ST. JAMES'S PLACE
WEALTH MANAGEMENT

SINGAPORE BUDGET 2019 BRIEF

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Introduction

Treasurer Heng Swee Keat delivered the 2019 Singapore Budget on the afternoon of 18 February 2019. This Budget is the fourth Budget Mr. Heng has presided over and his first as the anointed leader of the Fourth Generation of Government leaders. This Budget also marked the mid-term of the current Government, and many have suggested that this is an "election Budget," especially with the fanfare associated with the Merdeka Generation Package.

In summary, the Budget speech and measures announced are aimed at making Singapore safe and secure, with a vibrant and innovative economy regarded as world-class and supported by a caring and inclusive society.

This Budget Brief will focus on the key measures announced that impact on individuals and small and medium -sized enterprises.

BUDGET MEASURES AFFECTING INDIVIDUALS

Removal of the Not Ordinary Resident Scheme

The 2019 Budget measures announced are limited with regards to middle-income and high-income earning individuals. Outside of the announcement of a one-off 50% tax rebate capped at $200, the most significant change affects professionals on Employment Passes who hold a regional role based here in Singapore.

With effect from 31 December 2019, the Not Ordinary Residence (NOR) Scheme will cease – the last individuals granted NOR status will be those who qualify in YA 2020. Individuals who already hold NOR status can apply the concessions until the end of their 5-year eligibility period by meeting the annual requirements.

The NOR Scheme allowed eligible individuals to pro-rata their salaries for the days spent outside of Singapore for work purposes. The view of the Government is that the NOR is an outdated incentive to entice global enterprise to set up headquarters in Singapore. Attributes such as safety, stability, ease of doing business and geographical location are all seen as sufficient business reasons.

Goods and Services Tax

During his speech, Mr. Heng noted that the GST was a fair and progressive tax that "contributes significantly to [the] fiscal resources" of Singapore.

In Budget 2018, Mr. Heng announced that the GST rate would rise to 9% at some point between 2021 and 2025. While this Budget did not provide any clarity on the introduction date, Mr. Heng did announce two changes to the GST regime which impacts travellers.

With immediate effect, travellers spending less than 48 hours outside of Singapore can claim GST relief for goods purchased overseas of their aggregate value is no more than $100 (previously $150). For travellers away for more than 48 hours, the threshold drops from $600 to $500.

The duty-free concession on alcohol for travellers will also fall from 3 litres to 2 litres per person from 1 April 2019, with a maximum of 1 litre of spirits.

In line with the introduction of GST on the digital economy announced last year, these two changes encourage Singaporeans to spend onshore.

Restructure of Diesel Excise

The owners of diesel-powered vehicles will see the diesel fuel levy doubled to $0.20 per litre with immediate effect. In announcing this measure, Mr. Heng noted the need to "discourage diesel consumption" in Singapore due to the health of the community from the exhaust fumes of a diesel vehicle.

The increase in the diesel fuel excise was a key measure of the Budget which focuses on environmental sustainability and the need to reduce consumption, reuse and recycle.

Merdeka Generation Package (MGP)

The Government sees the MGP as a "gesture of gratitude" for what the members of this Generation have contributed to the development of the country of Singapore. The benefits announced in the Budget are not means tested and include:

i) $100 top-up to PAssion Silver accounts;
ii) $1,000 top-up to Medisave accounts equally over the next five years;
iii) Lifetime additional subsidies for outpatient care;
iv) Lifetime additional subsidies of 5% - 10% for MediShield Life premiums; and
v) $1,500 incentive for participants in CareShield Life.

While some may see this as a measure related to the next election and Budget surplus of previous years, it is important to note that the MGP is focused primarily on subsidising healthcare costs – thus recognising that Singapore has an aging population which will need financial support going forward.

BUDGET MEASURES AFFECTING ENTERPRISES

The theme of the 2019 Budget is a focus on developing the capabilities of enterprise, workers, and partnerships within Singapore and across the world. The Government objective is to reskill and upskill the workforce and encourage enterprise to increase productivity through the adoption of new technology. These two factors together should result in Singapore remaining a global city, ready to face the changes arising from the fourth industrial revolution.

Supporting innovation at an enterprise level

Following the feedback of enterprise, the 2019 Budget announcements provide enterprises with solutions which are simplified and tailored to their needs. The measures in the Budget include an extension of Schemes previously announced, to the introduction of customised solutions such as the Innovation Agents Programme.

