Media Release

For immediate release

Stimulus and incentives for cyber security and five key sectors needed for Singapore to realise its Smart Nation vision

Singapore, 16 January 2019 – KPMG in Singapore today released its pre-Budget 2019 Proposal themed *"Becoming Smarter"*, calling for measures to help companies in five key sectors that hold the greatest upside for Singapore to realise our Smart Nation vision. The sectors in spotlight are financial services, real estate, healthcare and life sciences, consumer retail and technology. Beyond these sectors, the firm also called for greater investments in cyber security and resilience, the vital building block of a Smart Nation that all sectors rely on.

Mr Tay Hong Beng, Head of Tax at KPMG in Singapore said: "For the last few years, national strategies, expertise, creativity, entrepreneurial drive and smart money have come together to foster the development of a Smart Nation for Singapore. The next phase of our development is poised for take-off. Budget 2019 can be that catalyst for the next growth spurt if the government can offer stimulus and incentives to these five sectors that hold the greatest potential to turn Singapore's Smart Nation vision into reality."

Financial services sector

Taking fintech into the deployment phase

A $225 million Financial Sector Technology and Innovation (FSTI) scheme was announced on 29 June 2015 to fund the setting up of innovation labs and experimentation through proof-of-concept projects, as well as incubate new industry initiatives in digital payments and blockchain.

While much progress has been made since the introduction of this scheme, many companies are still facing deployment challenges in a number of areas such as time, financial costs and resistance in implementing new technologies such as cloud platforms due to work required and security concerns, and a lack of skilled resources in implementing emerging technology areas.

KPMG recommends a new Financial Sector Digital Deployment scheme in three key areas to address these challenges:

- Drive adoption of digital payments, blockchain, cloud, data and analytics, as well as artificial intelligence and machine learning by extending FSTI grants based on 50 per cent of outlay incurred for deployment.

  Grants ranging between 30 and 50 per cent could also be provided on qualifying outlay by local fintech startups on talent search and relocation costs.

  To address the tight supply of skilled resources and to propel the adoption of new technologies, a more open immigration policy would be necessary to facilitate the hiring of foreign skilled talents in key areas such as data science and emerging technologies.

  A fintech academy could also be established, with an apprenticeship programme in which trainees could be deployed to financial institutions and fintech companies at subsidised rates on approved projects in digital technologies.

- FSTI grants could be extended to cover cloud migration exercises which typically involve significant capital outlay. A 200 per cent tax deduction for qualifying expenditure (net of grants) on cloud migration exercises, and the recognition of cloud under the FSTI scheme is also welcomed.

- To aid the early stage development of a platform that can efficiently monitor trade transactions for money laundering and proliferation financing activities and ensure the success of the Networked Trade Platform launched in September 2018, the FSTI proof-of-concept scheme could be extended to provide up to 50 per cent of qualifying costs to financial institutions that have substantial trade finance businesses in Singapore.

Mr Leong Kok Keong, Head of Financial Services at KPMG in Singapore said: "After extensive nurturing with targeted government support, banks and fintech companies have reached a stage where a number of "proven solutions" are now ready for deployment on a wider scale. A new Financial Sector Digital Deployment scheme that focuses on driving digital adoption, extending FSTI grants to cover cloud migration exercises and developing a platform to monitor trade transactions for money laundering and proliferation financing activities will drive greater growth of the sector and move fintech deployment from an experimentation to implementation phase."

Real estate sector

Deploying property technology ("proptech") to build a greener Singapore

A green real estate sector is key to making Singapore more sustainable.

However, until there is an incentive for developers and the private sector can see a direct correlation between a building's sustainability and its occupancy, rent and valuation, greening of buildings will remain a top-down agenda.

The government can provide the initial impetus for the inception of a green ecosystem by incentivising the private sector to make financing, developing, owning and adopting sustainability feasible.

We propose key measures in four areas:

- Support green loans and mortgages to spur the equity and debt capital markets in the form of a five per cent concessionary tax rate for financial institutions on interest income from loans for the acquisition and development of green residential and commercial properties. A tax exemption could also be extended to income derived from green bonds.

- Stimulate demand and supply for green properties where the government may wish to offer a 200 per cent tax deduction on financing costs and 30 per cent property tax rebate for green property owners. To create a market premium for green buildings, a 50 per cent tax exemption on gains by developers from sale of green buildings, both commercial and residential, along with a 50 per cent rebate on stamp duty on conveyancing of green properties could be considered.

  GST rebates for green residential developments and an exemption of GST on the import of green-related equipment and raw materials will also help to alleviate operating costs.

Owners of green buildings should also be allowed to claim commercial building allowances on capital expenditure which would otherwise not qualify for capital allowances.

