



Budget 2018 Seminar

2 March 2018 (Friday)



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Singapore Chinese Chamber of Commerce & Industry





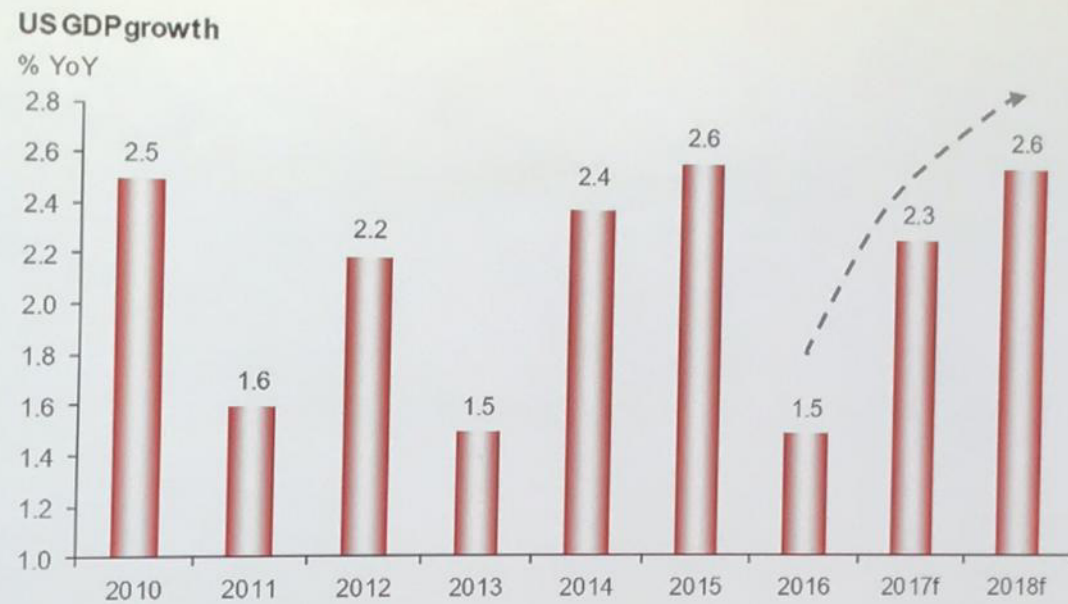
Economic outlook on Singapore
Better times

Irvin Seah
Executive Director
DBS Group Research
Feb 2018

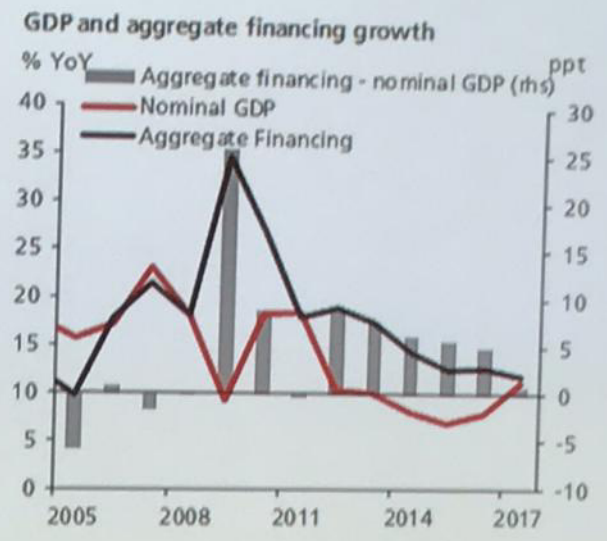
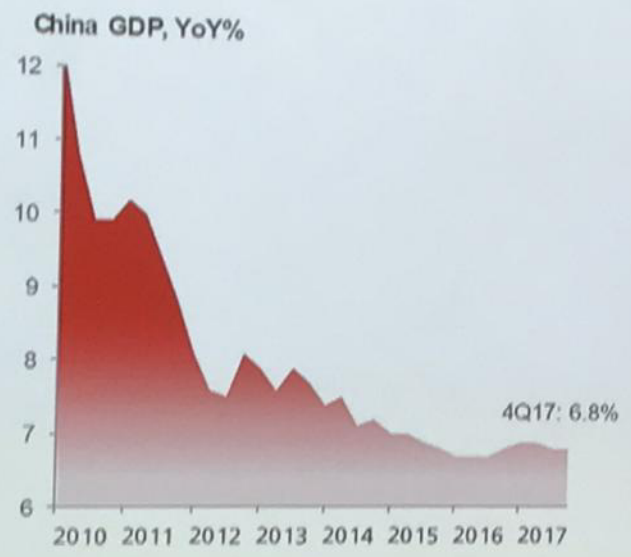
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US: Recovery gaining strength