- **Innovation Agents Programme** – This two-year pilot programme managed by Enterprise Singapore will connect enterprises with individuals with deep expertise in technology, global business, and experience in growing companies.

- **Scale-Up SG Programme** – Managed by Enterprise Singapore, this will be a private and public sector partnership whereby local firms who are high-growth will be given assistance to grow, innovate, and globalise.

- **SME Co-Investment Fund III** - $100M will be set aside to establish the third co-investment fund which aims to provide patient capital to support Singapore based enterprises to scale up and internationalise their business.

- **Enterprise Financing Scheme** – Eight existing SME financing schemes will fold into this Scheme which will be launched in October 2019 – making it easier for an enterprise to access. The Scheme will provide for financing needs across six areas including working capital, trade, mergers and acquisitions, and asset acquisition.

- **Automation Support Package** – The Budget announced the extension of this Package for two years until 31 March 2021. This concession comprises of a grant of up to $1M, an allowance of 100% of net costs for income tax and a loan under the Local Enterprise Finance Scheme.

Reduction in the Dependency Ratio Ceiling (DRC) in the Service Sector

The DRC was introduced to legally cap the proportion of the employees that an employer could fill with foreign workers on Work Permits or S-Passes.

In line with the themes noted above, the 2019 Budget has announced a reduction of the DRC for Work Permits and S-Passes over the next two years for the services sector to encourage the upskilling of the local workforce and adoption of technology which increases productivity. The services sector incorporates business services, insurance, retail and wholesale trade, hotels, communication services, and the food and beverage industry.

For Work Permits, the current 40% down to 38% from 1 January 2020 before stopping at 35% from 1 January 2021 while the DCR for S-Passes will fall from 15% to 13% before capping at 10% over the same timeframe.

Expansion of grants for enterprises

Given the changes announced to the DRC, the Budget has announced an extension to 31 March 2023 for both the Enterprise Development Grant (EDG) and the Productivity Solutions Grant (PSG) to offset the impact of the DRC reduction.

Under the EDG, eligible local enterprises can obtain funding from the Government for up to 70% of costs associated with projects to increase capabilities, improve operational efficiencies and to internationalise.

The PSG provides a grant of up to 70% of the costs associated with the implementation by enterprises of off-the-shelf productivity solutions and technologies. Further, the Budget has announced that enterprises can obtain a subsidy for up to 70% of the costs (Capped at $10,000 per enterprise) associated with upgrading the skills of employees.

Global Ready Talent Programme

With a focus on the need for enterprises to have employees that have global experience and knowledge, this programme provides local firms financial support to assist them to send employees on overseas job postings in critical markets to deepen their in-market expertise and to give the employee with international exposure. Employees who given this opportunity will return and assist local enterprises with their globalisation plans, having obtained on the ground first-hand experience.

Concurrently, the Government has also announced a program to support students at a tertiary education level to obtain an internship with local and foreign companies. The programme will pay a monthly stipend to the students to help their living costs while undertaking the internship. This measure is another example of the Government's focus on globalisation and is a step to fostering a generation of business leaders who are globally minded.

ABOUT THE AUTHOR

Boon Tan is a Chartered Accountant and has been working in the international tax advisory sector for over ten years. Born in Australia with Singaporean roots, Boon relocated to Singapore at the end of 2015.

He regularly draws on his in-depth understanding of the local Singaporean tax system and a network of in-country specialists in global hot-spots around the world including USA, UK, Asia, and Australia to provide bespoke tax advice to his clients.

ABOUT CST TAX ADVISORS

Since 2004, CST Tax Advisors have been providing international tax advisory and compliance services to organisations entering or operating in Singapore, global founders, expats and global families. Guided by our core values of empathy, accountability, and passion, we take great pride in going above and beyond for our clients.

We ensure that our clients are compliant with their tax obligations by providing "complete lifecycle" accounting, tax advice and tax return preparation. This includes managing and coordinating their tax affairs in Singapore, their country of origin and any other countries in which they may hold assets.

ABOUT ST. JAMES'S PLACE WEALTH MANAGEMENT

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We aim to be the most professional and trusted wealth management adviser. In the increasingly complex financial environment we believe high quality, face-to-face advice is important for everyone. Delivered by our Partners, our advice covers financial, investment and tax planning individually tailored to a client's lifestyle goals and stage of life.

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