KPMG

Singapore Budget 2020 Proposal:

# Next-Generation Transformation

A vision of Singapore as the Transformation Capital of Asia

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# Contents



# I. Introduction

**Geopolitical Analysis**
Singapore's economy has been slowing down because of global uncertainties, trade tensions and large-scale social movements. While the manufacturing sector has reported a gradual decline, economic growth is projected to be between 0 and 1 per cent for 2019. The global outlook has also weakened in part due to US-China trade tensions.

As technology becomes more advanced, global risks such as climate change, demographic shifts and political instability have also affected governments, enterprises and civil society groups, calling for greater public-private collaboration to tackle such risks. Despite these uncertainties, there is cause for optimism due to Singapore's financial and political stability, well-established infrastructure, competitive tax, availability of skilled labour and international mind-set.

These factors, when combined with the best technology enablers and resources, will put Singapore at the forefront of transformation, thus paving the way for our nation to become the Transformation Capital of Asia.

In this proposal, we will identify key disruptive forces to our economy and share recommendations to manage and mitigate their impact, while fully noting that some of these measures have been implemented by the government.

We are calling for the government to protect and grow our workforce and economy in this highly uncertain global environment, while closely monitoring the unilateral measures taken by other countries that can affect trade flows vis-à-vis taxes in our country.

## Disruption as the new normal – Business landscape analysis

Technology and disruption have a large effect on Singapore. According to a KPMG global study, the top three disruptive forces affecting the world are disruptive technology, economic nationalism and climate change. These forces will cause social, economic and technological changes, which will lead to long-term effects.

## Biggest Disruptive Forces: 2020 and Beyond

- **Disruptive technologies** such as intelligent automation and super computers have changed how workers deliver their services. Machines can now analyse faster and better than humans in many ways, especially with data and Artificial Intelligence (AI). For example, in 2017, one of the world's greatest chess players was beaten several times by a computer programmed by Google. Financial traders and analysts, including service line workers, are also actively adopting the use of high-tech systems in their work.

- **The rise of economic nationalism** can be seen through an increase in populist movements across the world. According to the World Economic Forum (WEF), the politics of national identity are intersecting with geopolitical trends in disruptive ways, thus creating social and economic problems. Electorates have become more socially divided along partisan lines, taking on mind-sets of 'us versus them' and 'winning versus losing'. Around the world, this has widened social divisions and increased political engagement, thereby giving rise to more organisational vulnerabilities.

  Hence, against the background of the current social and economic uncertainties, the post-effects of Brexit can possibly exacerbate trade tensions and lead to a multipolar world, thereby impacting international tax development. It is likely that the continual downward pressure on corporate income tax (CIT) in other advanced economies, notwithstanding G20/OECD-led efforts, will put Singapore's CIT under some pressure.

- **Climate change risks** have been in the spotlight recently, with nine of the 10 hottest years on record having occurred since 2005. The global average temperature is now about one degree Celsius above the pre-industrial average and is increasing by about 0.2 degrees Celsius per decade. Some researchers have claimed that many sustainability solutions will not yield payoffs until 2040. This poses serious implications to current systems.

  Practical efforts are urgently required for coastal protection, climate-resilient infrastructure and relevant 'green' initiatives involving the use of intelligent automation.

  Therefore, given Singapore's geographical vulnerabilities, we recommend more investment in climate risk experimentation in order to explore feasible solutions that will safeguard our interests and our business performance.

> "Technology and disruption have a large effect on Singapore… These forces will cause social, economic and technological changes, which will lead to long-term effects."

## A Time to Protect and Grow

**Against a dampened economic outlook, enterprises are trying hard to defend their market positions and maintain a competitive advantage in Singapore. Mergers and Acquisitions (M&A) continue to play a key role in how enterprises respond to disruptive forces. However, it is important for companies to understand that embarking on a digital transformation journey is an inevitable step towards staying relevant in this dynamic market environment.**

With that said, we also note the prevailing challenges faced by enterprises. Digital technologies such as machine learning, data analytics and intelligent automation have provided tangible benefits for enterprises, but many still lack specialised skills to implement them.

The greater adoption of technology in Singapore has also had a profound impact on security and data issues. According to a KPMG study conducted on consumer trust, there is indication that cyber risks will be passed down to consumers as digital transformation takes place.

Similarly, costs involving the use of AI could be passed down to consumers, which will add further pressure on enterprises trying to transform digitally.

In fact, KPMG's findings showed that only 16 per cent of enterprises have successfully implemented AI in real terms. Technology can be an effective business enabler for increasing productivity. For this reason, enterprises need to better understand the kinds of data being tracked, how it is used and why data privacy should be treated as part of a strategic data transformation.

On a broader scale, Singapore's ageing population has further implications on enterprises as well. Managing rising staff healthcare, training costs and upskilling workers digitally are key challenges, among others.

In short, 2020 will be a time to protect and grow Singapore enterprises through the effective deployment of digital technology. By doing this, Singapore will be in a better position to build a sustainable tax base, sharpen global competitiveness and create more meaningful employment opportunities for its people.

References:
1. Some findings in this proposal are reinforced by The KPMG Global Sensory Advantage Ecosystem (SAE), which is a strategic research capability that identifies "early signals of change" across social, technological, economic and political (STEP) dimensions.
2. KPMG Global CEO Outlook (2019). The survey data published in this report is based on a survey of 1300 CEOs in 11 economies: Australia, China, France, Germany, India, Italy, Japan, the Netherlands, Spain, the UK and the US. The survey was conducted between 8 January and 20 February 2019.
3. World Economic Forum, Dynamic Briefing on Geopolitics, Retrieved September 2019.
4. Francis Fukuyama, Identity: Contemporary Identity Politics and the Struggle for Recognition. (2018). P.165.
5. Liliana Mason, Uncivil Agreement: How politics became our identity. (2018). p.3.
6. KPMG research found that 84 per cent of organisations have moderate or high M&A appetite for the next three years.
7. KPMG SAE research.
8. WEF research from Dynamic Briefing in Financial and Monetary Systems. Retrieved in September 2019.
9. The report is based on a survey of 1802 security executives in 24 markets, across 12 industries. All respondents were from companies with annual revenues between USD100 million to USD10 billion or more. The sample included all age categories, with a higher percentage of Millennials and Gen Xers, as well as diversified by gender.
10. Research by KPMG Consumer Loss Barometer (2019).
11. SAE research conducted via a seed study on 5G.
12. KPMG analysis.
13. In September 2019, IMF reported that the US-China trade war would lower global GDP by 0.8 per cent in 2020. Retrieved on: https://asia.nikkei.com/Economy/Trade-war/US-and-China-tariffs-could-lower-global-GDP-by-0.8-in-2020-IMF.

# A vision of Singapore as the Transformation Capital of Asia

With the advent of new technologies and the rising importance of climate change, companies around the world need to transform digitally and are now also compelled to become more sustainable. This growing demand for transformation represents a timely opportunity for Singapore to make a bold move – to become the Transformation Capital of Asia.

To lead in this era of disruption, we are recommending that Singapore embrace transformation as an entirely new, fast-growing industry.

We propose for Singapore to emerge as the Transformation Capital of Asia, evolving beyond our position as a trading hub, manufacturing economy and financial centre. Budget 2020 could therefore lay the groundwork for Singapore to build a transformation ecosystem — one that offers end-to-end transformation solutions from procurement to fintech, data protection to cyber security, and infrastructure to sustainability.

**In this proposal, we focus on the three most pressing transformation imperatives to protect and grow enterprises in Singapore, with the larger aim of becoming the Transformation Capital of Asia:**

**1. Leading Transformation in the Digital Economy**

**2. Transforming into a Sustainability Hub**

**3. Transforming Singapore Enterprises**

This vision of becoming the Transformation Capital of Asia will also lead to a broadening of Singapore's tax base, which in itself will help manage Singapore's fiscal expenditure in the long run amidst challenges of an ageing population and economic uncertainty.

Looking at the immediate term, it would appear that increased spending is required to drive transformation. However, we believe that in the medium term, the increased profitability of Singapore enterprises and increased income of its workforce – which could in turn lead to increased consumption – will put Singapore in a more assured revenue position underpinned by sustainable economic growth.