China: Towards sustainable growth



Technical payback after a strong surge

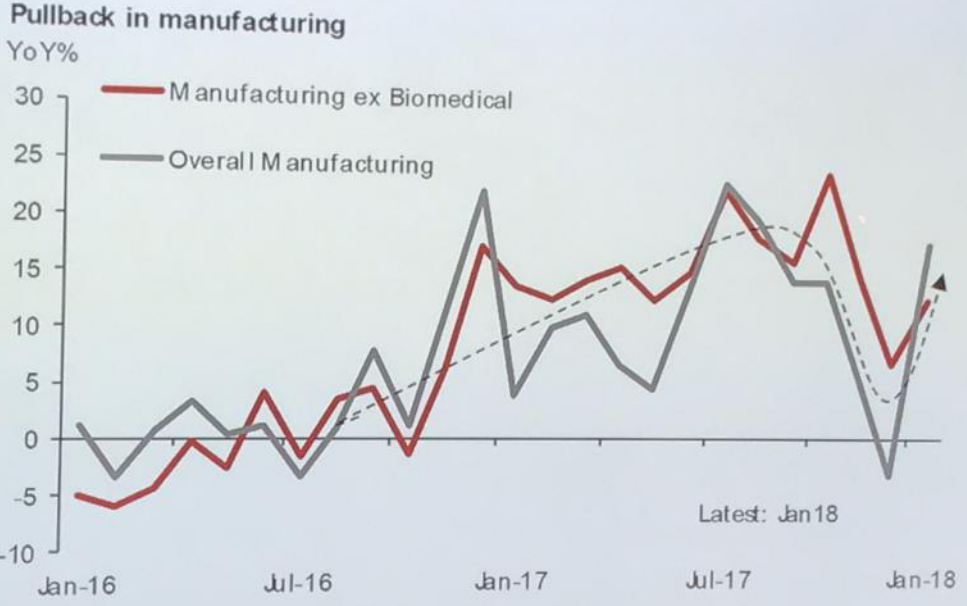
- GDP growth registered 3.6% in 2017

Chart 1: Technical pullback in 4Q17

% YoY, % QoQ saar

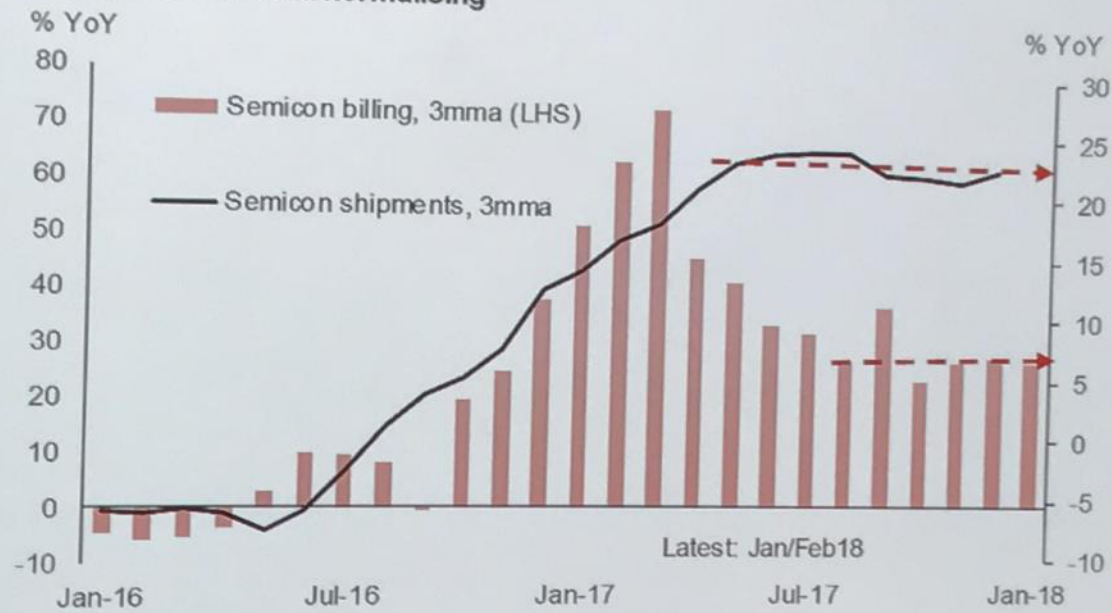


Blip in manufacturing



Normalisation of the electronics cycle

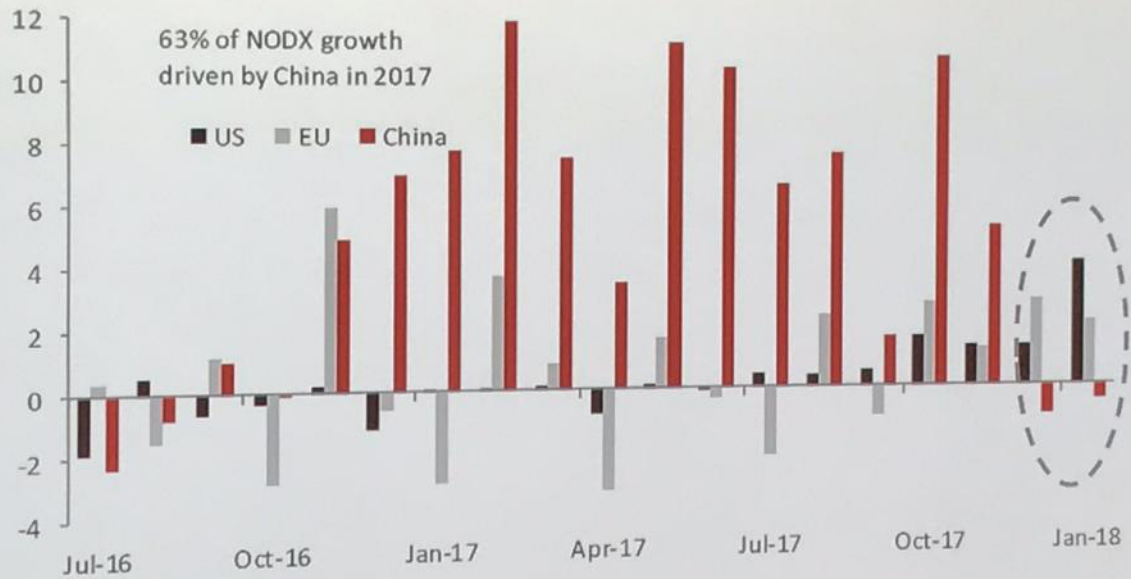
Electronics demand normalising



Watch China ...

