Tax Alert

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Unprecedented times in the Consumer and Retail sector

A time to stay resilient while exploring potential breakthroughs?

COVID-19 has brought about fear and panic globally, affecting not only individuals and families but businesses as well. Beginning with healthcare concerns and leading up to a much wider and larger economic fallout, it has become true that it is not business-as-usual for most businesses.

Consumer and Retail (C&R) sub-sectors that are hardest hit include the services sector, especially food and beverages, tourism, hospitality, apparel, retail, luxury and entertainment. For retail, shopping malls and department stores are more impacted than online players.

On the other hand, we see a surge in digital retail and e-commerce. Fresh food, groceries (especially health and personal care products) and consumer staple goods are also seeing rising demand.

Notwithstanding the changes, given the economic fallout arising from the current situation, there are short-term and long-term measures that the Singapore Government has introduced which businesses should not ignore.

Short-term support

Referred to as the Resilience Budget and the Solidarity Budget, these two supplementary budgets announced on 26 March 2020 and 6 April 2020 respectively by Deputy Prime Minister Heng Swee Keat unveiled a S$48.4 billion and a further S$5.1 billion stimulus package to cushion the impact of COVID-19.

These were in addition to the initial Unity Budget announced on 18 February 2020, bringing the total stimulus up to a staggering S$60 billion.

Key among the measures introduced is **support for wages**. Wages represent one of the largest and most critical business costs for C&R

industries. To help defray manpower costs, the Resilience Budget has enhanced the Jobs Support Scheme (JSS), whereby all employers will receive a 25% cash grant on the first S$4,600 of gross monthly salaries paid to local workers (up from 8% on the first S$3,600) for an extended period of nine months (up from three months). For severely-affected C&R sub-sectors such as (i) qualifying licensed hotels, licensed travel agents, gated tourist attractions, cruise lines and cruise terminal operators; and (ii) licensed food shops and food stalls (including hawker stalls), payouts under the JSS are at the rates of 75% and 50% (both include the 25% base support), respectively.

In light of the "circuit breaker" measures from 7 April to 4 May 2020, the JSS has been further enhanced under the Solidarity Budget to provide, for April 2020, a wage subsidy for all firms at the rate of 75% of the first S$4,600 of gross monthly salaries paid to each local worker. And with the extension of the "circuit breaker" to 1 June, this 75% enhanced support for each local worker up to a salary of S$4,600 also covers May 2020. The wage support for other months will remain unchanged as previously announced in the Resilience Budget. Employers need not apply for these measures, as the JSS payout will be computed based on CPF contribution data and disbursed automatically. Cash grants under the JSS are tax-exempt in the hands of the employers.

Further, to **ease the labour costs** of employers who hire foreign workers on work permits and S-passes and to help them prepare their workforce to restart when the "circuit breaker" is lifted, the Foreign Worker Levy (FWL) due in April and May 2020 will be waived. These employers will also receive an FWL rebate of S$750 per month in April 2020 and May 2020 from FWL paid in 2020, for each work permit or S pass holder.

Other supporting measures introduced to **ease businesses' cash flows** include corporate income tax rebates, interest-free instalments for estimated chargeable income payments, enhanced SME Working Capital Loans, automatic three-month deferment of income tax payments, enhanced property tax rebates for 2020, enhanced rental waivers and expansion of the Temporary Bridging Loan Programme.

Given that rental represents a major operating cost for businesses in the C&R industries, qualifying commercial properties (e.g. hotels, serviced apartments, tourist attractions, shops and restaurants) receive a 100% **property tax rebate** whereas Integrated Resorts and all other non-residential properties (e.g. industrial properties, offices) receive property tax rebates of 60% and 30% respectively in 2020.

Laws have been passed to impose an obligation on property owners to pass on to their tenants the full amount of property tax rebate received for each property tax account that is attributable to the tenanted property. This can be passed on to tenants through a lump sum payment, instalments, an off-set against, or a reduction of the rent or licence fee payable by the tenant to the owner, and is meant to help ease the cash flows and cost pressures faced by tenants. From the recipient's perspective, such rebates should be tax neutral as these would offset the property tax expenditure and the net expense to the extent that the incurred would be claimable.

At the same time, through the enhancement /expansion of the Enterprise Financing Scheme-SME Working Capital Loan and the Temporary Bridging Loan Programme, the maximum loan quantum under the respective scheme/programme has been increased, providing businesses with continuous **access to credit** during these hard times. Under the Solidarity Budget, the Government's risk share of loans made under the Enterprise Financing Scheme-SME Working Capital Loan, Temporary Bridging Loan Programme and the Enterprise Financing Scheme-Trade Loan was increased from 80% to 90% for loans initiated from 9 April 2020 to 31 March 2021. In addition, banks and finance companies which apply for low-cost funding through the new MAS Singapore Dollar facility and grant new loans under the Enterprise Financing Scheme-SME Working Capital Loan and Temporary Bridging Loan Programme are required to pass on the savings to their borrowers.

