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Recent Tax Developments

Singapore

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Introduction

We are glad to provide a bird's eye overview of the tax developments in Singapore over the past 12 months in this brief update. The recent tax developments showcase Singapore's commitment to revitalising growth and attracting foreign talent and wealth while promoting climate management efforts and tackling inflationary pressures. By striking a delicate equilibrium between such diverse objectives, Singapore continues to aim to maintain its position as a global financial hub and attractive destination for businesses and individuals.

ABSD (Trust)

Prior to 9 May 2022, the transfer of residential property into a living trust attracted Additional Buyer's Stamp Duty (ABSD) based on the profile of the beneficial owner. However, where no beneficial owner was identifiable and present at the time of transfer, ABSD was not applicable on the transfer.

For any transfers of residential property into a trust on or after 9 May 2022, a fixed rate of 35% ABSD (Trust) is now imposed and payable upfront to the Inland Revenue Authority of Singapore (IRAS), regardless of the presence of any beneficial owner.

To qualify and apply for a remission of the ABSD (Trust) paid upfront, the trustee must fulfil a list of specific criteria:

(a) The trustee must hold the property on trust solely for identifiable individual beneficiaries An "identifiable individual beneficiary" is defined as an individual who is explicitly named in the declaration of trust, and who possesses irrevocable and non-variable ownership of the property under the terms of the trust. Remission will not unavailable in the event that ownership does not vest in a beneficiary at the point of the transfer or if the beneficiary's interest is revocable or conditional;

(b) The ABSD (Trust) payment to IRAS must have been paid in full upfront, and
The remission application is submitted within six months from the date of execution of the instrument for transfer.

The implementation of ABSD (Trust) has significant implications for trust structuring in Singapore, estate planning strategies and the utilization of trusts for wealth management purposes. The significant increase in upfront costs for the transfer of residential property into trusts is likely to pose cash flow challenges and discourage the use of trusts as property-holding entities.

Extension of Goods and Services Tax ("GST") to imported remote services and imported low-value goods

With the rapid growth of e-commerce and cross-border transactions, there has been a substantial increase in the value of low-value imports where GST (the equivalent of Value-Added Tax) is not collected. This trend has posed challenges to the IRAS in terms of revenue loss and potential distortions in competition between local and overseas suppliers. To address these issues, Singapore has taken proactive action to extend its GST regime to encompass these low-value imports.

Effective 1 January 2023 onwards, Singapore will expand its GST regime to encompass two types of imports: all B2C supplies of imported services (digital or non-digital) where the services can be supplied and received remotely (i.e. “remote services”, as well as low-value goods (LVG) imported into Singapore via air or post with a value of S$400 are subject to GST. These changes were announced as part of Budget 2021 with the objective of establishing a level playing field between local and overseas businesses selling to non-GST registered individuals in Singapore.

Under the previous overseas vendor registration (OVR) rules implemented on 1 January 2020, all B2C supplies of imported digital services had already been subject to GST. With the extension of the OVR regime from 1 January 2023, all B2C supplies of remote services, which encompass both digital and non-digital services, are subject to GST if they can be supplied and received remotely. This aligns Singapore with international trends observed in jurisdictions such as Australia, New Zealand, and the European Union, which have implemented similar tax measures for low-value imported goods and services.

To determine their liability for GST registration under the extended OVR regime, overseas vendors are subject to a two-tier threshold system. Overseas vendors must register for GST if their global revenue exceeds S$1 million and the total value of remote services and LVG supplied to non-GST registered customers in Singapore exceeds S$100,000 in a calendar year or within any 12-month period. These registration rules apply both retrospectively and prospectively, with transitional rules in place to facilitate a smooth implementation process.

It is worth noting that the current pay-only regime, which entails simplified registration and reporting requirements, will be maintained under the extended OVR regime. This approach strikes a balance between effective tax administration and minimizing compliance burdens for businesses.

Implementation of Global Anti-Base Erosion (GloBE) Rules

Anticipated implementation of GloBE Rules on or after 1 January 2025

Following the indication in 2022 that Singapore was exploring the implementation of a minimum effective tax rate (ETR), the Minister of Finance has confirmed in 2023 that Singapore will implement the GloBE rules, specifically the Income Inclusion Rule (IIR) and the Undertaxed Profits Rule (UTPR). These measures are expected to come into effect for financial years starting on or after 1 January 2025 for businesses which fall in-scope. The implementation timeline may be adjusted in the event of any delays in implementation in other participating jurisdictions. This confirmatory announcement comes at a due time when multiple countries, including the European Union, the UK, Switzerland and Korea, have expressed their intention to implement the GloBE rules from 2024 onwards. Singapore's decision to establish a clearer timeline for the adoption of the GloBE rules is a mark of its commitment to aligning with international standards and eagerness to address global tax challenges.

This announcement undoubtedly provides multinational enterprises (MNEs) with greater certainty regarding Singapore's implementation timeline for Pillar 2 and allows them sufficient time to comprehend and evaluate the potential impact of the GloBE rules on their business operations and structuring. For MNEs with an Effective Tax Rate (ETR) below 15% in Singapore and ultimate or intermediate parent entities located in jurisdictions with implementation timelines in 2024, it is crucial to assess the potential applicability of top-up tax under the IIR in 2024 pending Singapore's implementation in 2025.