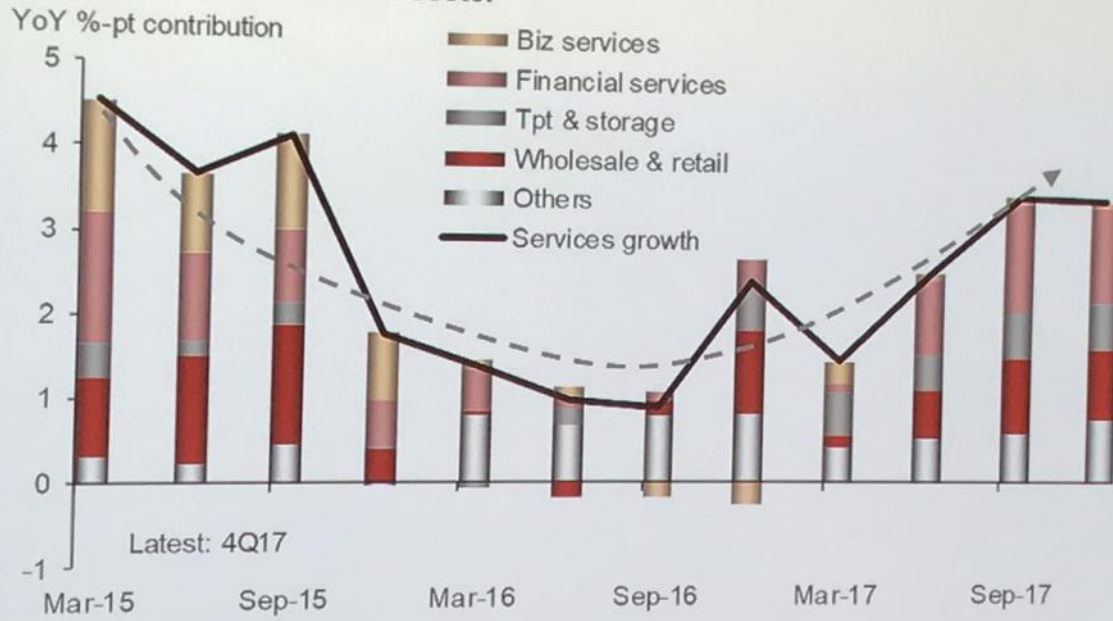
China is the key driver and key risk

%-pt contribution



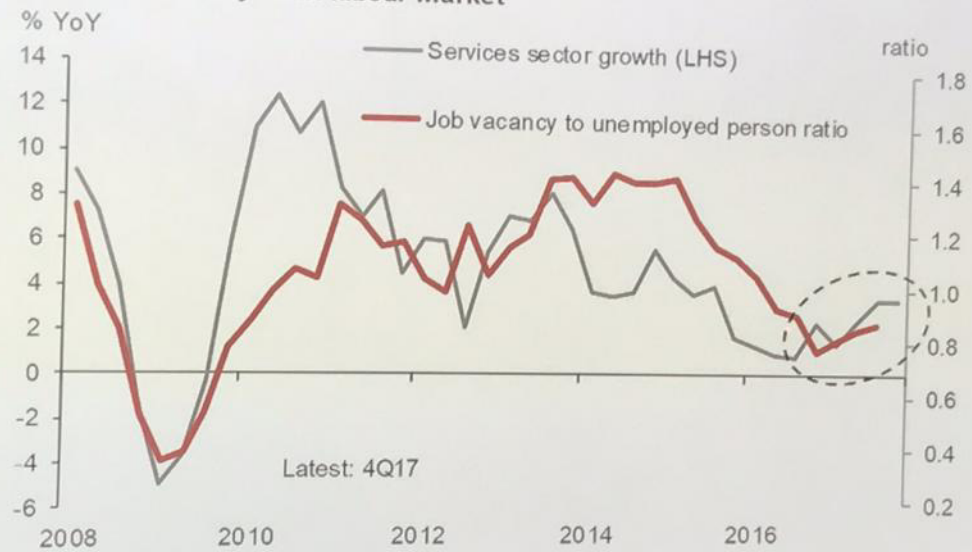
Services to pick up the slack

Turnaround in the services sector



Labour market has bottomed

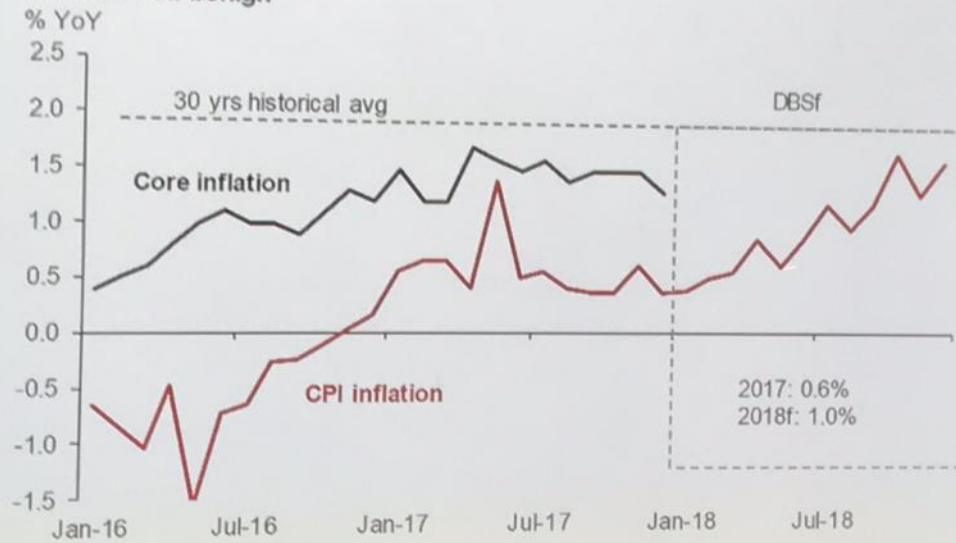
Services recovery to lift labour market



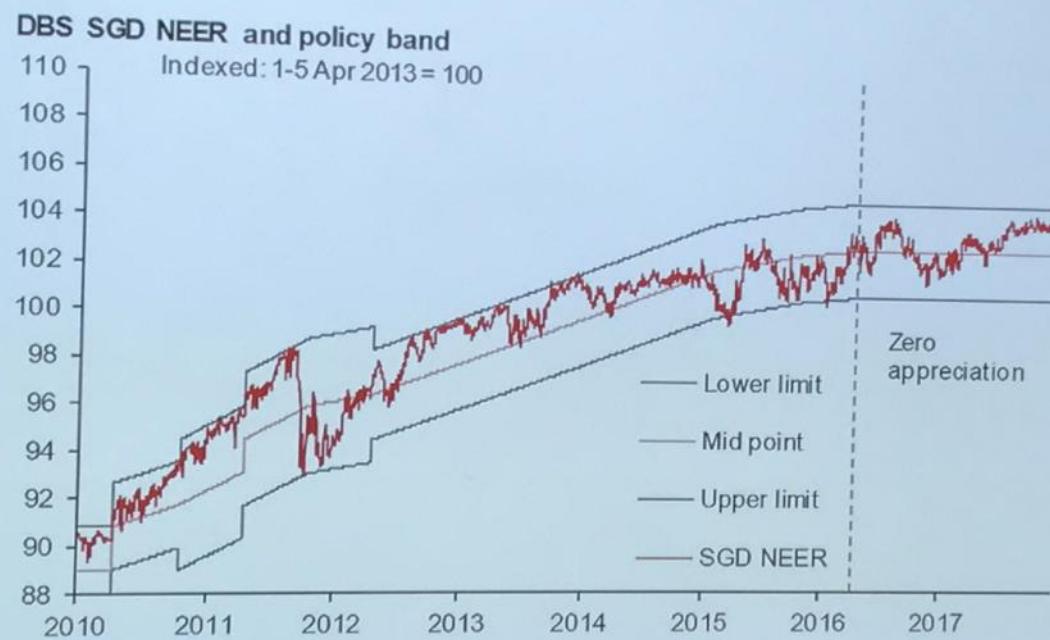
Inflation still low

- Inflation to register 1.0 in 2018, up from 0.6% in 2017

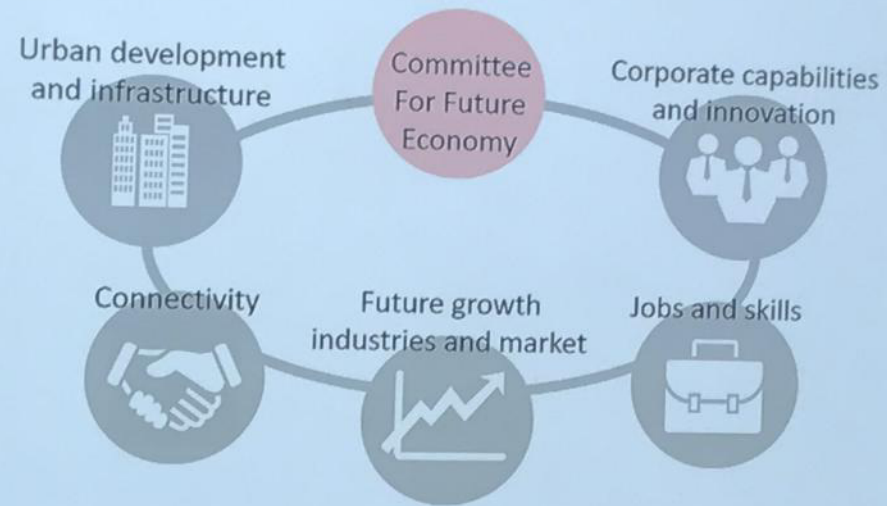
Inflation still benign



MAS in normalisation mode