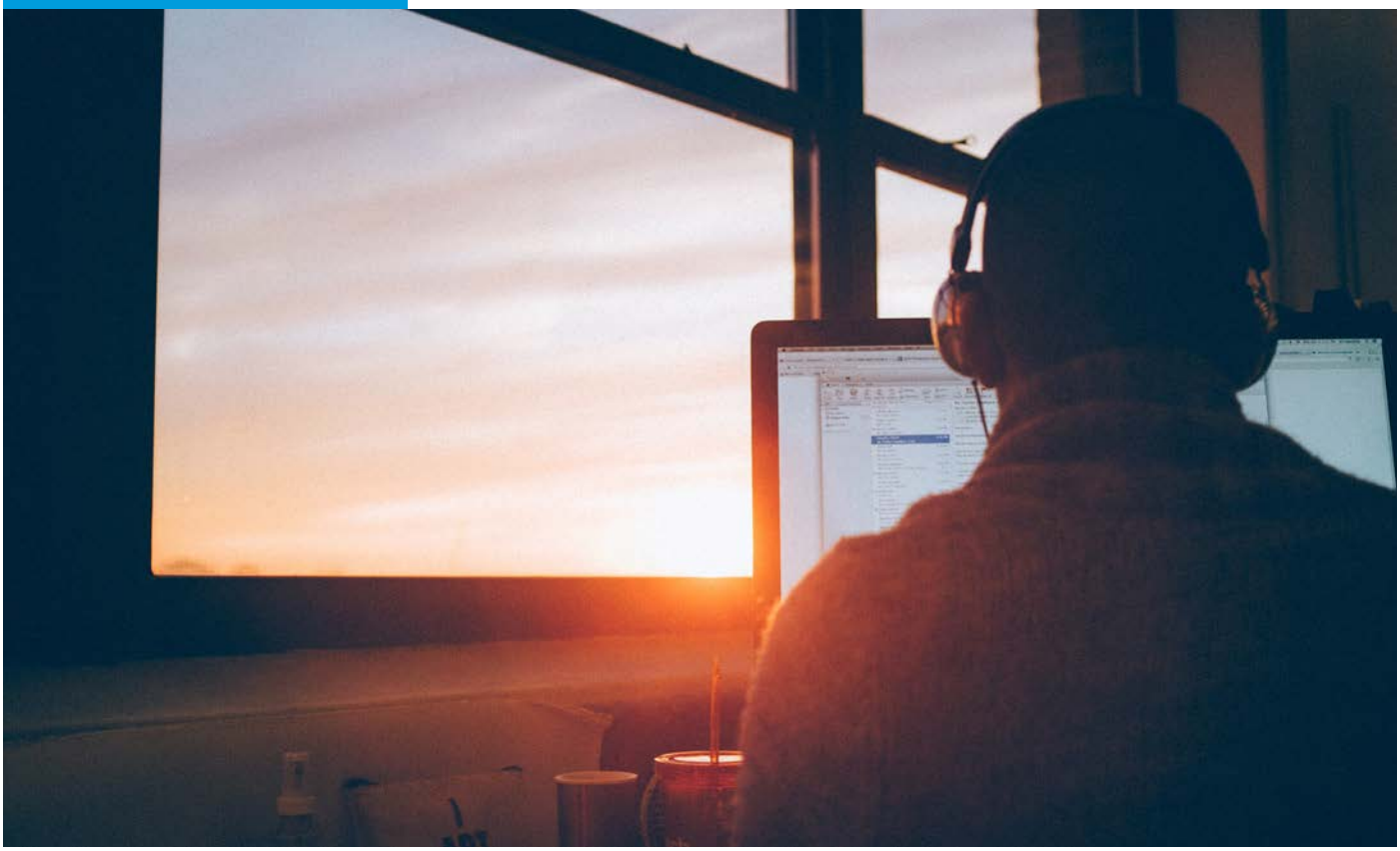
# II. Leading Transformation in the Digital Economy

> “Beginning a digital transformation journey will be the first step enterprises must take in order to stay relevant in this dynamic market environment.”

# The Situation:

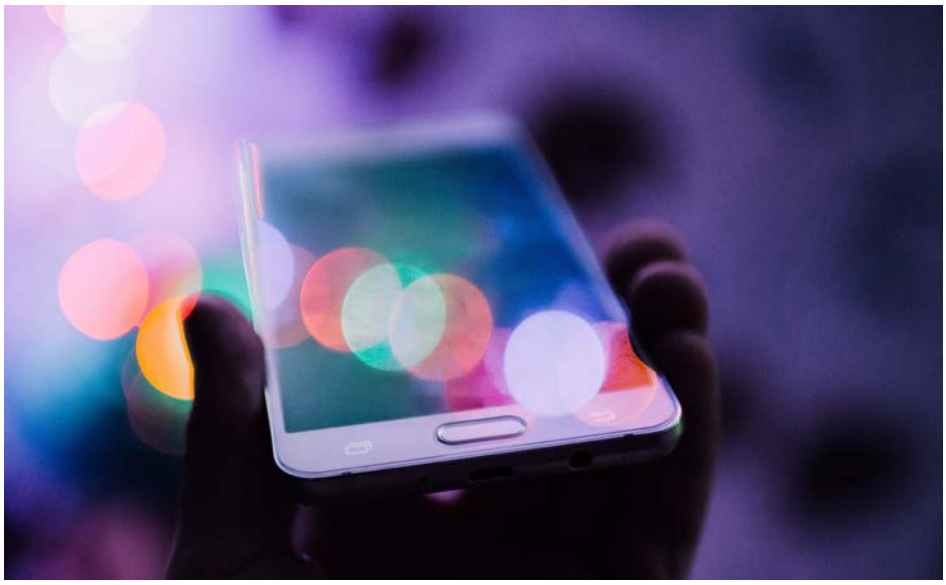
Met with disruptive technologies, changing consumer expectations, and increasingly complex regulatory requirements, enterprises need to move beyond traditional business models and find a more effective way to navigate the uncharted waters of the digital world to ensure survival. Beginning a digital transformation journey will be the first step enterprises must take in order to stay relevant in this dynamic market environment.

For a start, with digital transformation, manual processes can be replaced with faster, more efficient technologies, resulting in higher productivity, better customer experiences and improved engagement. There are many opportunities to use digital solutions to address business challenges. For instance, with the use of AI and Internet of Things (IoT) machines backed by data-driven strategies, enterprises can predict occurrences, track new consumer behaviour patterns and anticipate emerging market trends. The introduction of the 5G technology will also open up new revenue sources and business opportunities for further enterprise growth.



# Challenge #1:

## Are we making the most of data-driven digital technology to enable our enterprises to transform?



Many enterprises currently outsource their business processes to low-cost markets. However, such outsourcing practices are considered only an initial step in digital transformation. To help enterprises become fully digitally-enabled, the next stage in business transformation will require onshoring such activities through technology and 'digital labour'.

To achieve this, Singapore should deploy wide-scale digital transformation initiatives in both the public and private sectors, in order to meet the new demands of the digital economy.

Digital disruption is already forcing many enterprises across all industries to re-examine the way they conduct their businesses, in view of the following trends:

- Customer expectations are ever-changing.
- Products are being enhanced by data, resulting in improved labour productivity.
- New partnerships are being formed as companies learn new ways to collaborate.
- Existing operating models are being transformed into new digital models.

There is a strong need to invest in technology enablers for companies, supported by data-driven systems and new ways of collaboration. Enterprises can start by deploying intelligent automation capabilities in areas such as finance, human resources and procurement.

From Singapore's perspective, it makes sense to incentivise such large-scale transformation efforts.

Singapore loses tax revenue when enterprises offshore their operating activities, as their profits are reduced due to outsourcing costs. However, when these activities are resumed in Singapore with technology-backed solutions, it will help to preserve revenue since the costs of undertaking these onshore activities will be made cheaper with technology or digital labour. Hence, while short-term government spending/funding may be necessary to incentivise transformation, it will eventually lead to a rise in Singapore tax revenues as sustainable business profitability improves in the medium to long term.

# Our Recommendation:

Introduce a Digital Transformation Package, consisting of broad-based tax incentives to catalyse business transformation by supporting significant capital outlay and resources.

### i. Enhanced capital allowance for digital adoption

To help enterprises invest in new capital assets (including software development) for digital adoption.

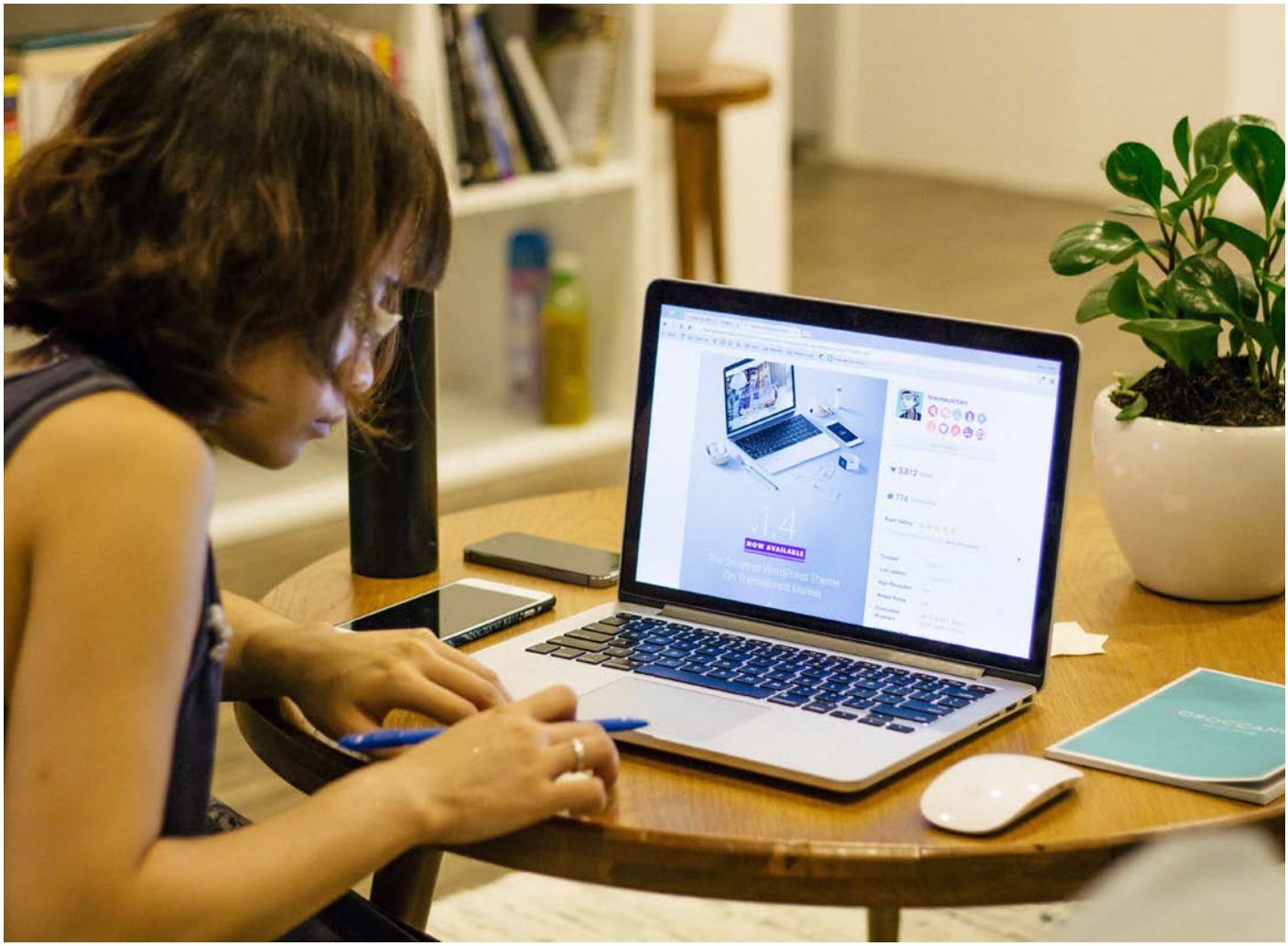
### ii. Enhanced deduction for digital skills training

Applicable to expenses incurred for digital skills training, so that employees can acquire technology-based skills.

