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KPMG Proposes Budget 2020 to Propel Singapore as Transformation Capital of Asia

- ***Budget Proposal includes a Digital Transformation Package to leverage 5G technology more aggressively, tax incentives to promote sustainable business practices, and a '3+5 Protect & Grow Scheme' to better support enterprises***

22 JANUARY 2020, Singapore – Ahead of the delivery of Singapore's 2020 Budget Statement, KPMG has put forward its perspectives and proposals for Singapore to make bold strides towards becoming the Transformation Capital of Asia. The three key areas of focus are: leveraging digital transformation, promoting sustainable business models and providing greater support for enterprises to accelerate their transformation journey.

Set against a backdrop of global uncertainties, geo-political and trade tensions, and disruptive technologies, there is a more urgent need now than ever for enterprises to evolve and move beyond traditional business models in order to stay relevant and competitive in this dynamic market environment. By accelerating digital adoption and sustainable solutions, Singapore can protect and grow her enterprises and economy.

As a well-established trading hub, manufacturing economy and financial centre, Singapore is poised to lead the region in embracing transformation and emerge as the Transformation Capital of Asia. This will also lead to a broadening of Singapore's tax base, which will help manage the nation's fiscal expenditure in the long run amidst challenges of an ageing population and economic uncertainties.

Mr Tay Hong Beng, Head of Tax and Head of Real Estate at KPMG in Singapore, said, "Initiatives such as Smart Nation has given Singapore a good headstart in adapting to change, further cementing our position to take the lead in transformation within the region. We envision a future where everything can be made faster, smarter and greener, with Singapore as the driver of these changes."

Leading transformation in the digital economy

With 5G technology becoming more pervasive, new revenue sources and business opportunities will soon open up for further enterprise growth to significantly improve capability, efficiency, reliability and latency. There is a pressing need for Singapore enterprises to adopt 5G applications more quickly.

Mr Ajay Sanganeria, Deputy Head of Tax at KPMG in Singapore explains: "Singapore is the third most robust data centre market in a global ranking of 38 countries and the only mature data centre market in Southeast Asia. We are in an advantageous position with the right environment to push the boundaries further with 5G technologies compared to our neighbouring countries."

In encouraging and enabling faster 5G development and adoption, more government support is necessary in the form of a Digital Transformation Package, consisting of broad-based tax incentives to catalyse business transformation by supporting significant capital outlay and resources via:

a. Enhancing the capital allowance on investments in assets including software for digital adoption.

b. Providing deduction of at least 250 per cent for digital skills training.

c. Enhancing the R&D Tax Incentive Scheme to catalyse the development of new use cases that leverage highspeed 5G networks by allowing refundable tax credits and extending the definition of R&D to include wider innovation activities such as data analytics models.

d. Providing tax depreciation (or writing down allowances) for spectrum rights payments to offset costs to telcos so that such costs are not priced into the products and services for consumers.

Transforming into a sustainability hub

Singapore is not exempted from increased climate change risks and other sustainability issues that plague the world, which is made more pertinent with the country's geographical vulnerabilities.

1. Incentives to spur development of sustainable real estate

"A quarter of our carbon footprint comes from our built environment. Along with land scarcity, it is imperative that companies invest in climate change efforts. Enterprises need to adopt sustainable business models in real estate," adds Tay.

To help companies make the same commitment to sustainability, the Government can implement incentives that will spur the development of sustainable real estate, especially around proptech and sustainable building solutions through:

a. Concessionary tax rate of 5 per cent on income derived from businesses in providing proptech solutions.

b. Enhancing the certainty of the R&D Tax Incentive Scheme by including development of new or enhanced proptech as a pre-approved area under the scheme.

c. Introducing a new Commercial Building Allowance for owners who modify buildings to make them green and adapt facilities for clean energy consumption.

d. Reducing income taxes from property rental income for landlords of green buildings.

e. Increasing funding and extending the Green Mark Incentive Scheme for existing and new buildings to achieve energy efficiency and adopt clean energy.

2. Boost sustainable finance

Sustainable finance can be boosted with a 5 per cent concessionary tax rate for income derived from sustainability bonds and loans.

<u>Transforming Singapore enterprises</u>

In this journey of transformation, all enterprises will face the constant challenge of having to adapt to changes quickly to avoid the risk of becoming obsolete. However, many Singapore enterprises will find it difficult to see the returns on investment or envision the steps towards transformation because they might not be equipped with the know-how to navigate these demands. Small and medium sized Singapore enterprises form 72 per cent of the workforce and 47 per cent of the nominal value added to Singapore's economy, and more can be done to help accelerate their transformation journey with the following proposals so that they can increase their contributions to the Singapore economy:

1. Introduce a '3+5 Protect & Grow Scheme' (PGS)

The PGS can focus on promoting productivity in the first three years of operation, and focus on growth and value creation for the following five years ('3+5').

Unlike the previous Productivity and Innovation Credit Scheme which expired in 2018, the PGS caters to businesses at different stages of their development and will aim to catalyse investments in productivity, innovation and internationalisation, structured below.

More importantly, businesses can also be given the flexibility of choosing the start date of each phase according to their needs.

Phase 1 (first 3 years) – Improving productivity

a. 300% capital allowances (subject to caps) for investments in automation (focusing on HR predictive analytics, intelligent finance automation and smart procurement).
b. 300% tax deduction for training.

Phase 2 (next 5 years) – Enhancing growth and value creation through innovation and internationalisation

a. 300% tax deduction for R&D (including overseas R&D).
b. 300% tax deduction for expenditure related to internationalisation (e.g. branding, market studies, etc.).
c. 300% tax deduction/allowance for registration, purchases and licensing of intellectual property.

2. Encourage enterprises to increase adoption of cloud-based services

Many leading-edge technologies are offered through cloud-based services that significantly reduce the time for transformation, such as in the areas of Artificial Intelligence. Singapore can help accelerate the adoption of these new technologies by defraying the associated costs through custom-made incentives such as:

a. Grants of up to 50 per cent of qualifying costs covering deployment and implementation of technology, such as cloud.
b. Double tax deduction for cloud-related training programmes.

For a comprehensive report of KPMG's proposals, please refer to KPMG Budget 2020 Proposal appended.

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Note to editors

About KPMG in Singapore

KPMG in Singapore is part of a global network of professional services firms providing Audit, Tax and Advisory services. With 200,000 people in the network working together to deliver value in 154 countries and territories, we offer a globally-consistent standard of service based on professional capabilities, industry insight and local knowledge.

In the ASEAN region, KPMG member firms operate across all 10 countries. Our industry focus helps KPMG firms' professionals develop a rich understanding of clients' businesses and the insight, skills and resources required to address industry-specific issues and opportunities.

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