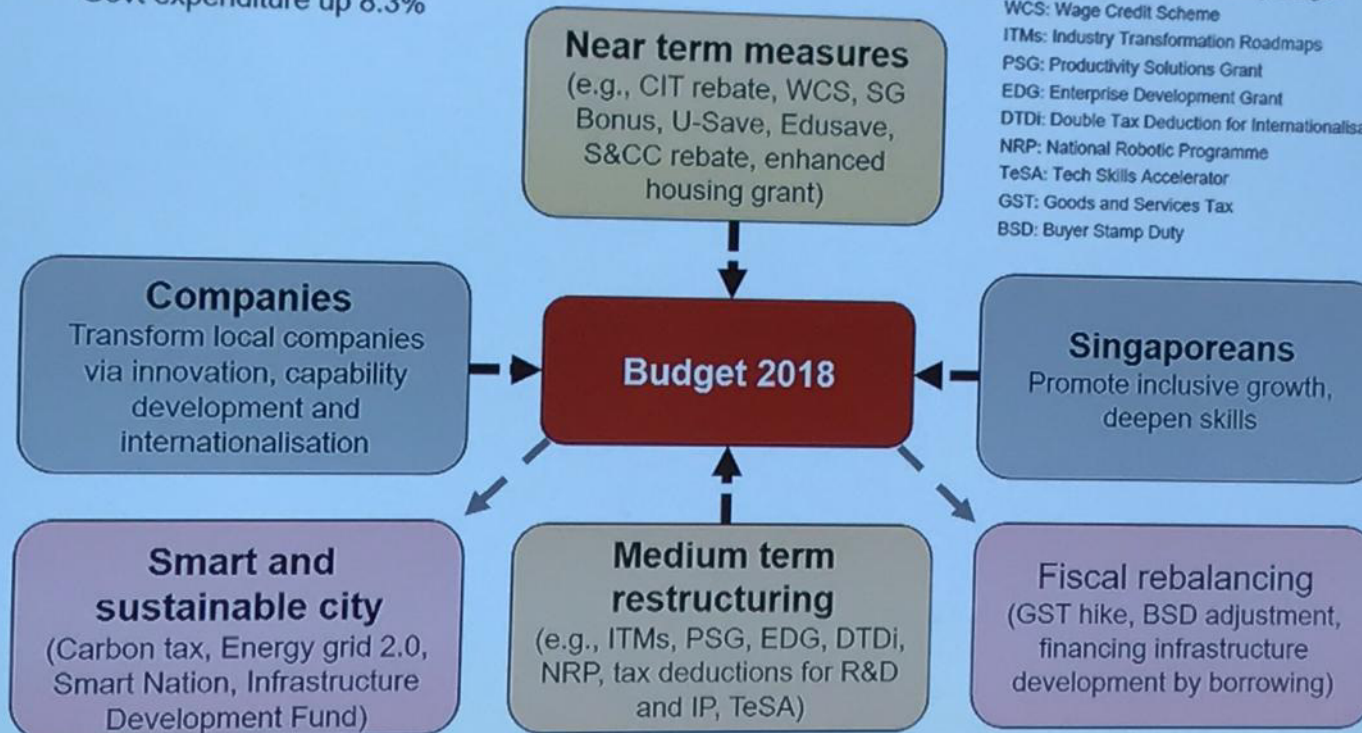
Committee for Future Economy



Budget 2018

- Overall budget deficit: SGD 0.6bn
- Primary deficit: SGD 7.34bn
- Govt expenditure up 8.3%

CIT: Corporate Income Tax
 S&CC: Services and Conservancy Charges
 WCS: Wage Credit Scheme
 ITMs: Industry Transformation Roadmaps
 PSG: Productivity Solutions Grant
 EDG: Enterprise Development Grant
 DTDi: Double Tax Deduction for Internationalisation
 NRP: National Robotic Programme
 TeSA: Tech Skills Accelerator
 GST: Goods and Services Tax
 BSD: Buyer Stamp Duty