### iii. Enhanced tax deduction for consultancy and professional fees

To help enterprises offset the costs of consultants.

In view of the substantial costs involved and importance of digitalisation, the enhanced deduction/ enhanced capital allowance on digital initiatives should be structured as follows: 400% for the first $1,000,000 of expenditure + 200% beyond the first $1,000,000 of expenditure.



# Challenge #2:

## How can we get enterprises to develop and adopt 5G applications more quickly?

The progressive roll-out of the 5G network by telcos in Singapore within the next two years is expected to fuel greater demand for data centres. A 5G network can be 20 times faster than a 4G network, and promises to fuel greater data consumption and create demand for innovations while pushing other technological platforms to develop more quickly.

This can create new revenue sources across the supply chain as we use analytics and software intelligence to unlock insights and deploy new technologies for more efficient use of material flows to reduce costs.

According to property consultancy Cushman and Wakefield, Singapore has emerged as the third most robust data centre market in a global ranking of 38 countries, and is the only mature data centre market in Southeast Asia. At the same time, technology giants have expanded their cloud infrastructure footprint to facilitate expansion plans over the last few years, making rapid deployment in 5G more pervasive.

A KPMG study on 5G also showed that, in addition to powering consumer mobile devices, 5G can be deployed by enterprises as a private network providing key benefits such as significantly-improved capability, reliability, latency, bandwidth and efficiency. The study also found that three-quarters of industrial companies in the US believe that 5G is going to be a catalyst for their digital transformation in the next five years. Examples of notable private 5G use cases include manufacturing plants, military bases, hospitals and university campuses.

With increasing deployment of 5G technologies, the need for highly-skilled employees with learning agility in this area will continue to grow. Enterprises will need to retain and recruit the right human capital in order to stay relevant in a 5G environment.

More government support is needed to enable faster 5G development and adoption on a larger scale, and to prevent 5G development costs from being passed down to consumers at a later stage. With this support in place, enterprises will be more willing to invest in 5G technology, especially when they realise the significant value it can bring to solving existing challenges and enabling new business models.

“More government support is needed to enable faster 5G development and adoption on a larger scale, and to prevent 5G development costs from being passed down to consumers at a later stage.”

# Our Recommendations:

a. Provide test-bedding sites for prototyping and development

**Explore 5G applications for bus stops, HDB flats, estates etc.**

b. Enhance the R&D Tax Incentive Scheme to catalyse the development of new use cases that leverage high-speed 5G networks

**i. Allow refundable tax credits**

Refundable tax credits (i.e. cash payout of R&D tax incentive deductions in lieu of enhanced tax deductions) of up to 42.5% of qualifying R&D and innovation costs (pegged to current R&D Tax Incentive Schem benefits) to support enterprises, especially smaller technology players that have yet to generate profits. They are critical players in the technology ecosystem as they are nimble and bring fresh ideas to the table. This is similar to schemes in Canada and Australia.

**ii. Extend the definition of R&D under the R&D Tax Incentive Scheme**

To include wider innovation activities, such as the development of data analytics models which have novel applications but may not necessarily involve novel technologies or methodologies.

c. Set up a 5G technology and innovation fund in order to catalyse innovation and pilot projects in the 5G space

**Grants of up to 50% for prototyping and innovation**

Similar to the Monetary Authority of Singapore's (MAS) Financial Sector Technology and Innovation (FSTI) scheme, this 5G fund should be used to provide grants of up to 50% of expenditure for prototyping and innovation.

d. Encourage Singapore enterprises to explore solutions in 5G-ready markets

**Extend the Market Readiness Assistance Grant**

Singapore will be progressively rolling out 5G networks from 2020. We propose that the Government extend the Market Readiness Assistance grant to provide funding for enterprises to explore solutions or work with partners in 5G-ready countries such as China.

e. Provide tax depreciation (or writing down allowances) for spectrum rights payments

**Offset costs to telcos**

Similar to other countries, this measure will address an otherwise significant cost to telcos if no tax deduction can be claimed on such payments, as is the case currently. Left unaddressed, such costs may potentially be priced into the products and services for consumers.

# Our point of view on digital tax

## Singapore and the challenges of the digital economy

Technological advancements have dramatically changed the global trade of goods and services, as well as internationally-accepted principles governing taxation of cross-border business income.

Today, businesses can transact without being physically present in a market. As this happens, countries find it increasingly difficult to tax business income earned in their territory by foreign corporations under existing international tax frameworks.

We understand that certain countries have started adapting their tax laws to this new reality. As more businesses adopt digitalisation strategies, new tax laws that are not limited to GAFA (Google, Amazon, Facebook, Apple) businesses are being put in place, becoming applicable to brick-and-mortar businesses that operate globally as well.

For example, in the field of income tax, different measures have been adopted to expand the taxing rights of source countries. This includes widening the definition of the permanent establishment concept, modification of the source rules, imposition of withholding taxes, and the introduction of new levies as seen with the digital tax introduced by France that is also being considered by other countries such as the UK.

As for indirect taxation, a growing number of countries have adopted the destination principle, requiring foreign residents that sell goods and services in their territories to register for GST purposes. The destination principle is now being considered for application even to taxes on income.

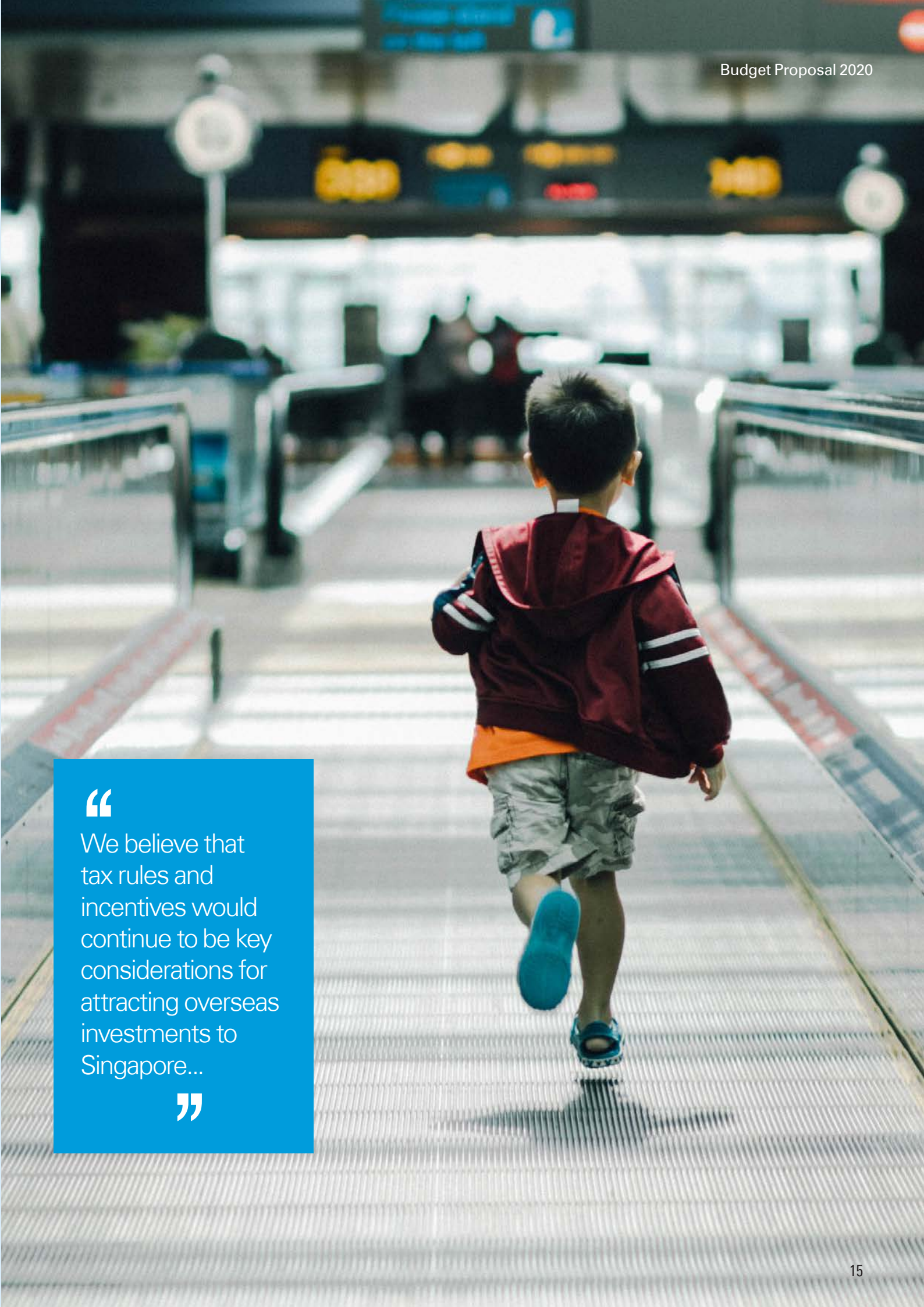
To maintain an international consensus on the rules governing the taxation of cross-border income, the OECD initiated a debate on the tax challenges of the digitalisation of the economy as part of the Base Erosion and Profit Shifting (BEPS) initiative.