Businesses that are temporarily suffering from the financial impact brought about by the COVID-19 outbreak may tap on the abovementioned enhancement/ expansion, to ease their current financial pressures.

Measures for the long run

In addition to the various short-term measures introduced under the Unity and Resilience Budgets to aid and ease cash flow, manage costs and make available credit to businesses during the economic downturn brought about by COVID-19, it is equally important to focus on the medium and long term in order to be the first to seize future growth opportunities when the economy begins its recovery. As such, businesses should not be looking to take a breather during this critical period.

Businesses should, sooner rather than later, consider revamping their existing business models and plan ahead by reviewing their business strategies from a long-term perspective.

Even before the outbreak, there has been rapid growth in **e-commerce**. In the days to come, online platforms will undoubtedly be a major shopping channel for consumers. Retailers, particularly those selling non-essential goods which are heavily reliant on physical customer footfall, should be looking at how they could **restructure, transform, digitalize their businesses** and where possible, plan their business strategies to take their businesses overseas. Businesses which already have existing digital sales channels may explore innovative ways to improve their platforms so as to enhance customers' experience and meet different customers' preferences.

Businesses should also **review their supply chain management** and explore ways to ensure that their customers' needs can be met. While retailers of non-essential goods may have yet to experience the full impact of supply chain disruptions, certain retailers such as grocery stores and supermarkets are facing significant supply chain challenges such as longer lead times and logistic issues due to the significant surge in demand for essential supplies from both physical and online stores. In this regard, businesses may consider moving into alternative product lines, leveraging advanced technologies such as AI-backed mechanisms to update inventory levels and adopt innovative business models and strategies, leveraging various support put forth by the Government.

In order to support companies to digitalize, restructure, transform and where possible, venture overseas, **certain programmes and grants** such as the SMEs Go Digital Programme, Market Readiness Assistance (MRA) grant and Enterprise Development Grant (EDG) have been enhanced to give businesses a boost during the economic downturn caused by the COVID-19 outbreak.

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For instance, businesses may leverage the following:

a. the SMEs Go Digital Programme for digital solutions (from basic remote working tools to more advanced systems) that reduce face-to-face contact
b. the MRA grant to co-fund costs incurred on overseas market promotion, business development or market setup
c. the EDG to refresh business models and find new business opportunities in the wake of COVID-19.

A new initiative known as Grow Digital has also been introduced to support and enable SMEs to access global markets via B2B or B2C digital channels, and to participate in B2B marketplaces so as to benefit from overseas procurement demand.

Finally, there is much **support for skills upgrading** in the form of course fee subsidies, to encourage employers to send their workers for training during this period. Businesses should make use of the downtime and subsidies available to provide upgrading and training to employees so that they may keep themselves abreast of the latest development/updates in relevant industries.

How tax plays a part

While considering these changes to the business, **tax considerations** must also be kept in mind, as there could be enablers and tax risks that need to be considered. Otherwise, the potential benefit to businesses may be impacted.

For evolving business needs leading to **centralized models** such as shared services or where there is **change in the supply chain** to achieve business and operational efficiencies, savings could be eroded unless corporate tax issues including permanent establishment, withholding tax, transfer pricing and tax credits are appropriately planned and provided for.

Businesses should also consider the **deployment of data analytics tools** to free up resources and identify leakages in corporate and indirect tax reporting and claims.

With the OECD's latest **BEPS 2.0** initiative, companies may also need to undertake analysis and simulation studies to identify the potential tax impact.

Brick and mortar businesses should consider undertaking a capital allowance study to maximize tax claims where capital expenditure is incurred.

Branding, copyrights, trademarks and trade secrets are a core part of business for companies engaged in the consumer and retail space. The development, protection and extraction of intellectual property rights are integral to the business.

There are tax implications and efficiencies that need to be managed and explored in relation to the taxability of the income streams including licensing income as well as deductibility of costs including capital costs and disposal gains.

Where **digitalization** is being considered, there are a suite of grants offered by government agencies that could be tapped upon. Depending on the specific business and activities, tax incentives including the Research and Development Tax Incentive regime could be considered.

The way ahead for C&R businesses

COVID-19 has certainly casted a shadow on societies and economies globally. With the pandemic expected to continue in the coming months and in view of its unknown long-term impacts, it is imperative that businesses look at how they may tap on the various short-term measures, as well as rethink and re-plan their business model, strategies and cash position for at least the next few months. Of course, businesses should not lose sight or step back from their ongoing journeys of transformation, digitalization and internationalization; tap on the various programmes and grants, where available.

Regardless of short-term or long-term planning, bear in mind tax considerations as there could be enablers and potential tax risks that need to be considered.

How we can help

At KPMG, we have a dedicated team that specializes in dealing with tax issues for clients in C&R businesses. The team works in close collaboration with our audit and advisory teams to offer a one-stop shop for servicing clients in the C&R space.

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

To uncover more insights on the global tax implications of COVID-19, read our COVID-19 Global Tax Developments Summary

Read more of our insights and perspectives at the KPMG in Singapore Webpage

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