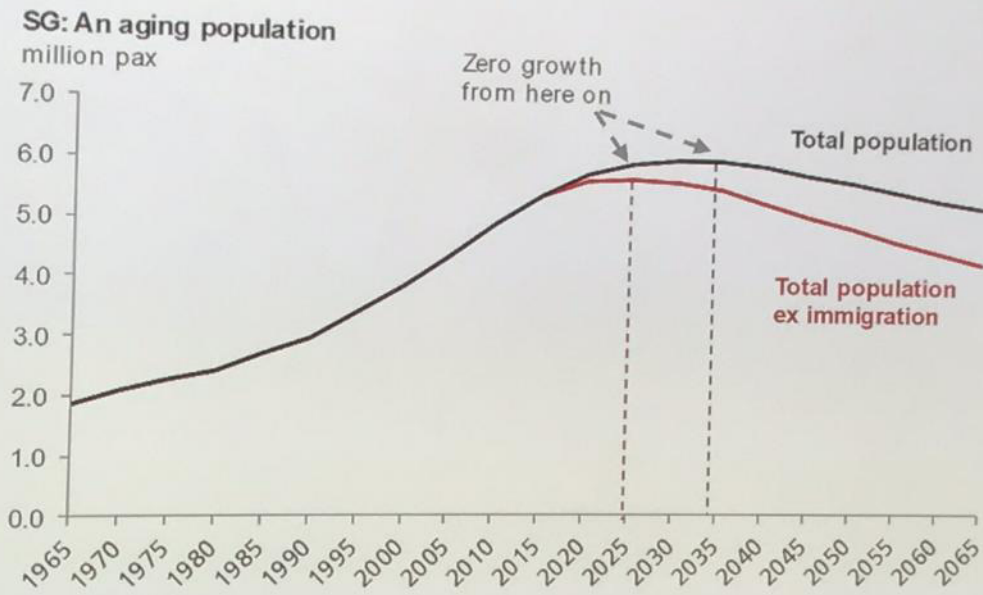
The GST hike

- The GST rate will be raised by 2%-pts to 9% between 2021-2025. It was last adjusted in 2007, from 5% to 7%.

GST, VAT rates for some regional countries		Govt Operating Revenue, FY2016		
			SGD mn	% share
UK	20%	Total operating revenue	67,969.40	100.0
France	20%	Tax	57,803.60	85.0
Germany	19%	Tax: Income: Corporate	13,396.70	19.7
China	17%	Tax: Income: Personal	10,190.60	15.0
New Zealand	15%	Tax: Income: Withholding	1,456.10	2.1
Philippines	12%	Tax: Contributions By Statutory Boards	779.60	1.1
Korea	10%	Tax: Assets Taxes	4,380.70	6.4
Indonesia	10%	Tax: Customs & Excise Duties	2,843.20	4.2
Australia	10%	Tax: Goods and Services	10,841.30	16.0
Japan	8%	Tax: Motor Vehicles	2,111.70	3.1
Singapore	7%	Tax: Betting Taxes	2,693.00	4.0
Thailand	7%	Tax: Stamp Duty	3,091.80	4.5
Malaysia	6%	Tax: Others	6,018.90	8.9
		Fees & Charges	9,439.00	13.9
		Fees & Charges: Vehicle Quota Premiums	6,271.90	9.2
		Fees & Charges: Others	3,166.70	4.7
		Other Receipts	727.00	1.1

- Every one percentage point hike in the GST will add about SGD 1.6-1.8bn to the fiscal position, about 0.7% of GDP.

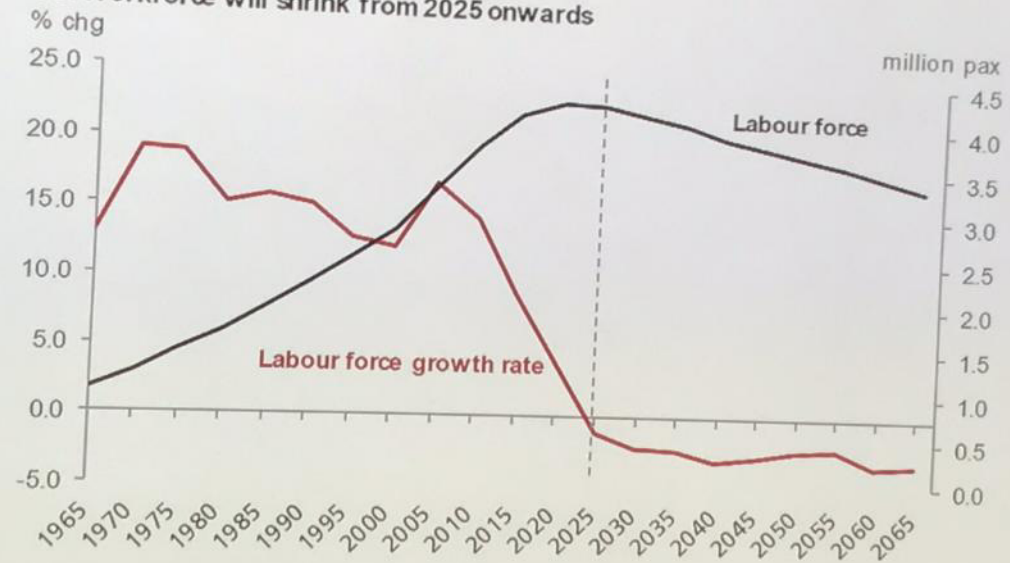
A rapidly aging population



Sources: UN, DBS

A shrinking workforce ...