The initiatives that have already been implemented under the original round of BEPS proposals (BEPS 1.0 proposals) in the last five years have seen the greatest changes in the field of international taxation since World War II, but the new round of proposals to address the challenges of the digitalisation of the economy (BEPS 2.0 proposals) looks set to introduce even more radical changes to the international tax framework, including a dramatic overhaul of transfer pricing principles.

Singapore has been the preferred springboard for investments into the Asia Pacific region for numerous reasons, including its business-friendly environment and our political stability. The BEPS 2.0 proposals, if implemented, have the capacity to undermine our position by neutralising the effects of Singapore's tax incentives. We believe that it will not serve Singapore's interests to support direct tax measures that expand the taxing rights of source countries. Any such direct tax measures will inevitably erode our competitiveness as a business and technology hub.

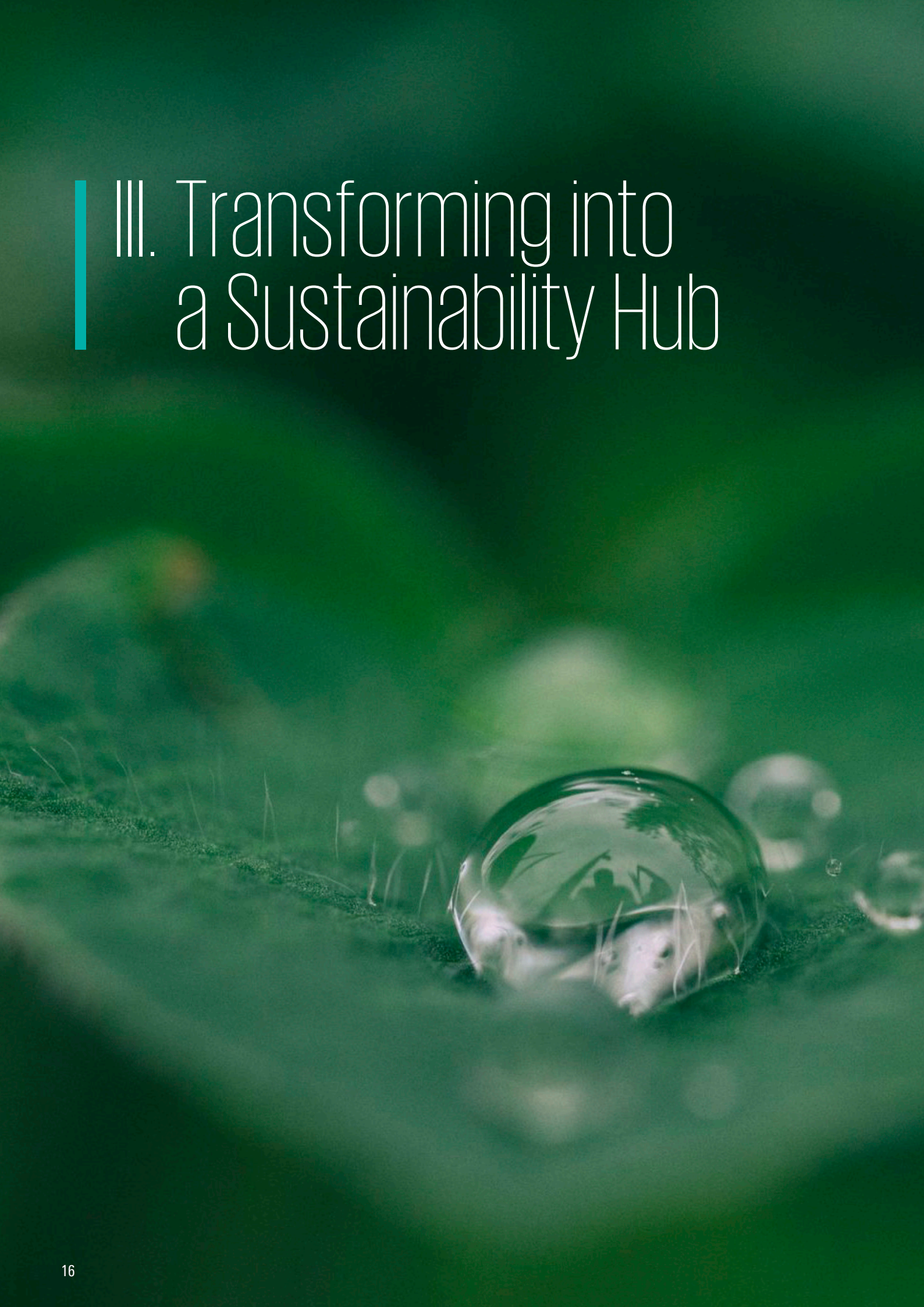
Notwithstanding the outcome of the BEPS 2.0 review, we believe that tax rules and incentives would continue to be key considerations for attracting overseas investments to Singapore and making Singapore a more compelling location for commercial ventures, for both large and small enterprises. While it would be important to calibrate our tax regime and incentives in response to the BEPS 2.0 measures, this should be done when the measures are clearer and the implications to Singapore can be determined.

A holistic approach should be undertaken to review the attractiveness of Singapore as the Transformation Capital of Asia, revolving around our ability to drive transformation and digital capabilities and propelled by a supportive tax regime for such transformation.



> “We believe that tax rules and incentives would continue to be key considerations for attracting overseas investments to Singapore...”

# III. Transforming into a Sustainability Hub



# The Situation:

Sustainability mega trends are disrupting existing operating models and behaviours. Environmental trends such as biodiversity loss, climate change, pollution, water scarcity, resource scarcity and social trends, as well as barriers to taxing carbon at consumer levels, remain a key focus for governments across the world.

For example, in late 2018, France suspended a planned tax hike on gasoline and diesel fuel following violent demonstrations. At the same time, Washington State voters in the US rejected a tax proposal on CO2 emissions. It is evident that new approaches are needed to gain public support and attract private investments,[1] especially with climate change and sustainability issues receiving so much media attention these days.

## Sustainability - the Singaporean perspective

Singapore is not immune to these issues. With the future implementation of the Southern Waterfront projects, we expect more emphasis to be placed on sustainability. According to the WEF, developing countries are expected to account for roughly two-thirds of new infrastructure investments, which can help support climate goals through modest additional upfront costs. Technology and engineering then become key for climate change risks such as coastline protection and biodiversity.

We understand that the National Research Foundation has already launched the Marine Science Research and Development Programme to spur research into how Singapore can better cope with emerging challenges such as climate change, heavy shipping and urbanisation. It will also work with the Centre for Climate Research Singapore to drive efforts to develop our national climate science research masterplan.

For companies to invest in climate change efforts, sustainable business models need to be adopted. As it is, we expect changes in revenue cycles, consumption patterns and financing solutions. The Singapore government can catalyse private investment in climate resilience by providing incentives and appropriate funding measures, thereby increasing stakeholder expectations around responsible behaviours. And this can happen with the provision of relevant infrastructure, funding, platforms for collaboration, and a conducive regulatory framework.

Singapore already faces several challenges arising from climate change. A 2015 study by the National Climate Change Secretariat indicated pressing issues around daily temperature, rainfall, wind, and rising sea levels. The disruption arising from extreme weather was also noted.[2] It has become critical

1. Climate Change report by World Economic Forum Briefing. (2019).p.6.
2. https://www.nccs.gov.sg/climate-change-and-singapore/national-circumstances/impact-of-climate-change-on-singapore

that we examine the direct impact of climate change on areas such as water resources and drainage, biodiversity and greenery, network infrastructure and building infrastructure. We will then need to enable the acceleration and incubation of innovative solutions for these issues, as well as look into addressing indirect impacts such as changing consumption patterns, sustainability strategies, action plans, and targets.

## A global issue we must respond to

Singapore has made commitments to the global climate change agenda and has ambitions to be a sustainability hub. Based on International Energy Agency data, we contribute around 0.11 per cent of global emissions and rank 126th of 142 countries in terms of CO2 emissions per dollar GDP. In line with the Paris agreement adopted in December 2015, Singapore has made a further commitment to reduce our Emissions Intensity from 2005 levels of 36 per cent by the year 2030, as well as to stabilise greenhouse gas emissions with the aim of peaking around 2030.[1]

It is fair to note that while we are ranked as the world's most competitive economy by WEF, more needs to be done in terms of sustainability.

Singapore is an open economy, closely tied to the global political landscape as well as business and consumer sentiments. This makes it even more important that we remain vigilant and proactive in responding to sustainability mega trends, including the opportunities they offer for us to act as a regional centre that attracts high-quality capital flows into Asia/Southeast Asia.

## Sustainability as a draw for talent

Singapore relies heavily on our talent pool, which means we need to compete globally to attract the best talent. In this sense, our Sustainable Singapore Blueprint not only sets out the lifestyles we hope for our people; it also serves as an important attraction for global talent.

Global talents are increasingly concerned about sustainability issues. In the 2019 Global Talent Competitiveness Report, Singapore ranked 2nd overall, not doing as well in the areas of Lifestyle and Sustainability — key factors towards attracting and retaining global talent. Furthermore, to nurture future talent, a Forbes article also reported that enterprises which focus on sustainability put themselves in a better position to attract and retain millennial employees.

An increased focus on sustainability with regard to talent will not only help Singapore develop a new competitive advantage, it can also lead to a more sustainable and enhanced tax base moving forward as a result of the following:

- Broadening of the tax base (i.e. increased number of taxpayers within the tax net) by attracting and retaining more global talent to Singapore; and
- Increased quality of the tax base (i.e. higher income earners).

Therefore, sustainability is a key issue that should be included in Singapore's agenda for action. For enterprises, a focus on sustainability will help them attract and retain talent.

