Singapore Budget 2018 Highlights for SMEs

Finance Minister Heng Swee Keat announced a string of policies to help SMEs expand, innovate and remain competitive. He also introduced several prudent measures to ensure Singapore's continued growth.

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Published by Singtel myBusiness on 12 Mar 2018

Singapore has a skilled workforce, sufficient reserves, and the ability to ride on and contribute to Asia's growth. Mr Heng Swee Keat, the Finance Minister, gives credit to the forward-looking mentality of his predecessors and older Singaporeans.

This mentality formed the backbone of his Budget 2018 speech. The speech was targeted at preparing Singaporeans, companies and the economy for short-term challenges, as well as those they would face in the next decade.

Three shifts were highlighted:

1. The shift of global economic weight to Asia.
2. The emergence of new technologies meaning companies must harness robotics and digital technologies to survive.
3. The growing ageing population in Singapore.

"Firms will compete increasingly, not on physical assets, but on intangible assets such as intellectual property, data and user networks. First mover advantage and time to market will be key," Mr Heng said.

Here are some highlights from his speech that may impact SMEs in coming years :

Extension of Wage Credit Scheme

The Wage Credit Scheme co-funds wage increases for Singaporean employees, up to a gross monthly wage of $4,000.

For 2017, the government expects to dole out over $800 million to more than 90,000 companies. This supports the wage increases of over 600,000 employees.

Mr Heng announced that the scheme will be extended for three years. The scheme will provide 20% co-funding for 2018, 15% for 2019, and 10% for 2020. This will help companies, and SMEs in particular, to retain workers and manage business costs.

Doubled Corporate Income Tax rebate

The Corporate Income Tax (CIT) rebate for 2018 will be doubled to 40% of tax payable, with a cap of $15,000. Come 2019, the CIT rebate will return to 20% of tax payable, with a cap of $10,000. The rebate benefits all tax paying companies.

More tax deduction on IP licensing payments, registration fees and R&D expenses

Tax deduction for licensing payments for the commercial use of intellectual property (IP) was to be 100%, from YA2019 and beyond. This was increased to 200% and capped at $100,000 of licensing payments per year. These conditions would support small businesses, Mr Heng said.

In addition, Mr Heng raised the tax deduction for IP registration fees from 100% to 200%, with a cap of $100,000 in fees per year.

The tax deduction for qualifying R&D expenses incurred in Singapore was also increased from 150% to 250%. The measures will help firms to safeguard their intangible assets.

Open Innovation Platform

The government will pilot the Open Innovation Platform, where companies can list challenges and crowdsource for digital solutions, later this year. They will be matched with info-communications and technology firms and research institutes to co-develop solutions.

Integration of government agencies

In April 2018, SPRING Singapore and IE Singapore will merge and become Enterprise Singapore. The agency will support companies' capability development and expansion into international markets.

As a result, SPRING's Capability Development Grant and IE Singapore's Global Company Partnership grant will also be combined, to form the integrated Enterprise Development Grant.

The new grant will provide up to 70% of co-funding for companies, to allow them to develop a range of capabilities.

Adjustments to the Start-up and Partial Tax Exemption schemes

While the schemes lower costs for smaller firms and start-ups, they do not directly benefit capability development, Mr Heng said.

So, tax exemptions for both schemes will be restricted to the first $200,000 of chargeable income. In addition, start-ups will receive a 75% exemption from corporate tax, instead of the current 100%, for the first $100,000 of chargeable income.

Carbon tax

From 2019, a carbon tax will be imposed on facilities that produce 25,000 tonnes or more greenhouse gas emissions in a year. The tax applies to companies in all sectors, with no exemptions. The effect on household utilities will be small, with the tax making up 1% of gas and electricity bills.

The carbon tax will be $5 per tonne of greenhouse gas emissions, on the first instance. The rate will be reviewed in 2023 but the intent is increase the carbon tax to between $10 and $15 per tonne of emissions by 2030. This is an economically efficient way to reduce emissions, Mr Heng said.

An additional tax will not be levied on petrol, diesel and compressed natural gas (CNG) utilities who already have excise duties in place which encourage the decreased use of these fuels.