Extension of Key Tax Incentives and Schemes

Qualifying Debt Securities (QDS) scheme

The QDS has been extended until 31 December 2028 with targeted refinements. Under the revised scheme, the scope of qualifying income will be streamlined to include all payments related to early redemption of QDS. Additionally, the requirement for QDS to be "substantially arranged" in Singapore has been clarified: all debt securities issued on or after 15 February 2023 must be substantially arranged in Singapore by a licensed financial institution. For Insurance-Linked Securities (ILS) issued on or after 1 January 2024 that fail to meet this condition, the issuer must pay at least 30% of the ILS issuance costs to businesses in Singapore.

Financial Sector Incentive (FSI) Scheme

Similarly, the FSI Scheme has been extended until 31 December 2028. The FSI Scheme is likewise angled towards enhancing financial intermediation activities and scaffolding local capabilities in banking and financial services. The scheme offers concessionary tax rates ranging from 5% to 13.5% for qualifying activities such as banking and financial services, fund management, investment advisory services, and corporate services. The related withholding tax exemption under the FSI-Headquarter Services incentive, which encompasses interest payments on qualifying loans to eligible non-residents, has also been extended until 31 December 2028.

To simplify and highlight the applicable tax rates under the FSI Scheme, two concessionary tax rates of 10% and 13.5% will be implemented for different categories of FSI awards which are approved on or after 1 January 2024. The specific rates are as follows:

- 10% for FSI-Fund Management, FSI-Headquarter Services, FSI-Capital Market, FSI-Derivatives Market, and FSI-Credit Facilities Syndication
- 13.5% for FSI-Trustee Companies and FSI-Standard Tier.

The extension of the FSI Scheme sustains the consistent provision of concessionary tax rates for qualifying activities within the financial sector, thus cultivating a conducive environment for growth in banking and finance to reinforce Singapore's position as a prominent global financial hub by attracting investments and fostering the expansion of the financial sector.

Productivity and Innovation Credit (PIC) and Development and Expansion Incentive (DEI)

The PIC and DEI provide significant tax incentives to promote business growth and investments. The PIC offers tax exemption on qualifying income from qualifying activities such as research and development, acquisition of intellectual property rights, staff training, and investment in automation equipment, while the DEI provides concessional tax rates on qualifying income derived from specified activities such as headquarters management, international procurement, treasury operations, trading, intellectual property management, and research and development.. Initially set to expire on 31 December 2023, both incentives have been extended until 31 December 2028 in hopes of encouraging local companies and foreign investors to establish and expand high value-added manufacturing and service activities in Singapore.

Investment Allowance (IA) Scheme

Under the IA scheme, qualifying businesses are awarded additional tax allowance for their qualifying fixed capital expenditure on approved projects, with a focus on investment in plant and productive equipment. In tandem, the IA-100% scheme offers IA support on approved capital expenditure for projects endorsed by Enterprise Singapore. The IA and IA-100% schemes have been extended until 31

December 2028 and 31 March 2026 respectively. The schemes aim to enable businesses to better achieve pivotal transformation through the implementation of automation solutions. It stands to be observed whether the support extended under the IA and IA-100% schemes will continue to bolster the widespread adoption of cutting-edge technologies and infrastructure to spur and support future growth and innovation in businesses in Singapore.

Intellectual Property Development Incentive (IDI)

The IDI incentivizes the commercialisation of intellectual property (IP) rights arising from R&D activities conducted in Singapore. Qualifying companies are eligible for concessional tax rates on a percentage of their qualifying income derived from IP rights. The extension of the IDI until 31 December 2028 is an unequivocable signal of support for R&D activities and innovation in Singapore.

Increase in Additional Buyer's Stamp Duty (ABSD) for residential property

On 26 April 2023, the Ministries of Finance and National Development and the Monetary Authority of Singapore announced significant increases in the ABSD rates applicable on the acquisition of residential property in Singapore on or after 27 April 2023. The increase follows previous moderating measures implemented in December 2021 and September 2022, suggesting an ongoing multi-step effort by the Singapore government to control the reins of the local residential property market.

These increases were introduced to support the aim of prioritizing local housing needs and mitigating excessive demand from both local and foreign investors in the residential property market. Notably, the ABSD rates for Singapore citizens and permanent residents have been raised by 3% to 5% for their second and third residential property purchases. In an effort to dampen foreign investor demand for local residential properties, the ABSD rates for foreigners have been doubled from 30% to 60% for. Similar increases in ABSD rates have been applied to corporations, entities that are not housing developers, and trustees. Specifically, corporations and non-housing developer entities now face an ABSD rate of 65% (previously 35%), and trustees will be subject to the same rate increase from 35% to 65% for acquiring residential properties.

The pre-emptive measures taken by the Singapore government reflects their caution and prioritization on managing and monitoring the residential property market to address housing availability and affordability concerns, with their persevering emphasis on curbing speculative investment in order to maintain a sustainable and inclusive housing market.

Proposal: Tax on gains from sale of foreign assets by foreign companies

The proposed Section 10L in the draft Income Tax (Amendment) Bill 2023 released for public consultation is a noteworthy proposal for the gains obtained in Singapore from the sale or disposal of assets located outside Singapore by a relevant entity to be considered taxable income if such gains would not otherwise be subject to tax or exempted from income tax.

These proposed changes aim to ensure that gains from the sale of foreign assets by entities without economic substance in Singapore are subject to appropriate taxation, aligning Singapore with the guidance provided by the European Union Code of Conduct Group and promoting fair tax competition.