017, YA 2018 and YA 2019), capped at S$100,000 of qualifying deductions and subject to conditions.

   This enhancement will be extended for YA 2021 on qualifying deductions to be carried-back to three YAs immediately preceding YA 2021, capped at S$100,000 of qualifying deductions and subject to conditions.

   Companies may elect to carry back to the relevant preceding YAs an estimated amount of qualifying deductions available for YA 2021, before the actual filing of their income tax returns for YA 2021.

2. Companies were given the option to accelerate the write-off of the cost of acquiring plant and machinery ("P&M") in the basis period for YA 2021 (i.e. FY 2020) from over three years or the prescribed working life of the asset, to two years as follows:

   a. 75% of the cost incurred to be written off in the first year (i.e. YA 2021); and

   b. 25% of the cost incurred to be written off in the second year (i.e. YA 2022).

   This option will be extended to cost of acquiring P&M in the basis period for YA 2022 (i.e. FY 2021).

   No deferment of CA claims is allowed under the above option.

3. Companies were given the option to accelerate the deduction of expenses incurred on renovation and refurbishment (“R&R”) for the purposes of its trade, profession or business during the basis period for YA 2021 (i.e. FY 2020) from over three consecutive YAs to one YA. The cap of S$300,000 for every relevant period of three consecutive YAs will still apply.

   This option will be extended to qualifying R&R incurred in the basis period for YA 2022 (i.e. FY 2021). The cap of S$300,000 for every relevant period of three consecutive YAs will still apply.

4. The Double Tax Deduction for Internationalisation (“DTDi”) Scheme offers 200% tax deduction for qualifying expenditure incurred on qualifying market expansion and investment development expense, subject to approval from Enterprise Singapore or Singapore Tourism Board (“STB”). No prior approval is required for tax deduction for the first S$150,000 of qualifying expenses.

   With effect from February 17, 2021, the DTDi Scheme will be enhanced as follows:

   a. To cover specified expenses incurred to participate in approved virtual trade fairs such as package fees charged by event organisers for virtual exhibition hall and booth access, third-party costs for design and production of digital collaterals and logistics costs incurred to send materials/samples overseas to potential clients met at virtual trade fairs (subject to certain conditions to be met);

   b. List of qualifying expenses for overseas investment study trip will be expanded to include logistics costs to transport materials/samples used during the investment trips; and

   c. The scope of qualifying activities which do not require prior approval from Enterprise Singapore or STB will be enhanced to cover the following activities (subject to the current annual cap of S$150,000):

      - Product/service certification (primarily to increase buyer’s acceptance in overseas markets) approved by Enterprise Singapore;
      - Overseas advertising and promotional campaign;
      - Design of packaging for overseas markets;
      - Advertising in approved local trade publication; and
      - Participation in virtual trade fairs approved by Enterprise Singapore.

      Enterprise Singapore will release further details by February 28, 2021.

5. The existing Double Tax Deduction (“DTD”) Scheme offers up to 200% tax deduction for qualifying upfront costs attributable to retail bonds issued under the Monetary Authority of Singapore (“MAS”) Seasoning Framework and Exempt Bond Issuer Framework by bond issuers who carry on trade or business in Singapore. The DTD scheme is scheduled to lapse after May 18, 2021.

The DTD scheme will be extended for qualifying upfront costs attributable to rated retail bonds* (instead of all retail bonds) that are issued from May 19, 2021 to December 31, 2026. All other conditions of the DTD scheme remains the same.

*Rated by credit rating agencies such as Standard & Poor, Moody's and Fitch.

MAS will release further details by May 31, 2021.

6. The withholding tax ("WHT") exemptions for the financial sector for all interest, commission, fee in connection with indebtedness ("Section 12(6) payments") will be extended and rationalised:

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

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

      i. are made during the period from April 1, 2021 to December 31, 2031 (both dates inclusive) under a contract that takes effect before April 1, 2021; or

      ii. are made under a contract that takes effect during the period from April 1, 2021 to December 31, 2031 (both dates inclusive). In such cases, the WHT exemption will apply to the entire duration of the contract, including payments that are made beyond December 31, 2031 under that contract.

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

      i. are made during the period from April 1, 2011 to December 31, 2026 (both dates inclusive) under a contract that took effect before April 1, 2011; or

      ii. are made under a contract that takes effect during the period from April 1, 2011 to December 31, 2026 (both dates inclusive). In such cases, the WHT exemption applies to the entire duration of the contract, including payments that are made beyond December 31, 2026 under that contract.

      Specified entities are (i) banks licensed under the Banking Act or merchant banks approved under the MAS Act; (ii) finance companies licensed under the Finance Companies Act; and (iii) approved entities that are (a) licensed under the Securities and Futures Act for dealing in capital markets products and advising on corporate finance; (b) involved or will be involved in the underwriting of debt or equity issuances; and (c) approved by MAS for the purpose of the exemption.