A 250 per cent tax deduction on rental paid by tenants of green properties could also be considered to enhance their attractiveness.

- Encourage existing property owners to turn green by giving a 200 per cent tax allowance on capital expenditure on green initiatives, in addition to normal capital allowances and tax deductions.

  A 50 per cent reduction in tax payable on rental income derived from buildings that undergo green renovation and retrofitting, and a 50 per cent property tax rebates for three years following a building being certified green should also be extended to such property owners.

  Direct grants and extension of commercial building allowances to owners that retrofit existing properties into green buildings will also help enhance the traction to go green.

- Encourage adoption of proptech by offering grants and assistance to co-fund 50 per cent of research and development work on proprietary technologies related to proptech solutions, and a concessionary tax rate of 5 per cent on income derived from businesses for proptech solutions for green buildings will go a long way to jumpstart the development of proptech. The development of new or enhanced proptech solutions should also be included as a pre-approved activity under the research and development tax incentive scheme, where a 250 per cent tax deduction on qualifying costs such as staff and outsourcing can be claimed.

Ms Lo Mun Wai, Partner, Real Estate at KPMG in Singapore adds: “By introducing additional tax incentives and grants for landlords and tenants who align with the government’s sustainability goals, and encouraging the adoption of proptech such that it becomes easier and cheaper to make buildings green, these measures would allow the government to gradually shift its role from prescription to setting up and monitoring of sustainability standards.”

Healthcare and life sciences sector

Patient-centred care powered by data

Smart nations can live well only with smart healthcare. Singapore can be a world leader in smart healthcare by moving towards a “patient-centric”, data-sharing approach.

Yet, healthcare in Singapore has not been able to capitalise on this opportunity to take the sector forward as data is fragmented across various players and platforms. What is required now is more effective and secure healthcare data-sharing, and increased collaboration.

To accelerate this process, we propose that the government adopt these measures:

- Take the lead to set up a common and secure platform (“data lake”) and develop applications to facilitate synchronisation of healthcare data by linking patient outcomes with clinical research and real-world insights. Such a platform could be automated and sit on advanced technologies like the cloud or a blockchain.

- Adopt a risk-reward framework for healthcare providers and life sciences companies to participate in data sharing in the form of a concessionary tax rate of 5 per cent for income

earned by healthcare providers, pharmaceutical and device companies participating in sharing anonymised data. Such a framework could also require pharmaceutical companies receiving such data to develop innovative therapies for the Singapore population, thereby addressing unmet healthcare needs and creating a launch pad to commercialise such therapies for the world.

- Liberalise enhanced research and development (R&D) tax deductions to attract and retain R&D activity in Singapore by offering tax deductions of 150 per cent of R&D costs as long as the R&D is done in Singapore for a multinational group's associated foreign entities. Currently, the 250 per cent R&D tax deduction is only available for R&D performed in Singapore, and where the taxpayer is the beneficiary of the R&D activities.

  Overseas R&D expenditures that are eligible for a 250 per cent tax deduction should be allowed under the condition that these overseas R&D activities are linked to local R&D activities.

  We also call for the removal of the "commencement of business" requirement to claim R&D expenditure for base and enhanced tax deductions as this is an obstacle for new subsidiaries or startups which may derive income only several years after their inception.

Ajay Sanganeria, Head of Life Sciences, KPMG in Singapore commented: "Singapore's conducive healthcare ecosystem holds significant strengths: a diverse population base for genetic profiling, an advanced system with electronic databases, strong academia and research, top pharmaceutical and medical technology companies, and increased adoption of wearables and smart devices.

He adds, "However, taking healthcare to the next level will require decisive executive action. Various sector players must be compelled to share and synchronise their data, while incentives need to be put in place to drive sustained innovation. Only then can Singapore be a world leader in smart healthcare."

Consumer retail sector

Reviving retail through emerging technology

Singapore is already well-suited to be a base and global headquarters for international retail brands with its strengths in logistics and technology. The possibilities and benefits of digital transformation are many.

However, while modern consumers have been quick to embrace such new retail platforms and concepts, many brick-and-mortar retailers have not kept pace.

We propose the following measures to encourage retailers to embark on their digitalisation journeys:

- Make lifestyle innovation more pervasive by introducing a 250 per cent tax deduction for local spending for prescribed expenses made to Singapore-based service vendors, and a 200 per cent tax deduction for payments for prescribed expenses made to overseas service vendors in the adoption of new fields such as data and analytics, artificial intelligence on e-commerce platforms, digital marketing or customer experience design.

