Incentive Snippets

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Greater Support for Enterprises Looking to Internationalise

- **Do you know that you are eligible for 70% grant support on international tax advice if you are an SME?**
- **Do you know that you can claim double tax deduction on qualifying due diligence fees and digital marketing expenses?**

With Budget 2020 focusing on transformation and growth, the Singapore Government has enhanced existing schemes to help more enterprises enter new markets. In particular, the Market Readiness Assistance (MRA) grant and the Double Tax Deduction for Internationalisation (DTDi) scheme, both administered by Enterprise Singapore (ESG), have been enhanced to better support enterprises in their internationalisation efforts. These are on top of other schemes that are already available to support businesses in expanding overseas.

In this issue of KPMG Incentive Snippets, we highlight Budget 2020's enhancements to the MRA grant as well as the DTDi scheme, and how most enterprises should be able to leverage on one or both of these enhanced schemes to go global using Singapore as a launchpad.

Enhancements to the MRA grant

The MRA grant provides financial support of **up to 70%** to local small and medium enterprises (SMEs), by helping to defray certain costs associated with entering new markets overseas.

What is a local SME?

- Registered / incorporated in Singapore
- At least 30% local shareholding
- Group annual turnover not exceeding S$100 million per annum based on the most recent audited report, or group employment not exceeding 200 employees

As part of Budget 2020's efforts to accelerate internationalisation by SMEs, the MRA grant has been enhanced as follows:

- **Expanded list of supportable activities** to include Free Trade Agreement (FTA) consultancy costs and in-market business development expenses
- **Increased grant cap** from S$20,000 per year to S$100,000 per new market per company over three years
- **Support of up to 70% extended for another three years** till 31 March 2023
- **Removal of annual cap** of two applications per company

The MRA grant: Supportable activities

Overseas Market Set-Up	
Market entry	Advisory, legal and documentation expenses relating to set up of overseas entities
Overseas Business Partners	
Business matching	Third-party costs incurred to identify potential partners and customers such as licensees, franchisees, agents, etc.
Overseas Market Promotion	
Overseas marketing and public relations (PR) activities	Third-party costs incurred for marketing and PR activities, as well as pitching fees at overseas business / trade conferences
Participation in overseas trade fairs not supported under LEAD international fairs and missions	Third-party costs incurred for space rental, booth design and booth construction

New supportable activities with Budget 2020:

1. **FTA consultancy costs**
2. **In-market business development to identify and deploy suitable staff for business development activities in the target market, rent an office in the market, etc.**

With regards to support for market entry into overseas markets, some examples of advisory, legal and documentation expenses which could qualify for the enhanced MRA grant include the following:

- Tax advice relating to setting up a new business overseas (e.g. profit repatriation, debt / equity financing, secondment arrangements, tax compliance requirements etc.)
- Transfer pricing review of related party transactions
- Indirect tax, customs and excise, and FTA advisory
- Filing and registration of an overseas entity

Note that application for the MRA grant must be submitted prior to commencement of any work by consultants.

Illustration of the enhanced MRA grant's benefits

Assuming that an SME approaches KPMG in Singapore to seek tax advice on entering the China market. The consultancy fee that has been quoted is S$30,000.

The following is an illustration of the potential financial support this SME can expect under the enhanced MRA grant:

Qualifying expenses : S$30,000

Potential MRA grant (based on 70%) : S$21,000 (70% x S$30,000)

Net cost to the SME (after grant) : S$9,000 (S$30,000 - S$21,000)

Enhancements to the DTDi Scheme

The DTDi scheme is available to *all* Singapore-based enterprises (local- as well as foreign-owned), including those with a global headquarters in Singapore enjoying concessionary tax rate incentives.

It provides enterprises with 200% automatic tax deduction on eligible expenses up to an expenditure cap of S$150,000 per year of assessment, for participating in the following activities:

- Overseas business development trips*
- Overseas investment study trips*
- Overseas trade fairs*
- Local trade fairs approved by ESG or the Singapore Tourism Board (STB)

**Expenses incurred for airfare, hotel accommodation and meals are restricted to two employees per trip / fair*

Expenses incurred on other qualifying activities as listed below or which are in excess of the expenditure cap of S$150,000 are subject to ESG / STB's pre-approval:

- Market preparation
  - Design of packaging for overseas markets
  - Product or service certifications
  - Market survey or feasibility studies

- Market promotion
  - Overseas advertising and promotional campaigns
  - Production of corporate brochures for overseas distribution
  - Advertising in approved local trade publications

- Market presence
    - Investment feasibility or due diligence studies
    - Overseas trade offices
    - Market licensing and franchising
    - Employee overseas postings

Some examples of consultancy costs supportable by the DTDi scheme are:

- Consulting fees for overseas market and tax feasibility studies
- Consulting fees to perform mergers and acquisitions (M&A) feasibility studies
- Finance and tax due diligence fees relating to investments in overseas target entities
- Consulting fees to develop e-commerce or digital marketing platforms

New enhancements to the DTDi scheme with Budget 2020

With effect from 1 April 2020, the DTDi scheme has been enhanced to cover a wider scope of qualifying expenses, which includes:

- Third-party consultancy costs relating to the following:
    - Identifying suitable talent
    - Identifying potential business partners (e.g. licensee, franchisee, agents, distributors and joint-venture partners)
    - Securing and managing in-market customers

- Certain expenses incurred for overseas business missions, including the following:
    - Fees paid to secure speaking spots at overseas business / trade conferences to pitch products
    - Logistics costs of transporting materials / samples used during business missions
    - Third-party consultancy costs to arrange business networking events to promote products / services

ESG will provide further details by end-March 2020.

Illustration of the enhanced DTDi scheme's benefits

Assuming that a multi-national corporation with its global headquarters set up in Singapore approaches a consultant to undertake an M&A due diligence on an overseas target company. The due diligence fee quoted is S$100,000.

The following is an illustration of the potential tax benefits under the DTDi scheme:

Qualifying expenditure*	***: S$100,000***
200% tax deduction	***: S$200,000***
Tax benefit at 17%	***: S$34,000 (17% x S$200,000)***
Net cost to the company	***: S$66,000 (S$100,000 – S$34,000)***

**Note that qualifying expenditure is net of government grants.*

How we can help

KPMG's Enterprise Incentives Advisory team is a multi-disciplinary team comprising specialists from various industry backgrounds that can help evaluate whether your proposed projects and initiatives qualify for incentives, and thereafter support you in the application process.

KPMG in Singapore offers an international tax team with extensive experience in advising clients on expanding regionally and globally, and providing support in areas such as tax structuring and planning, transfer pricing, M&A, and market feasibility studies. Our team will be able to provide holistic and in-depth advice for your expansion plans into ASEAN and beyond.

Stay tuned for our next Incentive Snippets newsletter.

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Ranked Tier 1 Firm in Singapore – World Tax, World Transfer Pricing and Tax Transactional 2019, *International Tax Review*

National Transfer Pricing Firm of the Year – Asia Tax Awards, 2018 & 2019, *International Tax Review*

Withholding Tax Team of the Year – Asia Tax Awards 2019, *International Tax Review*

For more details of our Enterprise Incentives Advisory services, please click here.