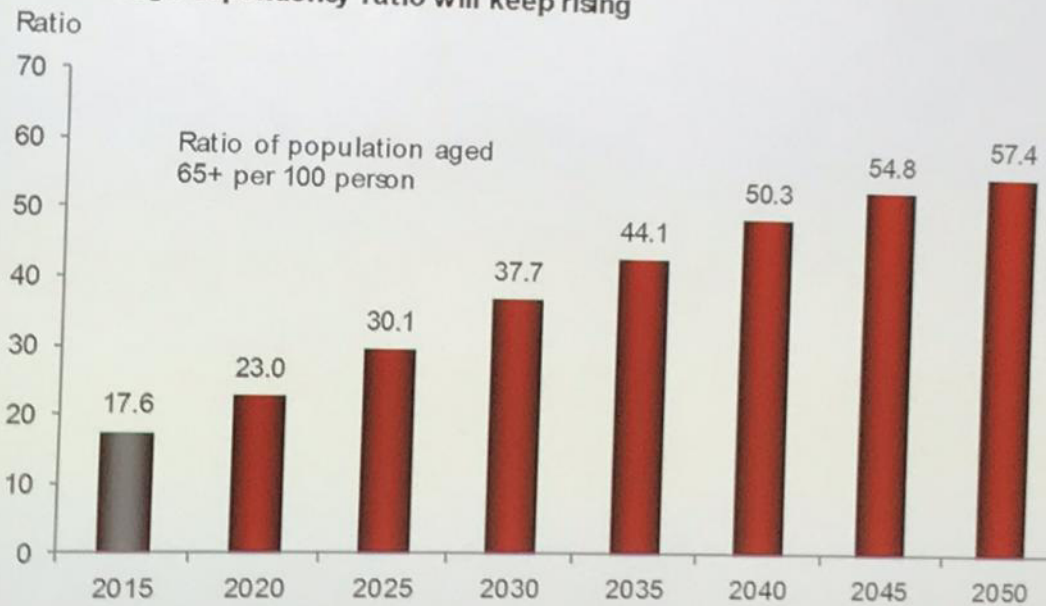
SG: Workforce will shrink from 2025 onwards



Sources: UN, DBS

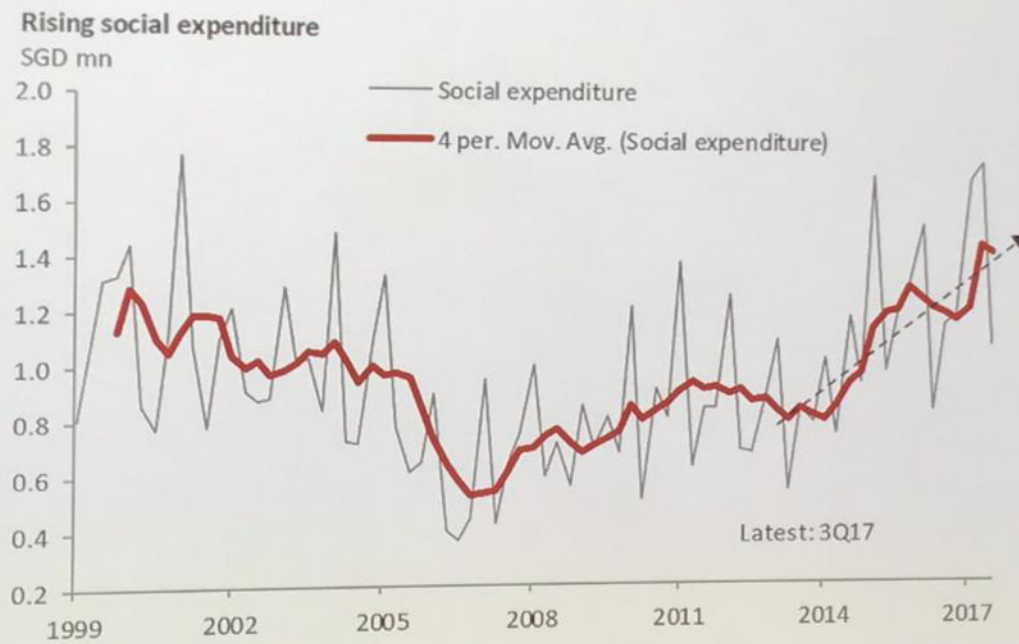
Rising financial burden

SG: Old age dependency ratio will keep rising



Sources: UN, DBS

Rising social expenditure

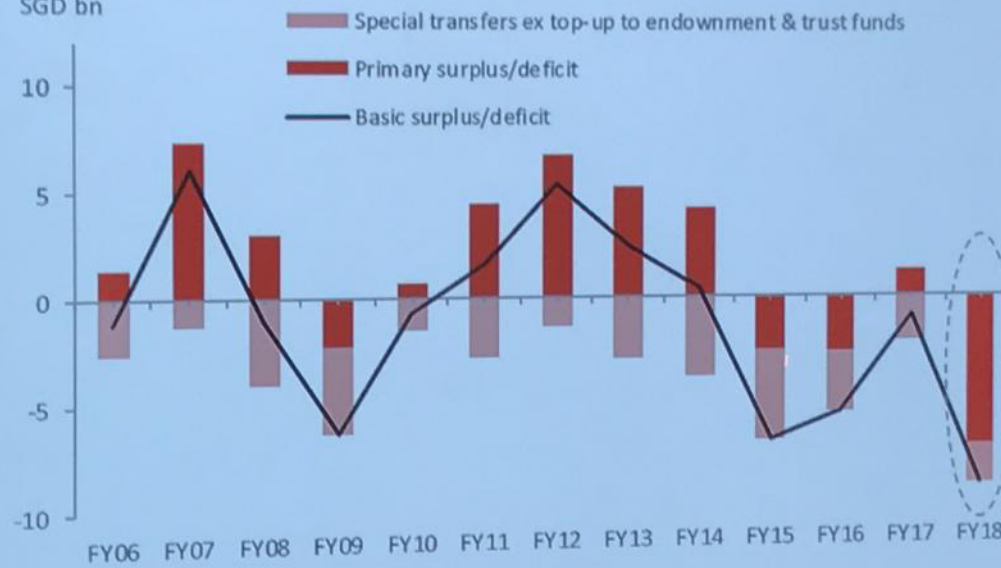


Sources: Department of Statistics, Singapore

Fiscal sustainability is key!