- Offer a concessionary tax rate of 5 per cent for international retail and lifestyle companies to anchor key consumer and lifestyle businesses in Singapore through setting up their global headquarters and basing their upstream retail activities here.

  The government could also enhance certainty on the 250 per cent R&D tax deduction scheme by specifying retail R&D and customer experience design as pre-approved areas under the scheme.

- More financial support to upskill workforce by providing training grant support of up to 50 per cent of the cost to implement the Skills Framework for Retail and giving increased quantum of SkillsFuture Credits to individuals.

Mr Jeya Suppiah, Head of Consumer and Retail, KPMG in Singapore said: "As a smart nation, Singapore needs to urgently move from traditional retail to e-commerce – or, better still, a hybrid approach – to tackle regional and global competition, which would help to generate spinoffs in other sectors, including logistics and transport, fintech and consumer analytics. More can be done to ensure retailers are incentivised to rethink their business models, get end-to-end support for digital transformation, and have better access to trained resources."

Technology sector

Exploiting the Internet of Things (IoT) in everything

IoT is a fundamental building block on our path towards becoming a Smart Nation. It is therefore critical that we encourage the development and adoption of IoT in Singapore.

However, despite all of IoT's potential as a key Smart Nation enabler, its adoption has generally been slow due to high implementation costs, a lack of implementation skills, cyber security threats and complexity of integration and interoperability.

We recommend the following measures to encourage the development and adoption of IoT:

- Foster innovation by setting up a sandbox environment for IoT-related innovation in regulated areas. For instance, telcos could adopt a model similar to the fintech space.

- A 250 per cent tax deduction on costs incurred for bringing in international technology experts and urban planners to pilot projects using Singapore talent, and/or to facilitate local or overseas training for employees could be considered. In addition, enhanced training subsidies could be given to organisations and universities to focus on IoT-related curricula.

- A 250 per cent tax deduction for local spending in respect of payments for prescribed expenses made to Singapore-based service vendors, and a 200 per cent tax deduction for prescribed expenses made to overseas service vendors in the process of IoT development

- A 250 per cent tax allowance on capital expenditure on technology-based investments into approved infrastructure projects, and a concessionary tax rate of 5 per cent on qualifying IP income for activities under Smart Nation and Industry 4.0 blueprints

- Establish a Smart City Hub programme to provide technology, capital, talent and advisory services and provide a concessionary tax rate of 10 per cent for qualifying businesses deriving income from deploying Smart City programmes overseas.

- Co-fund up to 50 per cent of R&D related costs incurred by businesses under Public-Private Partnerships (PPPs) to drive IoT initiatives aligned with Industry 4.0 and to encourage adoption in vertical industries like manufacturing and smart public transport.

- Extend the Angel Investor Tax Deduction Scheme to prioritise projects backed by "smart capital" from technology funds, consortia investments and private equity that have a pedigree in large-scale public technology project implementation.

Mr Juvanus Tjandra, Head of Technology, Media and Telcommunications, KPMG in Singapore said: "Singapore is well-placed to harness the potential of IoT with its highly-skilled workforce, proven track record in major infrastructure projects and a strong base of high-growth enterprises that could adopt IoT quickly in new areas of growth. Incentives that attract technology companies to set up their global and regional headquarters here will be key to laying the foundation for Singapore to be recognised as the "Silicon Valley" of the region."

Cyber security

Building a cyber resilient nation

As Singapore becomes even more of a digital nation by adopting new and emerging technologies such as blockchain, cloud, IoT and robotic process automation, cyber-attacks will remain a significant risk.

At the commercial level, security by design is often not a consideration when launching digital products and platforms as many business owners want to rapidly gain market share or competitive advantage ahead of their competitors. Expertise is also lacking in many sectors, especially in capabilities in threat intelligence, cyber incident response as well as cyber crisis management and recovery.

Hence, we recommend measures in three key areas to assist companies to build and sustain cyber security preparedness:

- Provide tiered tax concessions or rebates for corporations that enhance governance, risk management and vigilance

- Encourage mandatory training for boards and senior management and continue with various existing funding and subsidies related to upskilling initiatives for at least another three years to ensure availability of skilled resources in order to build human capital

- Encourage investment in cyber security solutions across all sectors by funding of up to 70 per cent for small and medium enterprises (SMEs), and up to 50 per cent for other types of companies that develop cyber security related capabilities. Qualifying expenditure should include cyber security related staff costs, training expenses and assurance-related expenses, as well as outsourced payments to Singapore-based service providers. For payments to foreign service providers, a reduced rate of 30 per cent funding should be granted.

