CNPLAW BUSINESS GUIDE SERIES: SINGAPORE BUDGET 2022 – WHAT YOUR BUSINESS NEEDS TO KNOW

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Introduction

The Singapore Budget is prepared by the Singapore government for each financial year commencing on 1 April and ending on 31 March the following year. It includes the revised government revenue and expenditure projections for the current financial year, as well as the planned government revenue and expenditure for the upcoming financial year.

The latest Singapore Budget ("Budget 2022") was released on 18 February 2022. It is relevant to businesses looking for financial support from the Singapore government particularly in a post-pandemic world, and affects other aspects of doing business in Singapore including employment and tax regimes. This article summarises the key takeaways from Budget 2022 applicable to businesses in Singapore. The information in this article is provided as at the date of publication.

Enhanced Financial Support

Jobs and Business Support Package ("JBSP")

JBSP supports businesses in slow-recovering sectors most affected by the COVID-19 safe management measures in 2021, namely food and beverage, hawker centres, markets, coffeeshops, food courts and canteens, retail, performing arts and arts education, sports, cinema operators, museums, art galleries and historical sites, indoor playgrounds and other family entertainment centres, and tourism, hospitality, conventions and exhibitions ("Eligible Sectors"). JBSP comprises the following:

(A) Small Business Recovery Grant ("SBRG")

- S\$1,000 one-off payout to eligible firms for each Singapore citizen or permanent resident ("local") employee with mandatory Central Provident Fund ("CPF") contributions from 1 November 2021 to 31 December 2021, up to a cap of S\$10,000 per firm.
- S\$1,000 one-off payout to sole proprietorships and partnerships that do not hire local employees and are run by at least one local registered business owner who earns a net trade income of no more than S\$100,000 filed with the Inland Revenue Authority of Singapore ("IRAS") in the year of assessment 2021 by 31 December 2021.

To qualify for SBRG, the firm must be a live business entity in one of the Eligible Sectors physically present in Singapore and registered with the Accounting and Corporate Regulatory Authority of Singapore ("ACRA") by 31 December 2021 as at the point of payout, and either have an annual operating revenue less than \$\$100 million filed with IRAS in the year of assessment 2021 by 31 December 2021, or employ fewer than 200 employees as of 31 December 2021. The firm must also meet any additional criteria applicable to each Eligible Sector, such as having valid licences to operate.

(b) Jobs Growth Incentive ("JGI")

JGI was introduced in August 2020 to encourage local hiring by providing salary support to employers for

new local hires during qualifying phases, the latest phase being new local hires from October 2021 to March 2022 ("Phase 3") which currently provides the following payouts:

- For local workers aged below 40: Up to 15% of the first \$\$5,000 of gross monthly wages for 6 months.
- For local workers aged 40 and above ("Mature Workers") or local workers who have disabilities or are ex-offenders ("Vulnerable Workers"): Up to 50% of the first \$\$6,000 of gross monthly wages for 12 months.

Budget 2022 extends JGI by 6 months to September 2022, but only for new local hires from April 2022 to September 2022 ("Phase 4") who are Mature Workers that have been unemployed for at least 6 months or Vulnerable Workers. For such new local hires, JGI will provide payouts of up to 40% of the first \$\$6,000 of gross monthly wages for the first 6 months and up to 20% of the first \$\$6,000 of gross monthly wages for the next 6 months.

To qualify for JGI, there must be an increase in overall local workforce size, as well as an increase in local workforce size earning at least S\$1,400 per month, compared to September 2021 local workforce (for Phase 3) and March 2022 local workforce (for Phase 4), i.e. the baseline headcount. The employer should also be established by 23 September 2021 (for Phase 3) and 17 February 2022 (for Phase 4), and should remain eligible throughout the relevant payout period in order to receive support for the full duration. The JGI payout will be adjusted downwards if any existing local workers (in the employer's employ as at the baseline headcount) leave the employer thereafter. No application is required as IRAS will notify eligible firms of the amount of JGI payout payable to them.

