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Budget: A wish list for Singapore businesses

It includes schemes to encourage local brands, encourage innovation.

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Globally, the economy is slowing, oil and commodity prices are volatile and currencies are fluctuating. At home, we have manpower constraints, rising costs and relentless competition from multinational companies (MNCs). As these pressures increase, how do we create Singapore-owned enterprises that can adapt to the changing expectations of customers and stakeholders?

In KPMG's pre-Budget 2016 poll of 106 companies comprising small and medium enterprises (SMEs), large Singapore companies and foreign MNCs, almost half the respondents were in favour of more government schemes to promote Singaporean owned businesses. Traditionally, MNCs have driven economic growth in Singapore but, in the longer term, local brands will need increased support to promote the perception of "Made in Singapore" as high-tech, high-quality and high-value, both locally and globally. Here's how the Government can help make this happen with Budget 2016.

Incentives can be improved to encourage local brands. For instance, there could be an enhanced tax amortisation for local brands that are developed in-house, based on an independent valuation of those brands.

Assigning value to a Singapore – generated brand would be a departure from the usual government schemes, where subsidies or tax benefits are based largely on what a company spends. It would also acknowledge that since companies purchasing an established brand could currently enjoy a tax benefit, the same benefit should be extended to the very company that built the brand.

How businesses innovate to keep up with new materials, technologies, and processes will increasingly become the difference between success and failure. In KPMG's poll, 87 per cent of businesses ranked innovation and value creation among the top three areas of importance over the next five years, while 61 per cent picked investment in innovation and productivity improvements among the top three strategies to grow their businesses.

Productivity and innovation cannot be a one-off experiment. The Government should consider making the Productivity and Innovation Credit (PIC) scheme permanent, and increasing the qualifying expenditure cap for local enterprises. Revamping the PIC scheme to recognise the different stages of growth of a business will provide more support for businesses to start on their value-creation journey. But the scheme needs to more effectively address the needs 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 elect 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 IT and automation equipment as well as training. Higher cash payout limits can also be considered, as start-ups 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.

For SMEs looking to achieve value creation by developing new business models, a broader definition of R&D under PIC would help. For instance, R&D activities could be divided into two categories — one for breakthrough innovations, and another, more often applicable to smaller enterprises, for non-routine enhancements of products and processes to be more competitive. This will encourage smaller enterprises to take incremental steps in their innovation journey.

There is a huge potential for SMEs to develop a win-win relationship with larger corporations. Through MNC partnerships, local firms can penetrate new markets, commercialise their ideas, and improve their processes. For MNCs, partnering with SMEs can mean better, more innovative ideas for their local business. These mutually beneficial partnerships can be incentivised, by introducing targeted rebates or performance-based grants that favour such collaborations.

As Singapore progresses up the economic ladder, it is no longer enough to add value. We will need to create value. This is important if Singapore is to have a core of local businesses competing globally at the higher end of the value chain. And Budget 2016 can help set us in that direction.

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.

Contact us

Tay Hong Beng
Head of Tax
T: +65 6213 2565
E: hongbengtay@kpmg.com.sg

Chiu Wu Hong
Head of Enterprise Incentive
T: +65 6213 2569
E: wchiu@kpmg.com.sg

Ho Kah Chuan
Director, Corporate Tax Advisory
T: +65 6213 7303
E: kahchuanho@kpmg.com.sg

KPMG
16 Raffles Quay
#22-00 Hong Leong Building
Singapore 048581
T: +65 6213 3388
F: +65 6227 1297
E: tax@kpmg.com.sg

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