Sustaining Singapore's economic competitiveness; enhancing support to businesses and individuals; keeping in step with international tax developments

Note by Second Minister for Finance, Indranee Rajah SC, on the Income Tax (Amendment) Bill and the Multinational Enterprise (Minimum Tax) Bill

On 15 October 2024, Parliament passed the Income Tax (Amendment) Bill and the Multinational Enterprise (Minimum Tax) Bill.

The Bills implement the changes to our tax regime announced in Budget 2024, as well as those arising from policy reviews. These changes will help to:

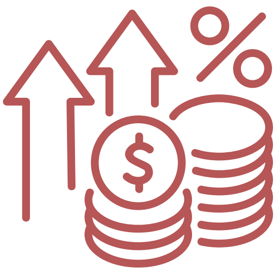
- Anchor and encourage high-quality investments in Singapore, to grow our economy and create good jobs for Singaporeans;
- Ensure that our tax system remains relevant and fair to businesses and individuals; and
- Align Singapore's tax regime with international tax developments arising from the Base Erosion and Profit Shifting ("BEPS") 2.0 initiative.

My Second Reading speech can be found here (link). This Note summarises the three key changes.

(I) Refundable Investment Credit ("RIC")

1. Current status

- The global economic landscape is increasingly competitive. Governments around the world are rolling out generous initiatives to attract investments, especially in strategic sectors such as semiconductors and advanced manufacturing.
- Singapore must continue to remain an attractive location for business and growth.



2. What is new

- The RIC is a new investment promotion tool to support all companies that undertake substantive and high-value economic activities in Singapore (e.g. decarbonisation, Research & Development, innovation, or expanding manufacturing facilities).
- The RIC is a tax credit with a refundable cash feature, designed to be consistent with the Global Anti-Base Erosion ("GloBE") rules for Qualified Refundable Tax Credits. The tax credits will be used to offset corporate income tax payable in the first instance. If the RIC quantum exceeds the amount of taxes payable by the company, the unutilised credits will be refunded to the company in cash within four years from the time the company makes the claim application in respect of the qualifying expenditure incurred.
- The RIC support will be commensurate with the size and quality of the companies' new investments in Singapore.

3. Why the need for RIC

- The RIC will allow Singapore to anchor and encourage high-quality investments and create good jobs for Singaporeans.
- The RIC activities and expenditure categories are aligned with the four pillars of our Singapore Economy 2030 vision (i.e. trade, enterprise, manufacturing, and services) and our green transition goals.

(II) Enhancements to the Renovation and Refurbishment ("R&R") scheme

1. Current status

- The R&R scheme allows a deduction for qualifying R&R expenditure, up to a cap of S$300,000 for every three-year period. The three-year period commences when a business makes its first claim.

2. What will change

- Three enhancements from Year of Assessment ("YA") 2025:
  - Expand the scope of qualifying expenditure to include designer and professional fees;
  - Fix the relevant three-year period for the purpose of computing the R&R expenditure cap, with the first such three-year period being from YA 2025 to YA 2027; and
  - Give businesses a permanent option to claim R&R deductions in one YA (instead of over three YAs), subject to the prevailing R&R expenditure cap.

3. Why the change

- The expanded scope of qualifying expenditure recognises that it is now common for designer and professional fees to be incurred for renovation works.
- Fixing the relevant three-year period will simplify and ease compliance for businesses.
- The permanent option for accelerated one-year claim will give businesses more flexibility to manage their cashflow needs.

(III) Domestic Top-up Tax ("DTT") and Multinational Enterprise Top-up Tax ("MTT")

1. Current status

- Under Pillar Two of the BEPS 2.0 initiative, the GloBE rules introduce a global minimum effective tax rate of 15% for large multinational enterprise ("MNE") groups.
- At Budget 2024, PM announced that Singapore would implement the GloBE rules from 1 January 2025.

2. What will change

- Singapore will implement the following top-up taxes on large MNE groups (those with annual group revenue of 750 million euros or more in at least two of the four preceding financial years) for their financial years commencing on or after 1 January 2025:
    - **DTT** will apply to large MNE groups in respect of the profits of their group entities that are operating in Singapore. The DTT will top up the group's effective tax rate in Singapore to 15% where relevant.
    - **MTT** will apply to large MNE groups that are parented in Singapore, in respect of the profits of their group entities that are operating outside Singapore. The MTT will top up the group's effective tax rate in each foreign jurisdiction to 15% where relevant.

3. Why the change

- Our implementation of the GloBE rules is aligned with international tax developments.
- Major economies such as the EU, the UK and Japan have implemented the GloBE rules, while Hong Kong intends to do so in 2025.
- Imposing the DTT and MTT will allow us to collect these taxes, instead of having to cede tax revenue to other countries that have implemented the GloBE rules. We will enhance our business environment by reinvesting the tax revenue in areas such as infrastructure, innovation and upskilling.

The two Bills introduce major changes to our corporate tax regime. The Government will continue to work closely with all stakeholders to ensure a smooth transition and implementation. We will also continue to invest in our economic competitiveness so that Singapore remains one of the best places for business and enterprise.

Indranee Rajah
Second Minister for Finance