Progressive Wage Credit Scheme ("PWCS")

PWCS has been introduced in Budget 2022 to provide transitional wage support for employers to adjust to upcoming mandatory wage increases for lower-wage local workers and voluntarily raise wages of lower-wage local workers. Under the PWCS, the Singapore government will co-fund the wage increases of eligible lower-wage local workers between 2022 and 2026 as follows:

- For workers with gross monthly wages up to \$\$2,500: 50% in 2022 and 2023, 30% in 2024 and 2025, and 15% in 2026.
- For workers with gross monthly wages above \$\$2,500 and up to \$\$3,000: 30% in 2022 and 2023, and 15% in 2024.

To qualify for PWCS, the firm must be registered in Singapore and must give wage increases to local employees who received CPF contributions from a single employer for at least 3 calendar months in the preceding year, have been on the firm's payroll (i.e. the firm must have paid employee CPF contributions) for at least 3 calendar months in the qualifying year, and have an average gross monthly wage increase of at least \$\$100 in the qualifying year. The increase in wages in each qualifying year will be co-funded for 2 years, provided that such wage increase is sustained. No application is required as IRAS will notify eligible firms of the amount of PWCS payout payable to them for each qualifying year.

Advanced Digital Solutions ("ADS")

ADS was introduced in March 2020 to help businesses adopt advanced technologies (such as robotics and Internet of Things) and advanced integrated solutions (such as B2B solutions that integrate inventory management, e-invoicing and e-payments). ADS provides up to 80% funding support for qualifying costs of these digital solutions, including hardware, software, infrastructure, connectivity, cybersecurity, integration, development, enhancement and project management, as well as the cost of deploying these solutions.

Budget 2022 expands ADS from 1 April 2022 to include digital solutions that leverage artificial intelligence and cloud technologies, providing up to 70% funding support for qualifying costs of these solutions.

To qualify for ADS, a business entity must be registered and operating in Singapore and have a minimum of 30% local shareholding, with either a group sales turnover of less than \$\$100 million per annum or group employment of less than 200 employees.

Grow Digital ("GD")

GD was launched in June 2020 to help SMEs access overseas markets digitally without the need for physical presence by participating in pre-approved B2B and B2C e-commerce platforms with global or regional reach. GD provides up to 70% funding support for SMEs to adopt such platforms.

Budget 2022 expands GD from 1 April 2022 to include more pre-approved digital platforms so that more SMEs can internationalise.

To qualify for GD, a business entity must be registered and operating in Singapore and have a minimum of 30% local shareholding, with either a group sales turnover of less than \$\$100 million per annum or group employment of less than 200 employees.

SkillsFuture Enterprise Credit ("**SFEC**")

SFEC was introduced in April 2020 to encourage employers to invest in enhancing the skills of their employees by providing additional subsidies alongside other grants in the form of up to a one-off S\$10,000 credit until 30 June 2023 to cover up to 90% of out-of-pocket expenses on qualifying costs for SFEC-supportable programmes.

Budget 2022 expands the coverage of SFEC for the qualifying period from 1 January 2021 to 31 December 2021 by waiving the eligibility criterion for employers to have contributed at least \$\$750 Skills Development Levy over the qualifying period. However, employers with inactive ACRA status during the qualification process and that have defaulted on their Skills Development Levy payment during the qualifying period will be excluded.

To qualify for SFEC, employers now need only satisfy the remaining eligibility criteria of having employed at least 3 local employees every month over the same period, and not having been qualified at any earlier qualifying period.

Temporary Bridging Loan Programme ("TBLP")

TBLP was introduced in March 2020 to provide businesses with access to working capital during the COVID-19 pandemic. TBLP offers loans of up to \$\$3 million per borrower for up to 5 years at an interest rate of up to 5% per annum, subject to an overall borrower group limit of \$\$20 million and an overall loan exposure limit of \$\$50 million per borrower group across all facilities. The Singapore government participates in a 70% risk-sharing of the TBLP loans.

Budget 2022 extends TBLP by 6 months from 1 April 2022 to 30 September 2022, but lowers the maximum loan quantum to \$\$1 million per borrower while increasing the maximum interest rate to 5.5% per annum for such extended period.