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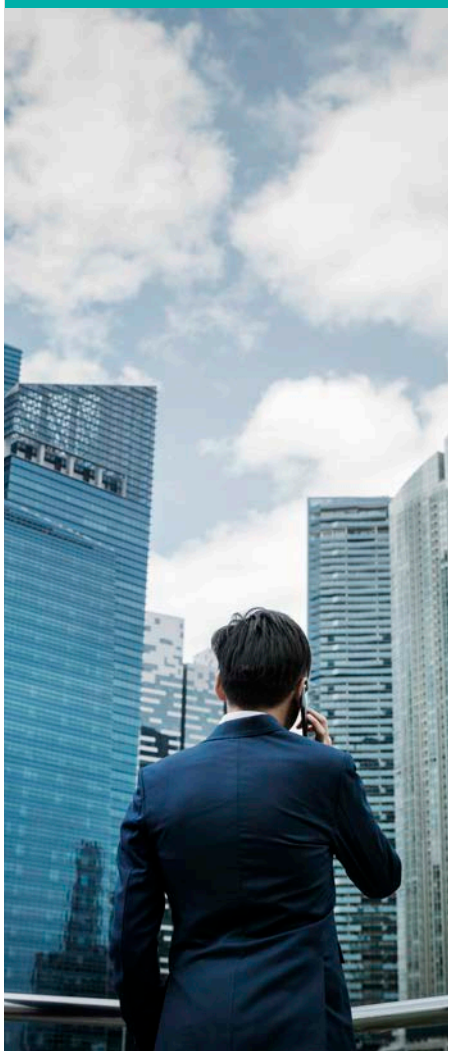

[1] https://www.nccs.gov.sg/climate-change-and-singapore/national-circumstances/overview

# Challenge #1:

## Do we have what it takes to develop a strategic response to the climate risks affecting Singapore and our key sectors?

Over 95 per cent of Singapore's electricity is now generated by natural gas. Projecting from 2005, our business-as-usual emissions are expected to reach 77.2 million tonnes in 2020, out of which 88.6 per cent arise from the industry, building and transport sectors.[1]

A detailed assessment of environmental risks at both national and enterprise levels will help Singapore understand the implications of these challenges, and equip us to make better investment decisions around key sectors characterised by long lifespans and hefty price tags such as oil & gas, maritime, infrastructure, real estate, semi-conductors, and bio-research. Services,[2] another key sector, will also benefit from more educational efforts, as the impact of climate change is often felt indirectly through changes in consumer profiles and consumption patterns.

A structured approach of developing sustainability strategies following detailed assessments will allow Singapore to respond to climate change in a risk-based, informed and strategic manner.

Better clarity from climate risk assessments and sector or enterprise based readiness and benchmarking studies will enable us to formulate sustainability strategies that will drive more targeted responses, leading to tangible actions and performance monitoring to ensure goals are met. This will also allow for more effective capital allocation and drive technology solutions that will collectively help manage Singapore's overall emissions output and profile.

"A structured approach of developing sustainability strategies following detailed assessments will allow Singapore to respond to climate change in a risk-based, informed and strategic manner."

[1,2] https://www.nccs.gov.sg/climate-change-and-singapore/national-circumstances/overview

## Assessments and studies – an overview

An example of climate risk assessments is technology-based maturity assessments. These cover the key areas of governance, strategy, risk management, as well as scenarios, metrics and targets. Technology-based maturity assessments evaluate climate risk readiness in line with global recommendations by the Taskforce for Climate Financial Disclosures (TCFD).[1]

KPMG's 2019 Autonomous Vehicles Readiness Index (AVRI) offers another example of a sector/enterprise-based readiness and benchmarking study. The AVRI measures 25 countries' levels of preparedness for autonomous vehicles, providing key data points and insights for governments. In the 2019 AVRI, for instance, Singapore continued to rank second globally behind the Netherlands. The study suggests that, unlike the Netherlands which benefits from European leadership in transport public policy, our ranking was a direct result of investment from global technology leaders.

The use of such tools and the formulation of the sustainability strategies that follow can lead to numerous solutions and benefits. For example:

- Infrastructure and real estate assets (green-fields and brown-fields) tabled for private financing to boost supply of high-quality projects that attract global private capital funds into Singapore and the region.

- A review of real estate portfolios to increase the green status of properties and attract target tenants with strong sustainability mandates, or customers with increasing preferences for green residences and buildings with green features.

- More impetus to use technology such as proptech and autonomous vehicles which were previously unavailable.

- Support for the uptake of alternative clean energy by enterprises and consumers.

- Building of a green economy architecture that encourages financial institutions and corporates to undertake sustainability bonds and loans to open up new sources of capital for organisations as they gain access to new investor groups and lower costs of capital.

[1] https://www.fsb-tcfd.org/

# Our Recommendations:

## a. Grants and incentives to encourage development of sustainability strategies

### i. 200% tax deduction for costs related to development of sustainability strategies

To include both manpower and consultancy costs.

### ii. Grants to set up sustainability teams within organisations

Co-fund 50% of salary costs.

### iii. Rebate of property tax

Conferred where the buildings/infrastructure erected on land meets certain criterion or thresholds e.g. link to higher standards for sea defenses, urban farming, energy, water and waste reduction etc.

## b. Grants and incentives to spur development of proptech and autonomous vehicle solutions

### i. Co-fund 50% of R&D work

Introduce grants and assistance for R&D on proptech and autonomous vehicle solutions.

### ii. Concessionary tax rate of 5% on income derived from businesses for proptech solutions

Applicable for proptech solutions used in green buildings.

### iii. Enhance certainty of the R&D Tax Incentive Scheme

Enhance the 250% tax deduction on qualifying R&D costs by including development of new or enhanced proptech and autonomous vehicle solutions as pre-approved areas under the scheme.

### iv. Introduce refundable tax credits

Refundable tax credits of up to 42.5% of qualifying R&D and innovation costs (pegged to current R&D Tax Incentive Scheme benefits) to support companies, especially smaller proptech players that have yet to generate profits.
This would be similar to schemes in Canada and Australia, which provide alternative sources of financing for proptech companies which are yet to be profitable.

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## c. Boost supply and demand for green buildings and encourage uptake of clean energy

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

This will encourage investments in green buildings by providing a tax depreciation for costs incurred such as building modification and fittings for clean energy/energy reduction facilities.

### ii. Reduce income taxes from property rental income for landlords of green buildings

50% reduction in tax payable on rental income derived from buildings that undergo green renovation and retrofitting.

### iii. 200% enhanced tax allowance on capital expenditure (including professional fees) on green building and clean energy/energy efficiency initiatives

This is in addition to normal capital allowances, Commercial Building Allowance (see above) and tax deductions.

**iv. 50% property tax rebates for three years following a building being certified green**

**v. Exclude building and environmental sustainability enhancing structures from taxation**

This will entail modifying the existing property tax regime.

**vi. To increase funding and extend the Green Mark Incentive Scheme for existing and new buildings to achieve energy efficiency/ adopt clean energy**

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## d. Spur sustainable finance

**i. 5% concessionary tax rates for sustainability bonds and loans**

For financial institutions on interest income from loans for acquisition and development of green residential and commercial properties, and arrangement fees relating to green bonds, social bonds, sustainability bonds and sustainability-linked loans.

**ii. Tax exemption for investors**

Applicable on income from green bonds and social impact bonds.

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## e. Encourage more efficient use of resources and enhanced capital allocation by intensifying use of land

**i. Extend the existing Land Intensification Allowance for industrial buildings (set to expire after 30 June 2020) for an additional 10 years**

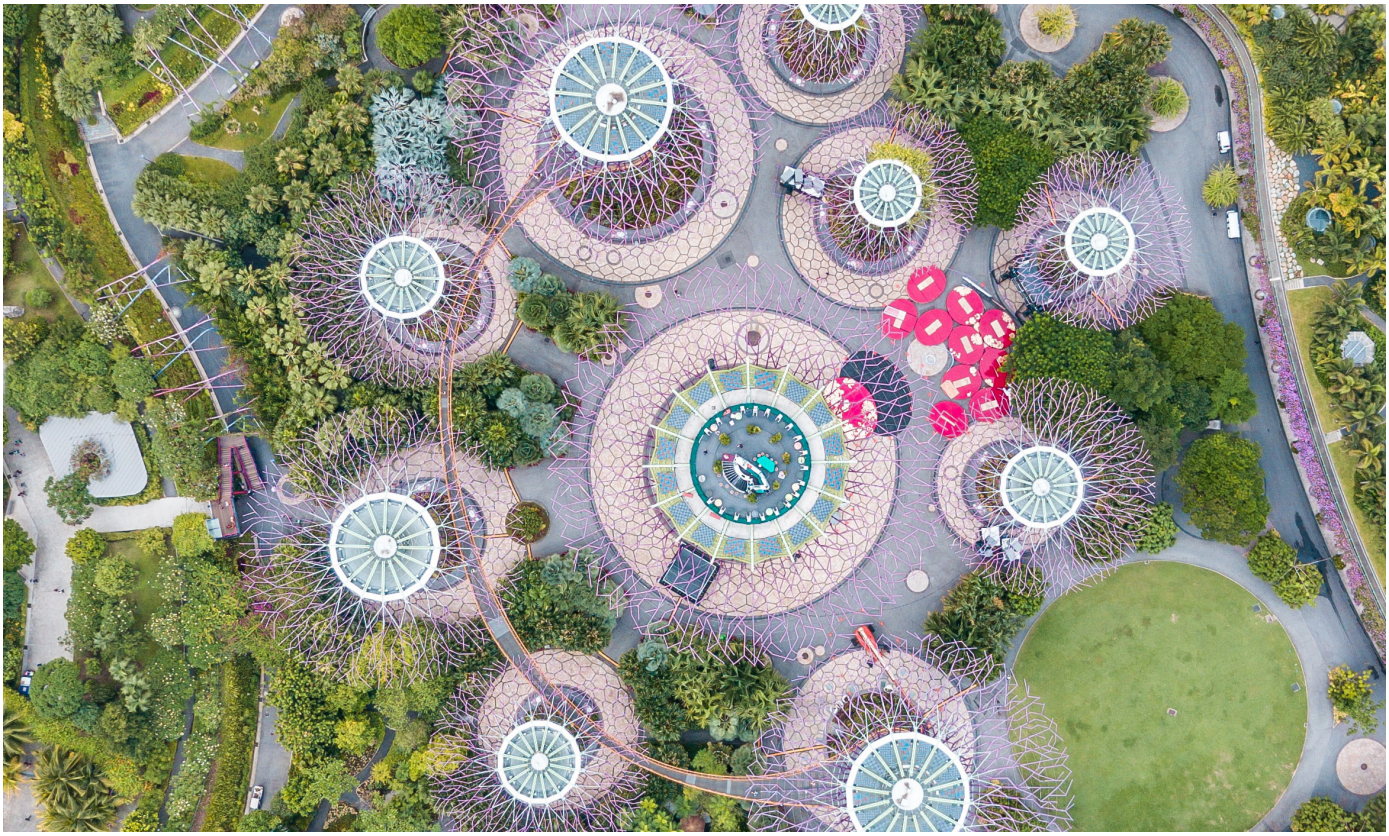
To introduce energy efficiency as an additional requirement.