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

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

MAS will release further details by May 31, 2021.

7. Currently, qualifying financial institutions in Singapore enjoy withholding tax exemption in respect of payments made for structured products to a non-resident person (not being an individual) (excluding any PE in Singapore) and is scheduled to lapse after March 31, 2021.

   The withholding tax exemption will be extended for another five years and will cover payments made under a contract that takes effect during the period from January 1, 2007 to December 31, 2026.

   MAS will release further details by May 31, 2021.

8. Currently, qualifying financial institutions in Singapore enjoy withholding tax exemption in respect of payments made for over-the-counter ("OTC") financial derivatives to any non-resident person (excluding any PE in Singapore).

   The withholding tax exemption will be extended for another five years till December 31, 2026 and cover all payments on OTC financial derivatives that:

   a. are made during the period from May 20, 2007 to December 31, 2026 (both dates inclusive) under a contract that took effect before February 15, 2007; or

   b. are made under a contract that takes effect during the period from February 15, 2007 to December 31, 2026 (both dates inclusive). In such cases, the WHT exemption applies to the entire duration of the OTC financial derivatives contract, including payments that are made beyond December 31, 2026 under that contract.

   MAS will release further details by May 31, 2021.

9. The Not-for-Profit Organisation ("NPO") tax incentive provides tax exemption on income derived by an approved NPO, subject to conditions. The incentive was scheduled to lapse after May 31, 2022. To continue attracting NPOs to Singapore, the NPO tax incentive will be extended till December 31, 2027.

10. The Automation Support Package ("ASP") was introduced in Budget 2016 to support firms to automate, drive productivity and scale up. The ASP consists of the following components:

   a. Grant support under Enterprise Development Grant;

   b. Investment Allowance ("IA") of 100% on the amount of capital expenditure, net of grants under the ASP (IA is in addition to existing capital allowance for plant and machinery); and

   c. Enterprise Financing Scheme.

The ASP will lapse after March 31, 2021. Schemes including the Enterprise Development Grant, IA Scheme and Enterprise Financing Scheme will continue to be available to support firms in their automation, drive productivity and scale up.

As for the 100% IA scheme, it will be extended by two years for automation projects approved by Enterprise Singapore from April 1, 2021 to March 31, 2023. All other conditions of the scheme remain the same.

11. The existing Investment Allowance (Energy Efficiency) ("IA-EE") Scheme provides for investment allowance for EE improvement projects, subject to conditions.

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

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

    b. Streamlined and updated eligibility conditions. These will apply to all projects (i.e. there will no longer be a distinction between data centres and non-data centres).

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

    EDB will release further details by June 30, 2021.

12. The Insurance Business Development–Specialised Insurance ("IBD-SI") scheme offers a concessionary tax rate of 8% and 10% for new and renewal award recipients respectively, on qualifying income derived by a (re)insurer from carrying on specialised insurance and reinsurance business.

    This scheme is set to lapse after August 31, 2021. With the lapse of this scheme, insurers which continue to carry on specialised insurance and reinsurance business can apply for IBD scheme.

13. The Accelerated Depreciation Allowances for Highly Efficient Pollution Control Equipment ("ADA-PCE") Scheme was introduced in Budget 1996 to encourage firms to acquire and install clean technologies to improve air quality in Singapore. The ADA-PCE Scheme will be withdrawn from February 17, 2021.

14. The 250% tax deduction for qualifying donations made to Institutions of a Public Character ("IPCs") will be extended to donations made from January 1, 2022 to December 31, 2023.

15. To support corporate volunteering, a qualifying person will continue to enjoy 250% tax deduction on qualifying expenditure under the Business and IPC Partnership Scheme ("BIPS") till December 31, 2023.

GOODS AND SERVICES TAX ("GST")

1. GST rate

GST rate will remain at 7% this year. The planned GST hike from 7% to 9% will take place sometime during 2022 to 2025 and will be subject to the economic outlook.

2. Extend GST to imported low-value goods & Business-to-Consumer ("B2C") imported non-digital services

<table>
<tr><th>No.</th><th>Name of Tax Change</th><th>Current GST treatment</th><th>New GST treatment</th></tr>
<tr><td>1.</td><td>Low value imported goods (CIF value not more than S$400) via air or post</td><td>No GST.</td><td rowspan="2">GST will be levied on such goods and services with effect from January 1, 2023 as follows:

(i) <u>Low-value imported goods via air or post</u>

• It will be taxed via the Overseas Vendor Registration and reverse charge regime.

(ii) <u>B2C imported non-digital services</u>

• It will be taxed via the Overseas Vendor Registration.</td></tr>
<tr><td>2.</td><td>B2C imported non-digital services (i.e. live interaction with overseas providers of educational learning, fitness training, counselling and telemedicine)</td><td>No GST.</td></tr>
</table>

IRAS will consult the industry shortly, before they finalise the implementation details.