Primary and basic deficits deepening

SGD bn



Sources: DBS Research

Primary deficit deepened further in YA18

Singapore's overall fiscal position

	Revised	Estimated	Chg over
	FY2017	FY2018	FY 2017
	SGD bn	SGD bn	% change
Operating revenue	75.15	72.68	-3.3
Less:			
Total expenditure	73.92	80.02	8.3
Operating expenditure	56.10	57.67	2.8
Developmental expenditure	17.82	22.35	25.4
Primary surplus/deficit	1.24	-7.34	
Primary balance as % of GDP	0.29	-1.66	
Less:			
Special transfers	6.23	9.11	46.2
Add:			
NIRC	14.61	15.85	8.5
Overall surplus/deficit	9.6	-0.6	
Overall balance as % of GDP	2.1	-0.1	

Primary Deficit:
SGD7.34bn

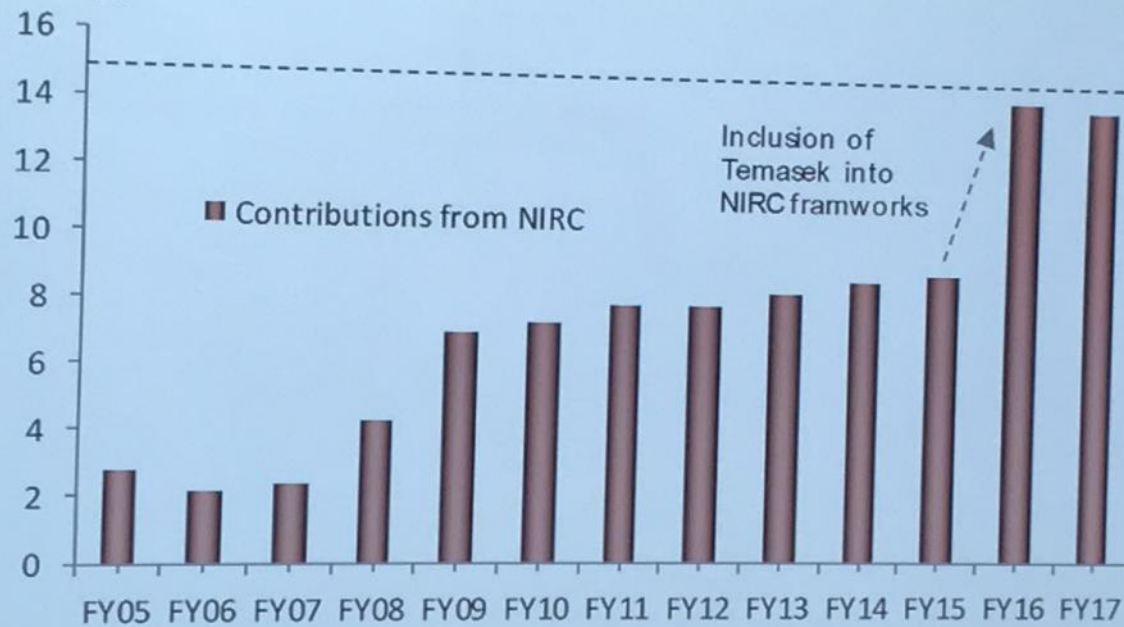
Special Transfers:
+46.2%

Overall Deficit:
SGD0.6bn

Contribution from NIRC has its limitation

SG: Limited upside to NIRC contributions

SGD bn



Sources: DBS Research

Key points

- Resources is limited, hence there is a need to keep a tight rein on spending
- Reserves is about inter-generation transfers. The more we spend today, the less we have for tomorrow
- Prudent fiscal planning is key!

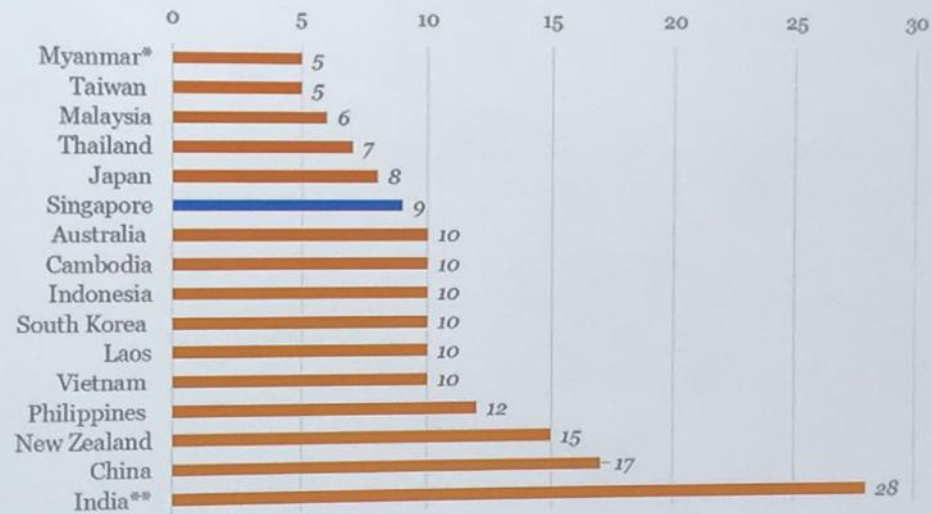
What goes beyond hiking taxes or cutting subsidies?

- Growing the pie
- Cost management
- Better return from investment of the reserves

GST rate increase

- GST to go up from 7% to 9% between 2021 to 2025
 - Fund social spending, especially recurring expenditure
 - Revenue of almost 0.7% of GDP per year
- Measures to cushion the impact on the lower income households
 - Absorb GST on publicly-subsidised education and healthcare
 - Enhance the permanent GST Voucher scheme
 - Introduce a (new) GST offset package

Snapshot - GST/VAT rates in Asia Pacific



* Refers to Myanmar's Commercial Tax

** Other rates of 5%, 12% and 18% also apply in India

Background

Rapid growth of e-commerce and digital economy

Goods and services able to be procured and performed remotely by overseas suppliers and intermediaries, without a local physical presence

Increase in volume of cross-border trade and digital transactions

Import of services has grown from S\$105 bil in 2006 to S\$224.5 bil in 2016 (DOS, 2016 and 2017)

Increased international attention on tax challenges raised by the digital economy

GST gap from the non-taxation of cross-border transactions identified in OECD/ G20 BEPS project

More and more jurisdictions have implemented or are implementing foreign vendor registration to tax B2C imported services

GST on imported services

- Following regimes will be implemented from **1 Jan 2020** to tax imported services:
 - **Reverse charge** regime for Business-to-Business (“B2B”) supplies of imported services
 - **Overseas vendor registration** regime for Business-to-Consumer (“B2C”) supplies of imported digital services
- Rules to tax low value imports of goods continue to be under study under study

GST on imported services

Budget 2018

19 February 2018

Draft e-tax guides
published

20 February 2018

Closing date for public
consultation

20 March 2018

IRAS to provide summary
of responses to feedback

31 May 2018

Scope of imported services

Digital services



Services delivered over the internet or an electronic network, such as:

- Downloadable digital content (e.g. apps, movies, games, music)
- Subscription-based media (e.g. news, music, movies, streaming of TV, online gaming)
- Software programmes (e.g. download of software or drivers)
- Electronic data management (e.g. cloud services)
- Support services, performed via electronic means, to arrange or facilitate a transaction, which may not be digital in nature (e.g. listing fees for merchants to list their items for sale on an online market)

Overseas Vendor Registration

- Overseas vendor to register for GST to account for GST on cross-border B2C supplies of digital services made to customers in Singapore
- Registration required under a simplified regime if overseas vendor :
 - a. has an annual global turnover exceeding \$1 million; and
 - b. makes B2C supplies of digital services to customers in Singapore exceeding \$100,000
- Local or overseas operator of an electronic marketplace may be regarded as the supplier of the digital services made by the overseas suppliers through its marketplace

Committee on Future Economy (CFE)



Image from <https://www.pap.org.sg/seven-strategies-to-take-singapore-boldly-forward>



How is CFE related to the Budget 2018?

