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Boosting value creation through Budget 2016

The PIC scheme should be more calibrated to address the different needs of businesses at different stages of their development.

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Finding ways to help Singapore transit from a value-adding to a value-creating economy will be one of the key focus areas of the Committee on the Future Economy chaired by Finance Minister Heng Swee Keat.

For some, value creation may seem like a tall order or even an abstract concept. After all, despite the recent focus on improving productivity, results have hardly been satisfactory even with the slew of government incentives. Value creation is more than just improving productivity or quality of existing products or services. It requires businesses to come up with innovative ideas or reinvent business operations to differentiate themselves from the competitors.

It may involve disrupting traditional industries through creation of better products and services, penetration into new markets or adoption of new business models. Value creation can also be achieved by developing a strong brand for products or services. This change is inevitable for Singapore businesses to contemplate. And, sooner rather than later, they should critically assess their individual situations and identify value-creating opportunities.

Innovation is probably the most fundamental and essential element in the value- creation process. A culture of innovation needs to become deeply rooted if businesses are to deepen their value-creation capabilities. The ability to translate innovative ideas into useful and marketable products and services based on a more sustainable cost model requires constant brainstorming and experimenting.

The current Productivity and Innovation Credit (PIC) scheme was designed with the objective of spurring productivity growth and promoting innovation. However, a recent KPMG 2016 Pre-Budget Poll found that 70 per cent of the respondents felt that the current PIC scheme is not sufficiently effective. We suggest that it needs to become more calibrated to address the different needs that businesses have at different stages of development.

One possibility is to introduce a hybrid framework under the PIC scheme that offers a combination of targeted incentives for different activities during the life journey of each Singapore business. The PIC scheme should allow each Singapore business to decide when it chooses to embark first on a three-year incentive scheme to improve productivity.

Currently, the PIC scheme caps the amount of eligible expenditure under each of the six qualifying activities. In the initial years, businesses should enjoy the flexibility of combining PIC caps across the productivity-driven activities such as information technology and automation equipment as well as training.

Higher cash-payout limits for initial years can also be considered, as startups may not have much taxable income for the enhanced tax deductions to translate into immediate benefits. As businesses mature, this scheme will transition them to a five-year incentive scheme, encouraging the pursuit of innovation and internationalisation by offering companies enhanced benefits to do so.

This may include flexibility to combine PIC caps across innovation-driven activities such as research and development (R&D), design and intellectual property acquisition or registration. For businesses that want to achieve value creation by developing new business models, the scope of R&D could also be broadened to include transformational projects towards this aim.

But the process of value creation should not merely stop at the creation of new products and services. Commercialisation of those ideas is just as important and, for this reason, value-creating activities when combined with a solid internationalisation plan can reap exponential growth for the Singapore business. Therefore, internationalisation initiatives such as market feasibility studies, brand development, overseas setting up costs, employee secondment and relocation costs, and consultant fees for new and expansion efforts should also be included as additional PIC qualifying activities.

Better branding is needed for success

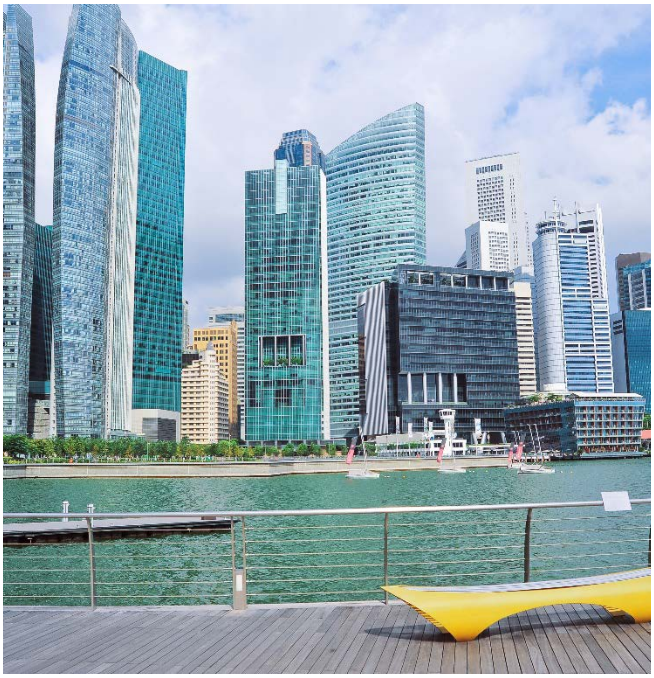
Studies have shown that the value of most businesses comes from intangible assets. Apart from creating innovative products and services, another important aspect of value creation is, therefore, branding. Singapore has over the past decades gained recognition for its economic success, efficient infrastructure and strong governance. The unique Singapore success story has an intrinsic value which our businesses can leverage when building their own brands.

Having Singapore as the country of origin provides confidence to consumers in terms of product safety and quality, while also providing inspiration for would-be entrepreneurs. It may go a long way in helping to promote homegrown brands and create value for businesses as a whole. The Singapore business community therefore needs to make a collective effort too, by developing homegrown brands that consumers in other parts of the world can readily identify with and, better still, be willing to pay a premium for them.

Brand building requires significant investments in marketing, design and R&D, borne out through immeasurable inputs of time, ideas and effort of business owners and their team. Governmental recognition and support through measures such as tax incentives will help such efforts greatly. Currently, tax benefits are given to companies upon acquisition of certain intangible properties, including brands, via writing down allowance based on the value of the purchase over a period of five years.

However, no tax benefits are given for brands that are created internally (that is, not acquired externally), effectively disregarding the intangible efforts of the business in building up the brand over the years. The government should therefore consider introducing a new tax scheme to allow companies to claim tax deductions based on the value of their brands or trademarks, as determined by an independent valuation.

In addition, to encourage Singapore businesses to acquire Singapore brands, a 150 per cent tax deduction should also be granted (in addition to existing PIC benefits), so that these brands will continue to be anchored in Singapore.



New value for a new world

In a small economy such as Singapore, enhancing productivity will inevitably be hampered by the limited pool of indigenous workforce. Businesses cannot completely do without manpower but, at the same time, they cannot sustain salary bidding wars without affecting the business bottom lines. Add disruptive technologies into the mix and it is no longer business as usual.

The only way for businesses to survive and thrive is to continually create new value through new products and services, new markets or new business models. Revamping the PIC scheme to recognise the different stages of growth of a business will provide a good base of support for businesses to start on their value- creation journey.

How we can help

As a committed tax advisor to our clients, we welcome any opportunity to discuss the relevance of the above matters to your business.

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