3. Supply of media sales (e.g. sale of airtime, advertising space and web media space in various media modes)

Current GST treatment	New GST treatment
The basis for determining whether zero-rating applies to a supply of media sales is the **place of circulation of the advertisement.** (i) Circulation outside Singapore – GST zero-rated. (ii) Circulation in Singapore – 7% GST	With effect from **January 1, 2022**, the basis for determining whether zero-rating applies to a supply of media sales is the **place where the customer and direct beneficiary of the service belongs to**. A supply of media sales will qualify for GST zero-rating if:- (i) the service is contractually supplied to and directly benefit an **overseas person**; or (ii) the service is contractually supplied to an **overseas person** and directly benefit a **GST-registered person in Singapore**. Service supplied to a local customer – 7% GST.

OTHER CHANGES

Enhancement to Jobs Support Scheme ("JSS")

The JSS newly launched in the 2020 Unity Budget will be extended as follows:

a. for firms in Tier 1 and 2 sectors (e.g. aviation, aerospace, tourism, retails, marine & offshore) by up to six months, covering wages up to September 2021.

b. for firms in most sectors, covering wages up to March 2021.

Enhancement to SGUnited Jobs and Skills Package ("SGU JS")

The SGU JS was introduced in May 2020 to curate job opportunities to support workers affected by Covid-19. The following components of the SGU JS will be enhanced:

a. Jobs Growth Incentive ("JGI")

The JGI qualifying window will be extended by seven months. With this extension, eligible employers hiring local workers between March 2021 to September 2021 will receive wage support as follow:

For non-mature local hires (below 40 years old)	25% on the first S$5,000 of gross monthly wages for up to 12 months
For mature local hires (aged 40 years old and above), persons with disabilities and ex-offenders	50% on the first S$6,000 of gross monthly wages for up to 18 months.

b. SGUnited Traineeships ("SGUT")

The SGUT programme provides recent graduates with opportunities to gain industry-relevant work experience and build professional networks amidst weaker hiring sentiments during the Covid-19. Workforce Singapore co-funds 80% of the qualifying training allowance (up to S$2,500).

SGUT will be extended for one year till March 31, 2022 with the following adjustments:

- Starting from April 1, 2021, the stipend for ITE and diploma SGUT positions will be increased from S$ 1,100 - S$1,500 to **S$1,600 – S$1,800** and from S$1,300 – SS1,800 to **S$1,700 – S$2,100** respectively. The stipend for university SGUT positions will remain unchanged.
- Starting from April 1, 2021, the maximum duration of each traineeship will be reduced from nine to six months.

c. SGUnited Mid-Career Pathways Programme – Company Attachment ("SGUP-CA")

The SGUP-CA is a full-time attachment programme for mid-career individuals to gain industry-relevant experience, develop new skills and boost employability. Currently, the trainees will receive a training allowance of up to S$3,000 per month for the duration of the programme. 80% of the training allowance is funded by the Government.

SGUP-CA will be extended for one year till March 31, 2022 with the following adjustments:

- the maximum Qualifying training allowance will be increased as follows:

For mature trainees (aged 40 years old and above)	Up to S$3,800 per month
For non-mature trainees (below 40 years old)	Up to S$1,600 per month

- the Government co-funding rate for mature trainees will be increased to 90%.

- starting from April 1, 2021, the maximum training duration of each company attachment will be reduced from nine to six months.

d. SGUnited Mid-Career Pathways Programme –Company Training ("SGUP-CT")

SGUP-CT is a full-time programme for mid-career individuals developed and delivered by market-leading companies such as Google, Shopee and IBM. Trainees receive a training allowance of S$1,500 per month for the duration of the programme.

SGUP-CT will be extended for one year till March 31, 2022 with the following adjustments:

- the capacity of in-demand courses and courses with good hiring opportunities will be expanded.
- starting from April 1, 2021, SGUP-CT courses will be made more compact with a duration of up to six months in general.

e. SGUnited Skills ("SGUS")

The SGUS is a full-time training programme comprising certifiable courses delivered by Continuing Education and Training ("CET") Centres, including Institutes of Higher Learning. Trainees will receive a training allowance of S$1,200 per month for the duration of the programme.

SGUS will be extended for one year till March 31, 2022 with the following adjustments:

- the capacity of in-demand courses and courses with good hiring opportunities will be increased.
- starting from April 1, 2021, SGUS courses will be made more compact with a duration of up to six months in general.

Wage Credit Scheme ("WCS")

WCS was introduced to encourage employers to share productivity gains with employees by co-funding wage increases of at least S$50 given by employers to Singapore citizen employees who earn a gross monthly wage of up to S$5,000. The Government co-funding ratio is at 15%.

The wage credit scheme will be extended by one year to 2021.

Further information

Should you have any queries as to how these developments may impact your business, please do not hesitate to get in touch with your usual contact at Pioneer Associates; or please write and call us on:

Pioneer Associates
Telephone no : +65 6632 8488
Email : general@pioneerassociates.com.sg