**ii. Grant exemption of property tax for machinery or installations where the taxpayer is able to substantiate the benefits generated from the use of the said machinery or installations**

Benefits include automation of trade or business processes, increase in efficiency or productivity, reduction of work-related risks to employees or other economic benefits to Singapore. Examples of machinery include the automatic storage and retrieval systems, automatic sorting systems, etc.

# Challenge #2:

## Are we making the best use of technology to support transformative strategies and achieve sustainable solutions?



Technology offers new solutions to the challenges arising from environmental and social mega trends. Singapore is well placed to create innovative, data-driven solutions and attract capital flows to support the research, development and commercialisation of sustainable solutions.

With technology, we can enable more informed decision-making by providing access to more granular, robust and predictive data, and making available more responsible options to choose from.

Examples include:

- Move towards data-driven predictive machine models with data analytics modelling to forecast the impact of a range of solutions that will optimise resource use, avoid wastage and maximise budgets.

- Enable the growth of data-driven and technology-based social entrepreneurship and innovation to encourage individual ownership of contributing to a Sustainable Singapore and boosting the range of innovative solutions.

# Our Recommendations:

## a. Spur the development of smart city solutions

### 50% co-funding for smart city solutions

Introduce grants and assistance to co-fund 50% of innovations which use data to address urban density issues such as waste collection, electricity use, efficient transport, etc.

## b. Enhance certainty of the R&D Tax Incentive Scheme

### Enhance the R&D Tax Incentive Scheme, as follows:

- Include development of new or enhanced data-driven and technology-based environmental solutions as pre-approved areas under the scheme. Solutions to be covered would include smart city solutions, as well as solutions to encourage businesses and individuals to take greater ownership and accountability around responsible choices.
- Introduce refundable tax credits of up to 42.5% of qualifying R&D and innovation costs (pegged to current R&D Tax Incentive Scheme benefits) to support companies, especially smaller technology players developing environmental solutions that have yet to generate profits. This would be similar to schemes in Canada and Australia, which provide alternative sources of financing for technology companies which are yet to be profitable.
- Extend the definition of R&D under the R&D Tax Incentive Scheme to capture wider data-driven innovation activities. The development of new machine-learning and data analytics models may involve more collection and training of data sets which may not fit in exactly with the current definition of R&D for tax purposes.

# Challenge #3:

## How can our sustainability efforts be used as a pull factor to attract top talent into the Singapore workforce?

Singapore ranks high on the Most Liveable Cities Index. Quality of life is critical to attracting top talent to our nation – this includes a high regard for environmental and social issues that impact day-to-day living.

To attract top talent, Singapore must be able to communicate the value of our sustainability initiatives. We need to develop impact measurement frameworks that quantify the intangible value of our environmental and social initiatives (e.g. more green and open spaces, sense of security, community-bonding platforms, workforce upskilling initiatives, digital connectivity etc.).

This will allow us to put an appropriate price tag to these initiatives as part of decision-making, and help communicate more effectively the value of such initiatives to individuals.

# Our Recommendations:

### a. Make sustainability a requirement for real estate projects

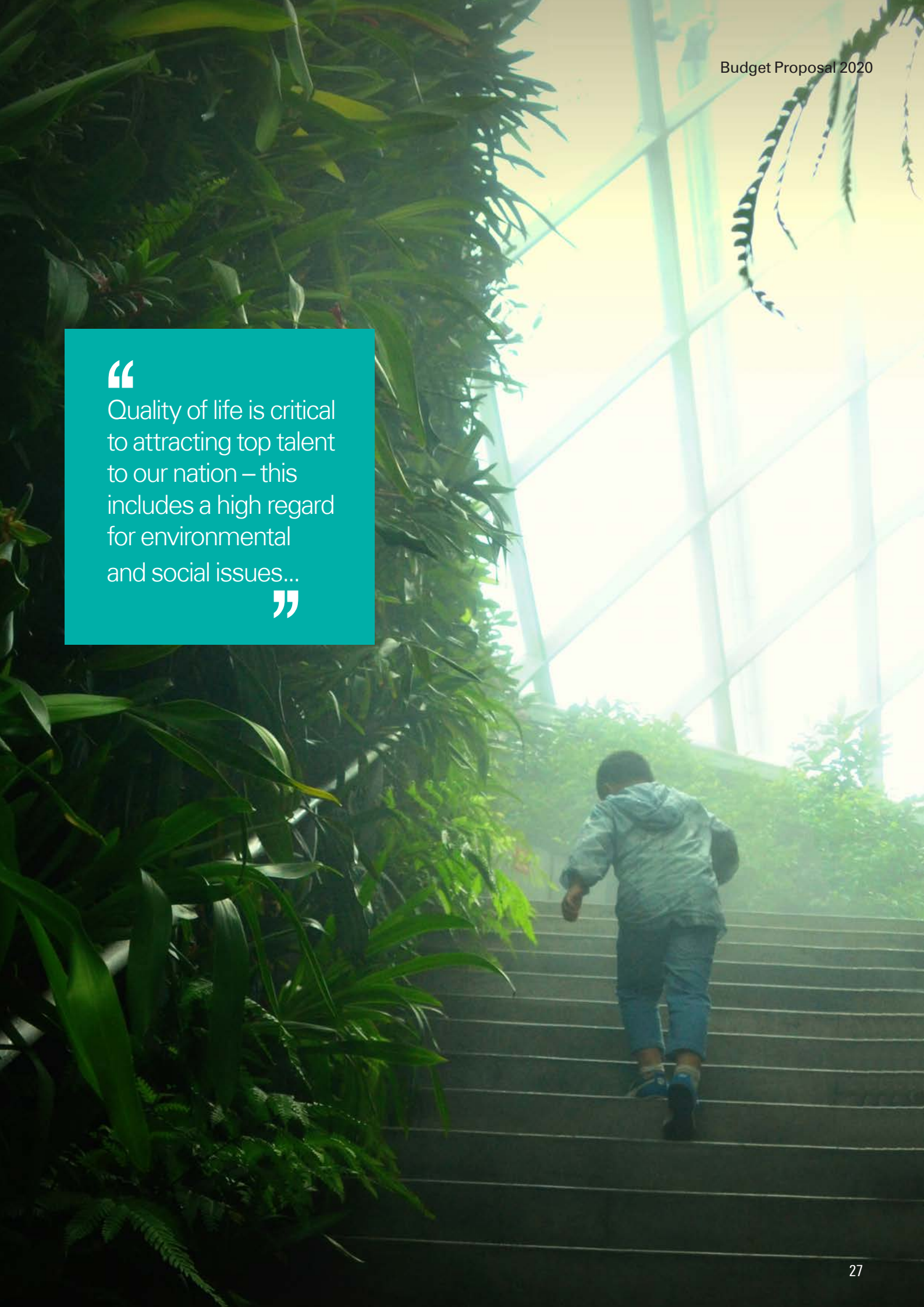
**Include requirements of environmental and social impact in awarding land tenders**

This should be applied to all building projects, as far as possible.

### b. Encourage businesses to quantify the environmental and social impact of their operations

**Businesses to include impact accounting in their corporate disclosures, as follows:**

- Encourage more companies to undertake impact accounting by providing 250% tax deduction for costs of undertaking impact accounting for the first five years.
- Provide 50% financial grant on energy audits and health checks on energy efficiency of existing buildings.



> “Quality of life is critical to attracting top talent to our nation – this includes a high regard for environmental and social issues...”

# IV. Transforming Singapore Enterprises

# The Situation:

In today's world of business disruption, all enterprises face the constant challenge of either adapting to change quickly, or running the risk of becoming obsolete. However, some companies may not be equipped with the know-how to develop and implement a transformation strategy relevant to their business model, while others may not even know how to begin.

With small and medium sized Singapore enterprises accounting for 72 per cent of the workforce and 47 per cent of the nominal value added to Singapore's economy,[1] more can be done to help accelerate this group's transformation journey to ensure they fully harness the benefits of new technologies for growth. This will in turn drive significant contribution to the Singapore economy.

For a start, these enterprises need more support to create and implement their transformation strategy and develop growth plans.

Transforming Singapore enterprises can have a direct impact on Singapore's tax revenues, as follows:

- Despite having a workforce of 3.5 million, only about 52 per cent pay income tax.[2] This could be because the majority of the non-tax paying workforce are likely to be low-skilled foreign workers in Singapore. In view of this, a change in the composition of our workforce where a proportion, say 20 per cent, of the lowest paid foreign workers are replaced by a higher value workforce[3] will result in a significant broadening of Singapore's income tax base, while also boosting GST collections given that higher income earners tend to spend more.