To qualify for TBLP, the borrower must be a business entity physically present in Singapore and registered with ACRA, with at least 30% of its equity held directly or indirectly by local(s), determined by the ultimate individual ownership.

Enterprise Financing Scheme ("EFS")

In October 2019, Enterprise Singapore, the Singapore government agency championing enterprise development, streamlined its existing financing schemes into one umbrella scheme called EFS, offering 7 types of loans ranging from \$\$300,000 to \$\$50 million as follows:

- Green (to finance green growth projects).
- SME Working Capital Loan (to finance daily operational cashflow needs).
- SME Fixed Assets Loan (to finance the investment of domestic and overseas fixed assets).
- Venture Debt Loan (to finance the growth of innovative enterprises using venture debt and warrants).
- Trade Loan (to finance trade needs), which was enhanced in April 2020 to provide enterprises with better access to trade financing amidst slower business activities and longer payment cycles due to COVID-19 ("EFS-TL").
- Project Loan (to finance the fulfilment of secured overseas projects), which was enhanced in January 2021 to support domestic construction projects amidst the challenges of COVID-19 ("EFS-PL").
- Mergers & Acquisitions Loan (to finance the acquisition of target enterprises with the intent of internationalisation) ("EFS-M&A").

Budget 2022 extends the enhancements to EFS-TL for 6 months to 30 September 2022 and EFS-PL for another year to 31 March 2023. Budget 2022 also expands EFS-M&A for 4 years from 1 April 2022 to 31 March 2026 to include domestic merger and acquisition activities, including venturing into complementary businesses and emerging sectors.

To qualify for EFS, the borrower must be a business entity physically present in Singapore and registered with ACRA, with at least 30% of its equity held directly or indirectly by local(s), determined by the ultimate individual ownership, and have a group annual sales turnover of not more than S\$500 million. The

borrower must also meet any additional criteria applicable to each type of EFS loan.

Changes to Foreign Workforce Policies

Employment Pass ("EP")

The minimum qualifying salary for EP holders will be raised from \$\$4,500 to \$\$5,000 (and from \$\$5,000 to \$\$5,500 for the financial services sector) for new applications from 1 September 2022 and renewal applications from 1 September 2023.

S Pass

The minimum qualifying salary for S Pass holders will be raised from S\$2,500 to S\$3,000 (and S\$2,500 to S\$3,500 for the financial services sector) for new applications from 1 September 2022 and renewal applications from 1 September 2023. Thereafter, such salary will be progressively raised from 1 September 2023 and from 1 September 2025 by at least S\$150 each time, with the finalised values to be announced closer to the implementation date.

The Tier 1 S Pass Foreign Worker Levy rate (i.e. for a dependency ratio ceiling ("DRC") of 10% or less, being the maximum permitted ratio of foreign workers to the total workforce that a company in a stipulated sector is allowed to hire) will be progressively raised from S\$330 to S\$650 by 2025 as follows: S\$450 from 1 September 2022, S\$550 from 1 September 2023, and S\$650 from 1 September 2025.

The DRC will be reduced from 87.5% to 83.3% for the construction and process sectors from 1 January 2024

Work Permit

The Foreign Worker Levy rates for Work Permit holders in the construction and process sectors will be adjusted as follows:

- For higher-skilled workers in the construction sector: \$\$500 for non-traditional sources (i.e. Bangladesh, India, Myanmar, the Philippines, Sri Lanka, and Thailand), \$\$300 for Malaysia, North Asian sources (i.e. Hong Kong, Macau, South Korea, and Taiwan) and PRC, and \$\$250 for off-site.
- For basic-skilled workers in the construction sector: \$\$900 for non-traditional sources, \$\$700 for Malaysia, North Asian sources and PRC, and \$\$350 for off-site.
- For higher-skilled workers in the process sector: \$\$300 for non-traditional sources, and \$\$200 for Malaysia, North Asian sources and PRC.
- For basic-skilled workers in the process sector: \$\$650 for non-traditional sources, and \$\$450 for Malaysia, North Asian sources and PRC.