From 2019 funds will be set aside to improve energy efficiency amongst SMEs and power generating companies. Schemes like the Productivity Grant (Energy Efficiency) and the Energy Efficiency Fund will work to lower emissions in these sectors.

GST hike from 7 to 9%

Recurrent spending for healthcare, security and other social spending is on the rise. To support these needs, the Goods and Services Tax (GST) will be raised from 7 to 9%, between 2021 and 2025.

The government will absorb GST on publicly subsidised education and healthcare, Mr Heng said. It will also top up the GST voucher scheme, which caters to lower income households and seniors, and implement an offset package to help Singaporeans adjust. More details will be provided in due course.

Taxing imported services

From January 1 2020, GST will apply to imported services. This includes marketing and consultancy services from overseas suppliers. Consumers will also need to pay GST, when they download applications and music from firms based overseas. The move will level the playing field for companies providing imported or local services.

The Local Enterprise and Association Development (LEAD) programme

The last two years has seen $45 million invested through LEAD, funding 50 projects. More Trade Associations & Chambers (TACs) are encouraged to take advantage of the programme. The programme helps business strengthen partnerships with overseas companies positioning Singapore as a leader in technology, innovation and enterprise.

Help for Marine Shipyard and Process sector

Businesses in the Marine Shipyard and Process sectors still facing weak growth will not have to pay the Foreign Worker Levy rates for another year.

NRF-Temasek IP Commercialisation Vehicle

To support business that use Intellectual Property (IP) from publicly funded research the National Research Foundation (NRF) and Temasek will launch the NRF-Temasek IP Commercialisation Vehicle. The joint venture will receive $50 million from the Government and at least $50 million from Temasek, meaning $100 million will be available to startups working with science and technology created from publicly funded research.

Increase in the Double Tax Deduction for Internationalisation (DTDi)

The Double Tax Deduction for Internationalisation (DTDi) provides 200% tax deductions for expenses incurred during overseas business development trips, study trips, trade fairs or local trade fairs approved by IE Singapore or STB. Expenses that can qualify for DTDi without prior approval will be raised from $100,000 to $150,000.

One-off SG Bonus

An overall budget surplus of $9.6 billion, or 2.1% of Singapore's GDP, is expected for the financial year of 2017. This is partly due to increased stamp duty collections, from the recent property market pick-up.

Besides saving for future spending, the government will share $700 million of this surplus with Singaporeans, Mr Heng announced.

All Singaporeans aged 21 and above will receive an SG Bonus of $300, $200 or $100 this year, depending on their income. "It reflects the government's longstanding commitment to sharing the fruits of Singapore's development with Singaporeans," Mr Heng concluded.

Summary:

- An extension of the Wage Credit Scheme will increase wages up to a gross monthly wage of $4,000.
- The Corporate Income Tax (CIT) rebate for 2018 will be doubled to 40% of tax payable.
- There will be tax deductions on IP licensing payments, registration fees and R&D expenses.
- The government will pilot the Open Innovation Platform, where companies can list challenges and crowdsource for digital solutions.
- SPRING Singapore and IE Singapore will merge and become Enterprise Singapore.
- Adjustments to the Start-up and Partial Tax Exemption schemes will increase capability development.
- The goods and services tax (GST) will be raised from 7 to 9%, between 2021 and 2025.
- From January 1 2020, GST will apply to imported services, including marketing and consultancy services. Consumers will need to pay GST, when they download applications and music from firms based overseas.
- More Trade Associations & Chambers (TACs) are encouraged to take advantage of the Local Enterprise and Association Development (LEAD) programme.
- Businesses in the Marine Shipyard and Process sectors will not have to pay the Foreign Worker Levy.
- The NRF-Temasek IP Commercialisation Vehicle will support startups working with science and technology created from publicly funded research.
- Expenses that can qualify for the Double Tax Deduction for Internationalisation (DTDi) without prior approval will be raised from $100,000 to $150,000.
- All Singaporeans aged 21 and above will receive an SG Bonus of $300, $200 or $100 this year, depending on their income.