- A large proportion of Singapore enterprises pay little or no tax[4] due to losses or low profitability. Transforming Singapore enterprises will help boost profitability which will then translate to higher corporate tax revenues.

- Successful transformation of Singapore enterprises could also lead to increased profitability of overseas enterprises. Profits repatriated, while possibly exempt in Singapore, could help enterprises reinvest in R&D and drive further expansion. This can in turn boost profitability in the future and secure increased tax revenues.

A broad strategy canvas to change the mix of our current workforce into one that has a larger proportion of higher skilled workers can be as follows:

- Accelerate adoption of automation by Singapore enterprises in order to displace routine or manual jobs.

- Upskill/reskill workers with digital skills while providing wage support.

- Pave the way for new technologies to be quickly adopted by enterprises on their transformation journey.

- Provide talent support schemes to accelerate the development of Singapore's next unicorns and decacorns.

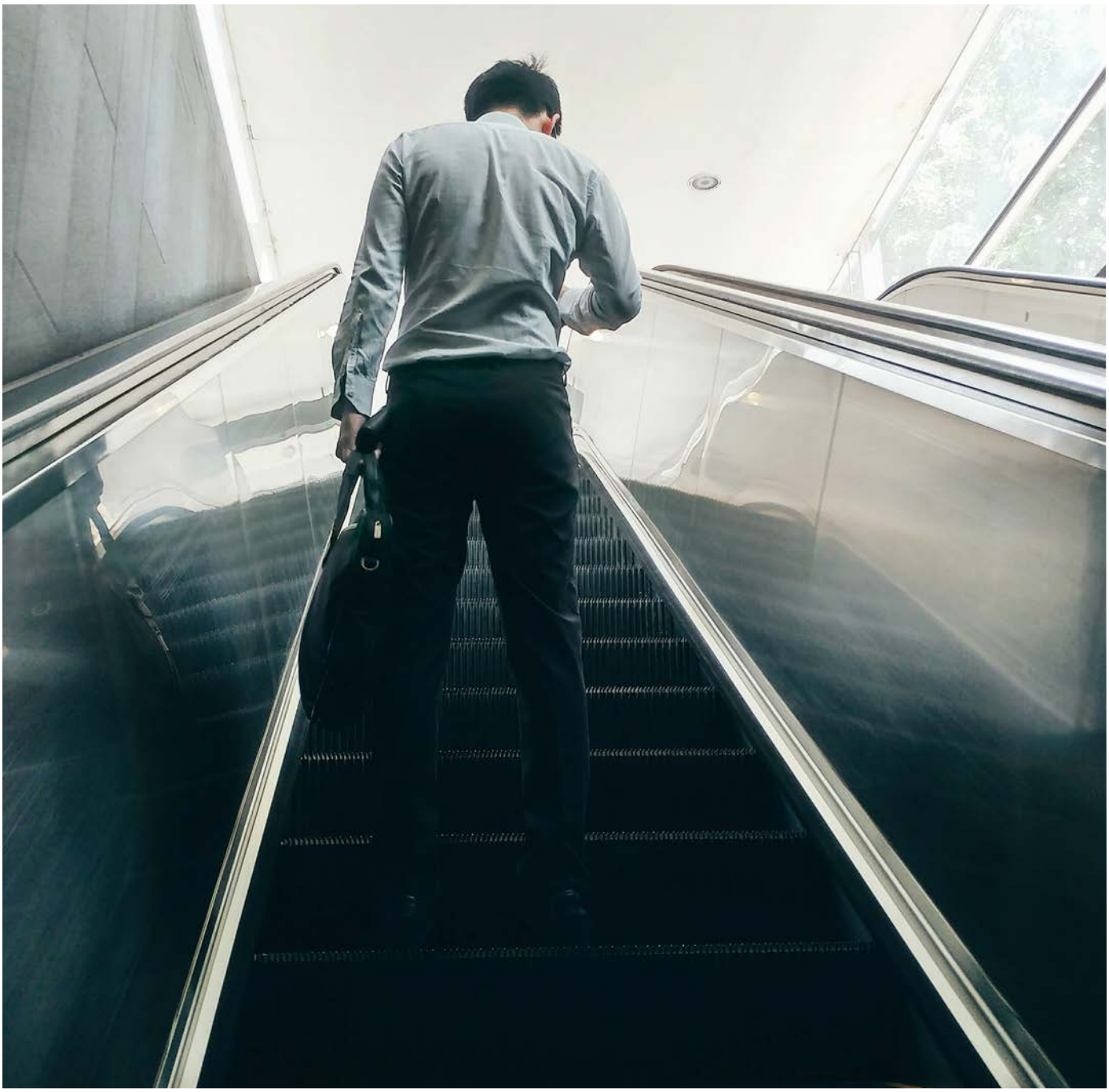
1. Source: SingStat
2. Based on Year of Assessment 2018 statistics provided by IRAS (https://www.iras.gov.sg/IRASHome/Publications/Statistics-and-Papers/Tax-Statistics/). In fact, the percentage of tax paying individuals is probably lower as IRAS does not provide a breakdown of individuals paying tax based on the type of income earned. So the taxable group (Year of Assessment 2018) includes individuals that pay tax on income other than employment income (e.g. rental income).
3. This percentage acknowledges that Singapore will face a continual demand for foreign workers in areas such as construction and marine and offshore engineering.
4. Based on IRAS statistics for Year of Assessment 2018, 70% of companies assessed pay less than $10,000 of taxes.

# Challenge #1:

## Are enterprises getting the simple, actionable resources they need to transform their business?

Many Singapore enterprises find it difficult to envision the steps toward transformation. According to a 2018 Singapore Chinese Chamber of Commerce and Industry survey, most have little understanding of the Industry Transformation Maps (ITMs). In fact, 60 per cent of respondents were unaware of ITMs, while 62.5 per cent of those who heard of ITMs were unaware of how to participate in them.

The government needs to provide clear guidances for transformation in each industry cluster, and develop a broad-based approach for such adoption.



# Our Recommendations:

a. 'Protect & Grow Scheme' (PGS) which caters to businesses at different stages of their development

## A scheme that aims to promote productivity in the first three years of operation, then focus on growth and value creation for the following five years ('3+5')

Businesses can set the starting date of each incentive period at a time when they are ready to embark on a productivity or value creation journey. This will enable them to best optimise the '3+5' support mechanism.

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

The scheme can be structured as follows:

### First phase (3 years) – Improving productivity

Companies can choose the start date for this phase according to their needs:

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.

### Second phase (next 5 years) – Enhancing growth and value creation through innovation and internationalisation

This phase will commence immediately after the end of the first phase, with the following:

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).*
c) 300% tax deduction/allowance for registration, purchases and licensing of intellectual property.

Cash payout of tax benefits should be available to cater for loss-making businesses, with higher limits for initial years (start-ups may not have taxable income).

The 300% tax deduction/allowance for various categories of expenses should be subject to a cap. There should be flexibility to combine the caps across automation and training categories in the first three years, and R&D, internationalisation, registration/acquisition/licensing of intellectual property categories for subsequent years.

In addition, the PGS should include a form of Wage Credit Scheme as a wage increase subsidy for employees who have successfully completed retraining and upskilling courses.

*Including activities related to participating in approved trade fairs, exhibitions or trade missions, overseas trade office, overseas investment development expenditure and overseas employees. These are currently incentivised under Sections 14B, 14K, 14KA which are due to expire in 2020.

# Challenge #2:

## How can we address the slow acceptance of cloud-based solutions by both enterprises and government agencies?

Many leading-edge technologies are offered through cloud-based services that significantly reduce the time for transformation, such as in the areas of AI.

There remains some level of resistance to new technology such as cloud platforms, due in part to the amount of effort required and security risks involved. In some cases, enterprises do not have the capability to assess or manage these security risks. However, these cloud-based solutions can bring significant benefits to enterprises.

Enterprise Singapore needs to encourage greater adoption of cloud-based services among enterprises.

# Our Recommendations:

a. Extend enterprise development grants to new technology with significant capital outlay

