

TAX



**The Future of Taxation
for Singapore Business
Industry**

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In pursuit of a global consensus on the design of a new international tax architecture, the Organization for Economic Co-operation and Development ('OECD') has worked tirelessly. On 12 October 2020, the OECD released its blueprints for tackling the tax challenges associated with digitalization (the BEPS 2.0 project), including a Two Pillar approach. The statement on Two Pillar detailing taxation was released on 08 October 2021. The Two Pillar taxation is proposed to be effective from 2024. Necessary changes in domestic tax laws in respective countries will be required.

In Pillar One, profit allocation among large multinational enterprises (MNEs) is rethought, and market jurisdictions are given more taxing power based on revised nexus rules. Pillar Two, however, proposes a global minimum tax on profits. It is understood that Pillar One is mandatory to implement whereas Pillar Two is optional at this time.

With BEPS 2.0 and the rapidly evolving global tax landscape, taxpayers will need to prepare for increased tax enforcement. Many countries have been hard at work reviewing legislative changes and broader incentives to ensure that their jurisdictions remain attractive for Multinational Enterprises (MNEs) as the new global minimum tax rules under the BEPS 2.0 framework are introduced from 2024. According to the latest rules, a 15 % global minimum tax is one measure to be expected. A top-up tax will be imposed on MNEs in any jurisdiction where their effective tax rate is below 15 %. The subject-to-tax rule (STTR) will also apply to certain cross-border related party payments that are not subject to tax in the jurisdiction of the payee.

A. The Big Picture

Singapore has a stable and efficient tax regime that is renowned worldwide. According to policy, Singapore's corporate income tax rate is historically competitive and stable at 17%, with robust incentives that promote substantial economic activities and support businesses there.

As well as tax certainty, Singapore is known for its business-friendly policies. Internationally, the Inland Revenue Authority of Singapore (IRAS) is known for taking a firm but fair approach to taxation. IRAS continues to supplement its well-respected Advance Pricing Agreement (APA) and Mutual Agreement Procedure (MAP) programs with new initiatives, such as the pilot program for direct tax governance and participation in the International Compliance Assurance Program (ICAP) sponsored by the OECD. ICAP is a new risk assessment program supported by 22 countries for multinational enterprises. As of now, Singapore is the only ASEAN country to join ICAP.

B. Impact of BEPS 2.0 on Business

Firstly, some companies may still believe that the global minimum tax only applies to digital operations. However, all groups with global revenues of at least 750 million euros (S\$ 1.1 billion) will be affected by the global tax rules, regardless of their industry. A company might seek advice about the implications that may arise, including higher cash tax costs and reduced earnings per share, on top of what their tax leaders might explain. Tax incentives - such as those offered by Singapore - can lead to a significant increase in costs.

The new rules will also require more human and technical resources, increasing compliance risks. Singapore used to require MNEs to file tax returns entity-by-entity, but the new rules mandate that a single entity be responsible for all group operations in the country. Tax filings, for instance, used to be handled entity-by-entity in Singapore, but the latest regulations may require multinational companies to designate a single entity to handle the compliance requirements of all group operations. This could require entities to share financial information within the group, which would require new governance processes, including allocating liability for top-up taxes across groups. Individual performance reviews could also be affected by such taxes. For enterprises, this means establishing new governance processes and increasing budgets for tax functions in order to comply with reporting requirements globally as well as locally. Additionally, companies may need to upgrade their information systems to handle the volume of data, and enhance coordination between and within jurisdictions.

In addition, some jurisdictions may introduce grants, subsidies, or other investment incentives in order to attract foreign investment following the implementation of these global tax rules. It could have a significant impact on tax, business (including supply chains), and financing strategies.

Compliance with the new rules also requires closer cooperation amongst tax, transfer pricing, business and finance teams, both within and across jurisdictions. Global minimum tax rules require extensive financial information to calculate the tax base for the tax, including deferred tax accounting to reconcile tax and financial accounts. In response to global and domestic requirements, tax and finance teams must remain responsive to data gaps and accounting standards (such as US Generally Accepted Accounting Principles or International Financial Reporting Standards). To cope with this change, the Singapore government may consider additional support for companies.

C. Conclusion

Singapore was ranked second by the World Bank in 2019 as the easiest country to do business in. With its low corporate tax rate and strong financial incentives, the city-state has a long history of attracting businesses. It is likely that Singapore will see some additional income generated through Pillar One, due to its role as a "market jurisdiction", in which multinational enterprises will be taxed for goods or services that they use or consume in Singapore. However, Singapore may lose traction with foreign direct investments seeking reduced/incentivized tax rates if it loses traction with foreign direct investments. Under Pillar Two, such benefits may disappear if a top-up tax is imposed if an overall effective tax rate is less than 15%. If a top-up tax is not imposed in Singapore, then under Income Inclusion Rule, the Immediate/Ultimate Parent Entity jurisdiction may get the right to tax the balance tax .

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