What does the change in Corporate Tax Rebate & Tax Exemption mean?

Partial Tax Exemption

75% on the first \$10,000, and
50% on the next \$190,000
from YA 2020 onwards

Start-Up Tax Exemption

75% on the first \$100,000,
and 50% on the next
\$100,000 from YA 2020
onwards

Enhanced and extend CIT rebate

40% of tax payable, capped at
\$15,000 for YA 2018
20% of tax payable, capped at
\$10,000 for YA 2019



Illustrating a case of \$1 million Chargeable Income, and the assumption that Corporate Tax Rate and Corporate Tax Rebate remains unchanged in YA 2020.

Key insights to Budget highlights

Theme: A Vibrant & Innovative Economy

Life after PIC....

Enhanced tax deductions for the use and development of innovation

- From YA 2019 to YA 2025.
- IP licensing payments to unrelated parties: increase to 200%, capped at \$100,000. **Third parties only.**
- IP registration fees: increase to 200%, capped at \$100,000.
- Qualifying expenses incurred on local R&D activities increase to 250%. **Activities undertaken in Singapore only.**



Key insights to Budget highlights

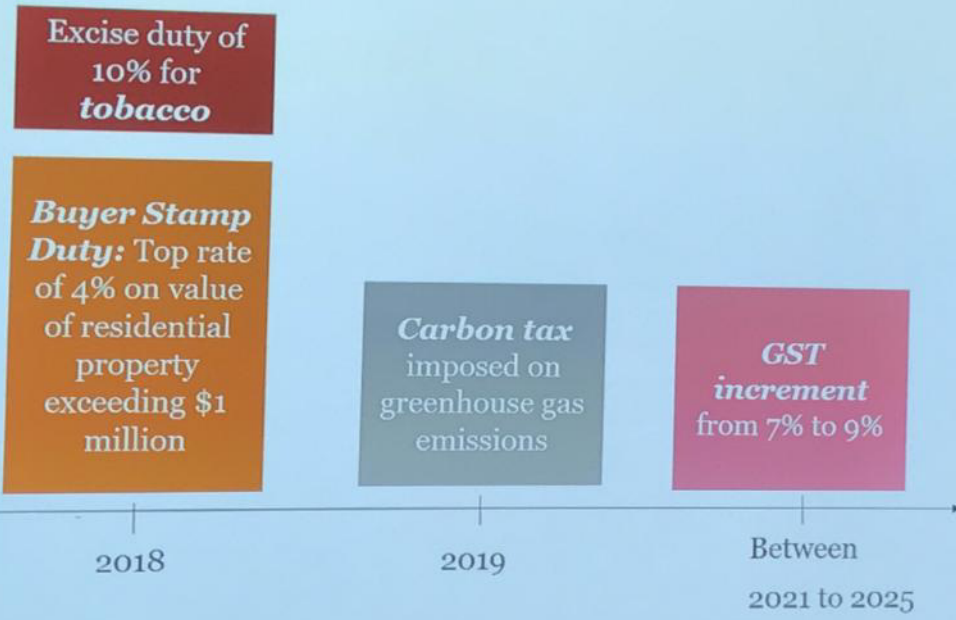
Theme: A Vibrant & Innovative Economy



Double Tax Deduction for Internationalisation (DTDi)

From YA 2019, expenses that can qualify for DTDi without prior approval will increase from \$100,000 to **\$150,000** per YA.

Other Types of Taxes from Budget 2018



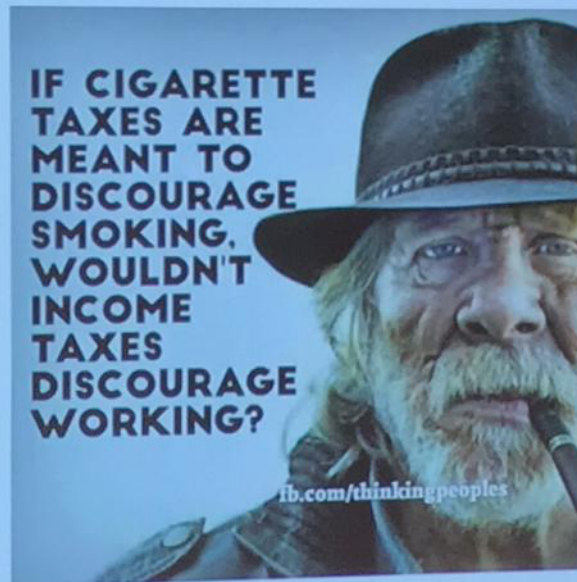
Key insights to Budget highlights ***Theme: A Smart, Green and Liveable City***



Carbon Tax

- \$5 per tonne of greenhouse gas emission for large emitters producing 25,000 tonnes or more per year from 2019 to 2023
- U-save rebates for households

Smoke for Thoughts



Tobacco excise duty

- 10% increase in tobacco excise duty effective from 19 Feb 2018
- Translated to 42.7 cents/gram of tobacco use or \$427,000 per tonne

Key insights to Budget highlights ***Theme: A Caring & Cohesive Society***



Donations made to Institutions of a Public Character (IPCs)

- Extend 250% tax deduction for donations made to institutions of IPCs until 2021.

Business and IPC Partnership Scheme (BIPS)

- 250% tax deduction on qualifying cost incurred for businesses that support staff to volunteer and provide services to IPCs.

Panel Discussion and Q&A
with



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