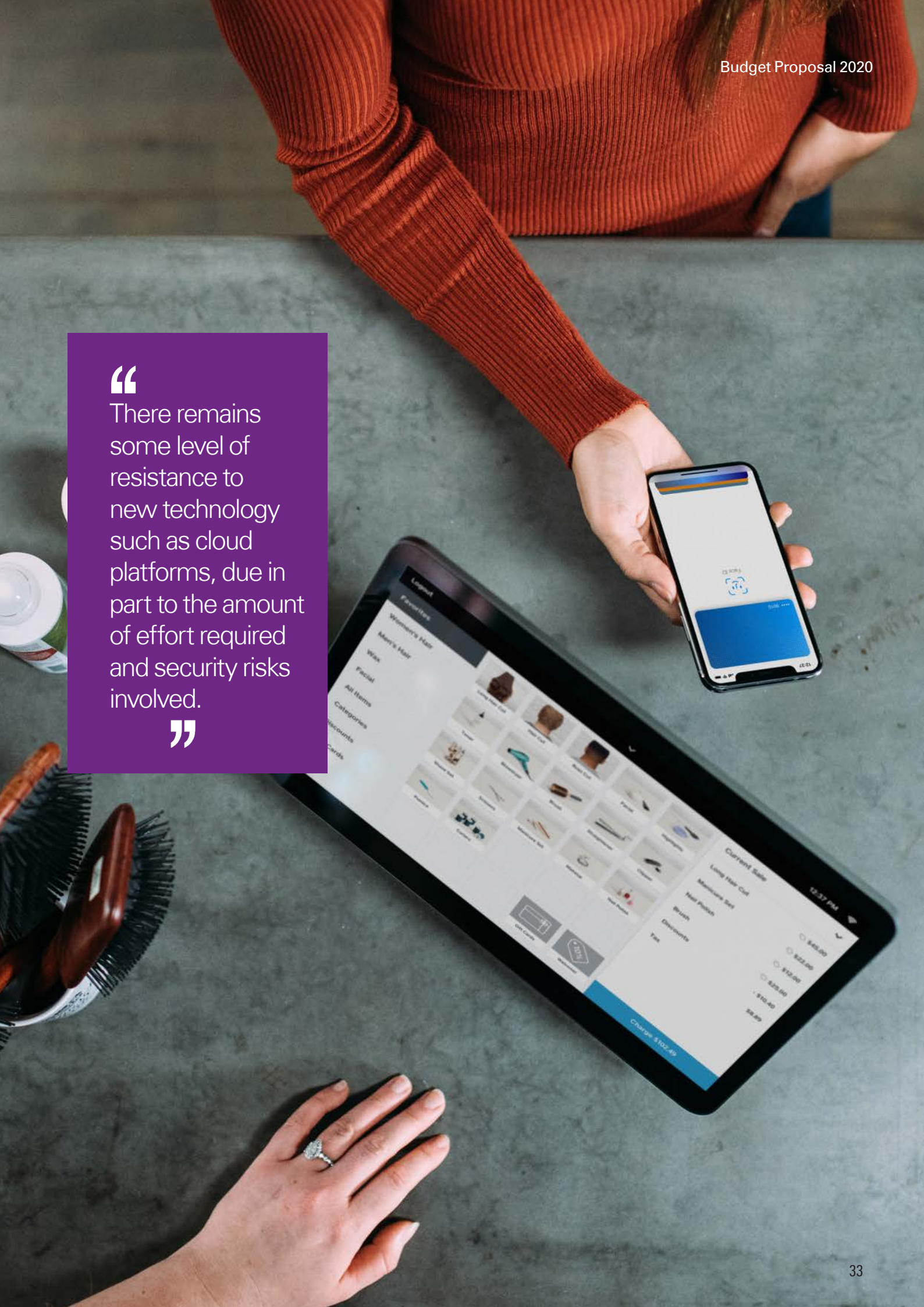
**Grants of up to 50% of qualifying costs covering deployment and implementation of technology, such as cloud**

Any qualifying expenditure for cloud migration (net of grants) should also be eligible for a 200% tax deduction.

b. Support cloud-related upskilling of IT professionals

**Double tax deduction for cloud-related training programmes**

To support the upskilling of IT professionals in Singapore enterprises.



> “There remains some level of resistance to new technology such as cloud platforms, due in part to the amount of effort required and security risks involved.”

# Challenge #3:

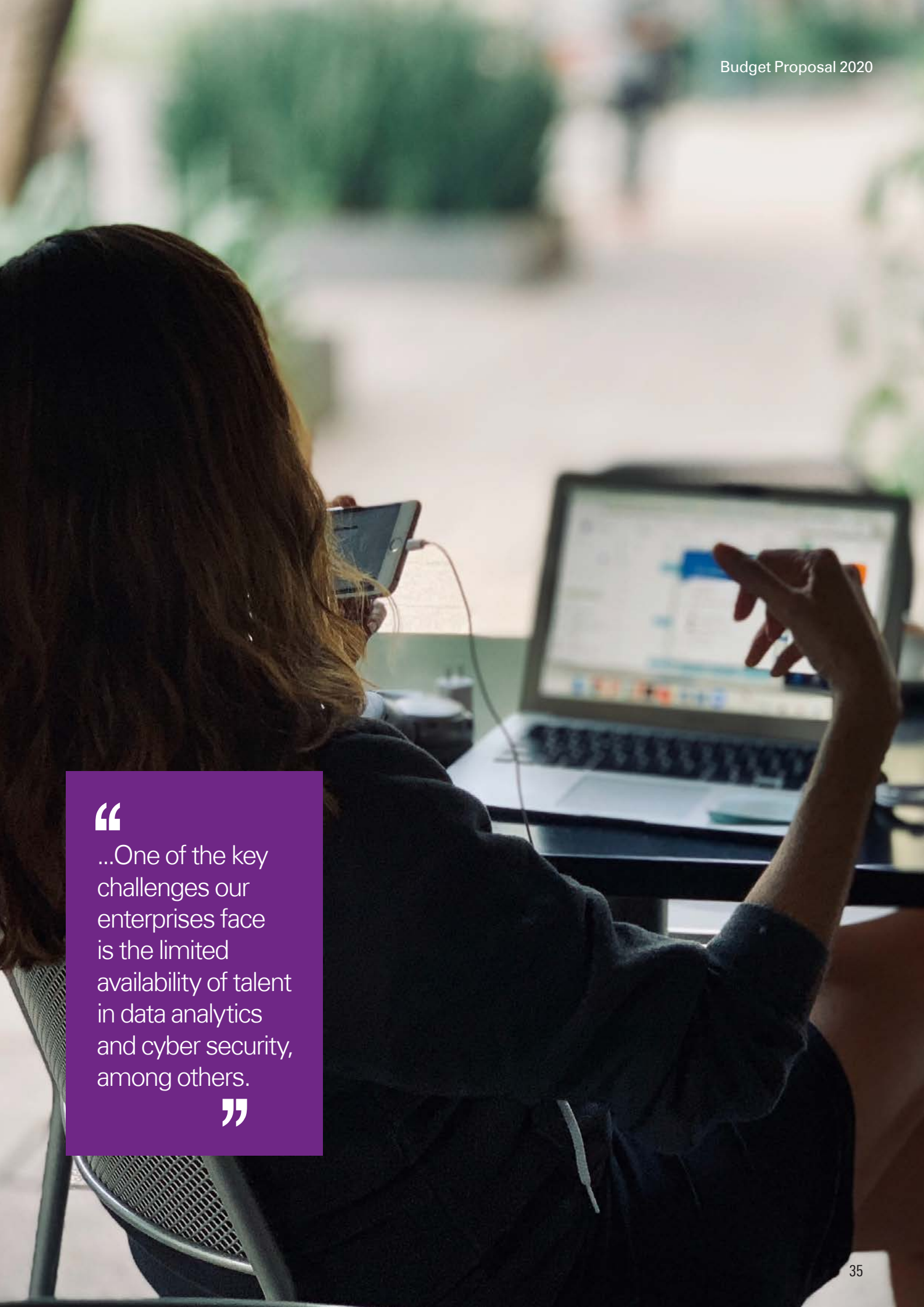
## How can we attract world-class talent with the skillsets we need?

Singapore is well-positioned to be the place where enterprises grow into the next unicorns and decacorns. However, one of the key challenges our enterprises face is the limited availability of talent in data analytics and cyber security, among others.

There is an urgent need to build the talent pipeline for grooming and recruiting individuals with these relevant skillsets to drive sustainable growth in the digital economy.

# Our Recommendations:

| | |
|---|---|
| a. Talent Search | **Offer grants ranging between 50% to 70% to support talent search and hiring costs**<br>Applicable to qualifying outlay by Singapore enterprises. |
| b. Talent Grooming | **Offer grants ranging between 50% to 70% to develop or participate in leadership programmes**<br>Applicable to qualifying outlay by Singapore enterprises. |
| c. Talent Development | **Offer double tax deduction to encourage secondment**<br>Double tax deduction to apply to secondment-related costs incurred by companies with a network in Southeast Asia, China and India which send at least 10 per cent of their employees aged between 25 to 35 overseas for work-related opportunities within a 5-year period. |
| d. Workforce Upskilling | **As elaborated under the '3+5' scheme** |



> “...One of the key challenges our enterprises face is the limited availability of talent in data analytics and cyber security, among others.”

# V. Other General Tax Recommendations

**This section covers other general tax recommendations to enhance Singapore's tax regime and improve business relevance.**

| Tax Issue | The Situation | Our Recommendations |
|---|---|---|
| 1. Group relief scheme | To qualify for the group relief scheme, two Singapore companies are required to be members of a group (i.e. at least 75% of ordinary share capital in one company is beneficially held by the other; or at least 75% of ordinary share capital in each of the two Singapore companies is beneficially held directly or indirectly by a third Singapore-incorporated company). | Consider enhancing the scheme such that group relief is available to Singapore companies held by a non-Singapore incorporated company (subject to satisfying all other conditions). |
| 2. Brought forward loss items | Currently, brought forward loss items (e.g. unabsorbed capital allowances and unabsorbed tax losses) can only be used by the company that incurred the loss and not by other companies within the same group. | Consider allowing group relief for brought forward losses (i.e. allow companies to use the brought forward losses against profits of other companies within a group).<br>*We understand this is the case in New Zealand and the UK from 1 April 2017, subject to conditions. |
| 3. Investment allowance | Under the current rules, investment allowance is only available for companies. | With the introduction of limited liability partnerships in Singapore, the tax legislation should be updated to extend investment allowances to limited liability partnerships. |
| 4. 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. | Enabling a tax relief for health insurance premiums will not only encourage more taxpayers to take up health insurance policies for themselves and their families, but also offer them greater access to healthcare. The tax relief could be subject to a cap (e.g. $5,000) which could be scaled according to age.<br><br>A tax relief for medical costs incurred by those over 50 years old for health screenings every other year should be considered, to encourage preventive healthcare. A cap of $500 per year could be set. |
| 5. Double tax treaties (DTA) | Singapore does not have DTAs with a number of countries that Singapore companies have trade relations with.<br><br>DTAs are important for promoting international trade and investment by providing certainty of tax treatment of cross-border transactions to eliminate double taxation, thereby reducing business costs. | Consider entering into DTAs with the following countries: Algeria, Angola, Chile, Jordan, Mozambique, Peru, Tanzania, Timor Leste and the US. |

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