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Tax tweaks that help SMEs expand abroad

Singapore should raise the Market Readiness Assistance grant by at least doubling the cap and liberalise its unilateral tax credit, among other things.

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INTERNATIONALISATION is a way of life for Singapore companies looking to create value by expanding beyond the confines of the limited domestic market.

Companies are often attracted to the lucrative overseas markets, but may be hesitant about treading unchartered waters, particularly when it comes to their duty to tax authorities.

Add in new business models such as e-commerce, where the nature of business and income may be defined differently by various jurisdictions and the complexity for businesses rises. Nonetheless, companies should not be daunted by the prospects of starting up in a new place.

Take the potential of Asean for instance, which has a combined market worth some US$2.6 trillion and a population of over 625 million.

Unfortunately, there is no tax harmonisation within the Asean bloc, nor is there any move being contemplated towards this end.

Some form of tax harmonisation, such as the abolishment of withholding taxes for payments like interest, dividends, royalties and services fees between companies within the Asean region, would have gone a long way to promoting freer movement of capital and technology across the Asean countries.

Hence, the challenge is for Singapore's companies to be well-equipped with the relevant know-how to navigate each country's tax and regulatory systems.

Fortunately, there are many available subsidies and schemes to help companies internationalise.

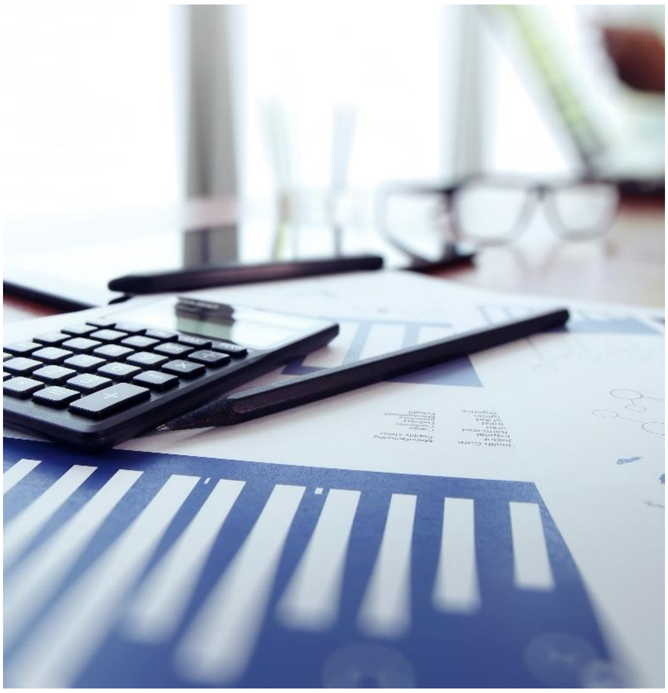
One of the most popular and useful schemes that Singapore companies can use to internationalise is the Market Readiness Assistance (MRA) grant, which is administered by International Enterprise Singapore.

Taking the first step in the journey of internationalisation is often fraught with risks and uncertainty.

Feasibility studies on the new market, including the type of tax and regulatory requirements or consumer behaviour, have to be conducted to help companies in their expansion ambitions.

Currently, the MRA scheme provides businesses with a 70 per cent subsidy capped at S$20,000 per year to pay for expenses related to the assessing of markets and setting up of overseas ventures.

However, to be more effective, the grant should be increased to help companies tide over the heavy costs involved in making the foray into foreign territory.



The cap on the grant should therefore be at least doubled to take into account the expected high initial start-up costs.

Once the foreign operations are up and running, businesses could find their margins squeezed by taxes on their incomes.

Singapore's tax treaties are set up to avoid double taxation when Singapore companies venture overseas, but there are many situations where double taxation would still arise.

Often, these double tax situations result from conflicting technical interpretations between tax authorities on taxation rights under the respective tax treaties.

While these conflicts should usually be resolved through the mutual agreement procedure provided for under these treaties, these procedures are often time consuming and may be a heavy burden on smaller companies.

The government can consider having a higher tax relief for overseas income, especially in relation to foreign services income.

Expanding existing schemes

Under the current system, unilateral tax relief is available for businesses which incur overseas taxes only in the absence of a tax treaty with the country where the income was received from.

Instead, the unilateral tax credit should be simplified and made less restrictive by allowing it to apply in any foreign taxes levied on overseas services income, regardless of whether there is a tax treaty.

In addition, the current tax exemption for certain gains that may be realised from the disposal of subsidiaries should be incorporated as a permanent feature of Singapore's tax system. This is to provide certainty for gains made on the disposal of subsidiaries and associate companies and enhance Singapore's status as a regional headquarters location.

At present, the non-taxation of gains from the disposal of equity investments is applicable only to ordinary shares sold on or before May 31, 2017. This concession is especially helpful for companies that intend to grow through acquisitions.

As financial and market conditions look to wane amid a cooling global economy, more mergers and acquisitions opportunities could arise.

Another tax incentive scheme that could do with some tweaking to benefit more businesses is the International Growth Scheme (IGS).

Singapore companies with high growth potential to expand overseas are provided a 10 per cent concessionary tax rate on incremental qualifying income in excess of base income.

The IGS can be made more attractive by allowing the tax incentive to apply to all qualifying income, not just incremental income.

Even though Singapore has a wide network of free trade agreements (FTAs), many small and medium-sized enterprises (SMEs) have still not utilised them when exporting from Singapore to the countries that have signed FTAs with Singapore or Asean.

Their main deterrence is the difficulty in understanding the legal text of the FTAs. Most SMEs do not have the competent resource to analyse the legal text and do not want to face a huge penalty in the event of non-compliance.

As FTAs could help lower the landed cost of their products in the importing countries, it will increase market access for Singapore companies.

To support SMEs in understanding and applying FTAs, specific cash grants under MRA of up to S$20,000 could be designed for SMEs which successfully implement their pilot FTA certificate for their shipments out of Singapore.

Such cash grants will ease the financial burden of the SMEs in finding the competent resource to assist them in setting up the framework for applying FTA and hand-holding them to get the FTA certificate for a pilot.

Singapore businesses cannot simply rely on the small local market for continued growth. Staying put alone is also not an appealing option as competition from abroad in our small, open economy will mean a reduced slice of the pie.

Heading for new markets means that the size of the potential pie can be enlarged significantly and with the proposed measures, they will have greater certainty and capacity in taking the leap.

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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KPMG's Tax Alerts highlight the latest tax developments, impending change to laws or regulations, current practices and potential problem areas that may impact your company. As certain issues discussed herein are time sensitive it is advisable to make plans accordingly.

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