Wage and CPF Increases

Progressive Wage Model ("PWM")

PWM was introduced in 2012 to uplift local lower-wage workers in sectors vulnerable to cheap-sourcing through a skills-based ladder of pay by setting out sector-specific salary floors and clear progression pathways for such workers to earn higher wages as they become more skilled, more productive and take on higher job responsibilities. PWM currently covers the cleaning, security and landscape sectors.

Budget 2022 extends PWM to more sectors and occupations, namely the retail, food services, and waste management sectors from 1 September 2022, 1 March 2023 and 1 July 2023 respectively, in-house cleaners, security officers and landscape maintenance workers from 1 September 2022, and administrators and drivers from 1 March 2023.

In addition, from 1 September 2022, firms hiring foreigners (i.e. EP, S Pass and Work Permit holders) will need to pay their local workers progressive wages under the PWM (if applicable) and at least the local qualifying salary of S\$1,400 per month (pro-rated for part-time work and increased for every hour of overtime work).

Budget 2022 also introduces the Progressive Wage Mark ("PW Mark") accreditation in the later part of 2022 to recognise firms that pay progressive wages and the local qualifying salary to local lower-wage workers. This will enable consumers and corporate buyers to easily identify and support such firms. Contracted suppliers of the Singapore government must be accredited with the PW Mark from March 2023.

CPF for Senior Workers

From 1 January 2022, CPF contribution rates have been increased for local senior workers aged above 55 to 70 as follows:

- For employees aged above 55 to 60 and above 60 to 65: 2% increase of the contribution rate, comprising a 1% increase on both the employer's and employee's sides.
- For employees aged above 65 to 70: 1.5% increase of the contribution rate, comprising a 0.5% increase on the employer's side and a 1% increase on the employee's side.

From 1 January 2023, CPF contribution rates will be further increased for local senior workers aged above 55 to 70 as follows:

- For employees aged above 55 to 60 and above 65 to 70: 1.5% increase of the contribution rate, comprising a 0.5% increase on the employer's side and a 1% increase on the employee's side.
- For employees aged above 60 to 65: 2% increase of the contribution rate, comprising a 1% increase on both the employer's and employee's sides.

For each of the above 2022 and 2023 increases, employers will automatically receive a one-year CPF Transition Offset equivalent to half of the increase in employer CPF contribution rates for every local senior worker aged above 55 to 70.

General disclaimer

Tax Increase

Corporate Income Tax

To align the Singapore tax system with global tax developments relating to the Base Erosion and Profit Shifting 2.0 initiative, IRAS will explore a top-up tax called the Minimum Effective Tax Rate ("METR") to top up the effective corporate income tax rate for multi-national enterprise groups in Singapore to 15%. IRAS will study this further and consult the industry on the design of METR before making any decisions on the METR.

Goods and Services Tax ("GST")

In 2018, the Singapore government announced its plan to increase GST from 7% to 9%. Budget 2022 delays and staggers the GST increase such that GST will be increased from 7% to 8% on 1 January 2023, and from 8% to 9% on 1 January 2024.

To cushion the impact of the GST increase, there will be no increase in government fees and charges for one year from 1 January 2023, including fees charged on all government-provided public services such as school fees, parking charges for carparks maintained by the Housing & Development Board and the Urban Redevelopment Authority, and licence fees such as driving licences. The Singapore government will also continue to absorb GST for publicly-subsidised healthcare and education.

Carbon Tax

Carbon tax was introduced in 2019 at a low tax rate of S\$5 per tonne of emissions to give businesses time to adjust.

Budget 2022 increases carbon tax to \$\$25 per tonne of emissions in 2024 and 2025, and \$\$45 per tonne of emissions in 2026 and 2027, with a view to reaching \$\$50 to \$\$80 per tonne of emissions by 2030. From 2024, businesses will be allowed to use high-quality, international carbon credits to offset up to 5% of their taxable emissions, in lieu of paying carbon tax.