  In addition, a 250 per cent tax deduction for local spending in respect of payments for prescribed expenses made to Singapore-based service vendors, a 200 per cent tax deduction for prescribed expenses made to overseas service vendors for cyber security

expenses, and a 250 per cent enhanced tax allowance on capital expenditure on qualifying cyber security projects would be welcomed.

A 250 per cent enhanced tax deduction on staff and outsourcing costs and the development of new or enhanced technologies and solutions could be offered to strengthen corporate data governance and cyber security as pre-approved areas under the R&D tax incentive scheme.

A concessionary tax rate of 5 per cent on income derived from exportable cyber security and cyber insurance-related services to attract and anchor companies with businesses in cyber security would also be welcomed.

Mr Daryl Pereira, Head of Cyber Security, Management Consulting at KPMG in Singapore commented: "Cyber resilience is a key fundamental of building and sustaining a base of national security and the core foundation on which all other efforts to foster growth can proceed. It is our hope that Budget 2019 can offer more subsidies and funding to less mature sectors to help organisations build up their cyber security capabilities."

Other Pertinent Tax Proposals

Along with the sectoral and cyber security recommendations, we have put forth other key tax proposals that aim to **encourage innovation and value creation** and enhance personal reliefs:

- **Writing-down allowances on acquisition of Intellectual Property Rights (IPRs)** – Taxpayers can currently opt to claim writing-down allowances for qualifying IPRs over 5, 10 or 15 years. To enhance Singapore's status as an intellectual property hub, technology IPRs should be allowed accelerated writing-down allowances (e.g. over 2 or 3 years) to align with the commercial reality of shorter technology lifespans.

- **Enhanced tax deductions on overseas R&D expenditure –** Currently, enhanced deductions of 150 per cent are only available to expenditure incurred for local R&D activities. We propose to allow certain overseas R&D expenditure to be eligible for enhanced deductions on the condition that these overseas R&D activities are linked to local R&D activities, and a cap of not more than 30 per cent of the total eligible R&D expenditure for claims.

- **Enhanced R&D tax deductions for small and medium sized enterprises (SMEs) –** To provide a higher level of support for SMEs to induce systemic behavioural change towards R&D investments, we propose additional tax deductions of 200 per cent for SMEs instead of the current 150 per cent.

- **Redefine R&D –** The definition of R&D should be redefined to cater for more certainty and easier accessibility to the R&D tax incentive scheme. The current definition of R&D is "a systematic, investigative and experimental (SIE) study that involves novelty or technical risk carried out in the field of science or technology."

  The term "technical risk" has become a main point of disagreement between taxpayers and the Inland Revenue Authority of Singapore (IRAS). We propose that the term "technical risk" should be replaced in definition by "experimental development or study leading to

technological advancement or resolving technological uncertainty", similar to the qualifying criteria from R&D tax regimes in Australia, Canada, United Kingdom and the United States.

- **Tax relief for premiums paid on medical-related or health insurance policies** – Currently, there is no standalone tax relief available to individuals for premiums paid on medical-related or health insurance policies. We propose a tax write-off for health insurance premiums subject to a cap (e.g. $5,000) which could be scaled according to age. A tax relief at a cap of $500 per year for medical costs incurred by those above 50 years old for health screenings every other year could be considered to encourage preventive healthcare.

To conclude, **Mr Tay Hong Beng**, **Head of Tax at KPMG in Singapore** said, "Few countries have aligned themselves with digitalisation as closely and determinably as Singapore. While there is no universal roadmap for cities to become "smarter", Singapore is pursuing a whole new model of a smart nation that reflects its unique priorities, challenges, strengths and areas of value-add to the world. Budget 2019 can be that critical turning point to double down on the sectors that offer the greatest upside for Singapore to move decisively into its next phase of growth."

A copy of the KPMG pre-Budget Proposal 2019 is enclosed.

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Note to editors

About KPMG Pre-Budget 2019 Proposal
Themed "Becoming Smarter", KPMG's Pre-Budget 2019 Proposal shines the spotlight on five key sectors where Singapore should place its emphasis and where the upside is substantial – financial services, real estate, healthcare and life sciences, consumer retail and technology – to make its Smart Nation vision real.

Prospects for growth can only thrive in an operating environment that is secure, reliable and trusted. Beyond the sectoral features highlighted in our proposal, we also offer a few recommendations to boost Singapore's cyber security, the core foundation which underpins all the other identified sectors and the key pillar for which growth can proceed.

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KPMG in Singapore is part of a global network of professional services firms providing Audit, Tax and Advisory services. The KPMG network operates in 153 countries and territories and has 207,000 people working in member firms around the world. In the ASEAN region, member firms operate across all 10 countries of this regional grouping providing professional services supporting the growth, compliance and performance objectives of our clients.

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