



## SINGAPORE BUDGET 2022 – EMERGING STRONGER TOGETHER SUMMARY OF THE KEY CHANGES

On 18 February 2022, the Deputy Prime Minister and Minister for Finance of Singapore has delivered the Singapore Budget 2022, being the financial policy of the Government for the financial year from 1 April 2022 to 31 March 2023 (the “2022 Budget”). Main purpose of the 2022 Budget is to strength Singapore's competitive advantage and social compact, as well as to prepare the country for the challenges that lie ahead, and for a greener future.

In particular, the 2022 Budget focuses on three pillars of actions:

- A. Active economy: targeting to help Small and Medium Enterprises (SMEs) in their journey toward digitalisation, and Multinational Enterprises (MNEs), with the advance notice of the upcoming implementation of the Minimum Effective Tax Rate (METR).
- B. Caring society: focusing on supporting the most vulnerable people, boosting retirement adequacy and ensuring access to quality and affordable healthcare.
- C. Environment and climate change: to achieve the net zero emission by or around 2050.

In this newsletter, we mainly focus on the first two pillars above and in those measures that most will impact businesses.

### 1. Good and Service Tax Changes

The Budget provides for increase of the GST rate of two percentage points, from the current standard rate of 7% to 9%, to be achieved in two steps: a first increase to take place from 1 January 2023, with GST rate up from 7% to 8%; and a second increase to take place from 1 January 2024 onwards, with GST rate to increase to 9%.

Introducing the GST rate hike in two steps will help the GST registered businesses to plan the impact of the hike and hopefully soften the potential rising costs of living.

Further to the GST rate, the Budget also rolls out changes to the regime of zero-rating travel arranging services, to ensure that the GST treatment reflects the place of consumption of certain services, especially a growing market of online travel booking.

Currently, the GST treatment of a supply of travel services is the following:

- Services for international transport of passengers, and insurances related to such transportation, are GST zero-rated;
- Services for arranging of accommodation in Singapore are standard-rated;
- Services for arranging of overseas accommodation are zero-rated (*i.e.* based on the location of the accommodation).

Starting from 1 January 2023, businesses will need to refer to the location of the customers and direct beneficiaries, hence the zero-rating may apply to the travel arranging services if the contractual customer belongs outside Singapore and the direct beneficiary either belongs outside Singapore or is GST-registered in Singapore.

#### Asian Tax Advisory Limited

Rooms 501-2, Wilson House  
19-27 Wyndham Street  
Central, Hong Kong  
T: +852 3102 1995  
F: +852 3102 0991  
E: info@atatax.hk  
W: atatax.hk

#### Asian Tax Advisory Singapore Pte. Ltd.

600 North Bridge Road  
#13-05 Parkview Square  
Singapore 188778  
T: +65 6980 5627  
E: info@atatax.sg  
W: atatax.sg

## 2. Job and Business Support

The *Jobs Growth Incentive* provides salary support for employers who expand local hiring. With this Budget, the scheme will be extended for another six months to September 2022 but will be only applicable to firms employing mature workers aged 40 and above who have been out of a job for six months or more, and other specified persons.

In addition, the 2022 Budget sets out a *Small Business Recovery Grant* as a one-off cash payout to small businesses in sectors that were most affected by COVID-19 Safe Management Measures last year. Eligible entity must:

- a. be a live business entity physically present in Singapore and registered no later than 31 December 2021;
- b. either (i) have an annual operating revenue lower than S\$100 million, as filed with IRAS in the Year of Assessment 2021 by 31 December 2021; or (ii) employ fewer than 200 employees as of 31 December 2021; and
- c. be engaged in those sectors most affected by Covid-19, such as certain food and beverage, retails, and arts and education.

Eligible firms will receive 1,000 Sgd for each local employee (i.e, Singaporean citizens and Permanent Residents) with mandatory CPF contributions in the period from 1 November 2021 to 31 December 2021, up to a cap of 10,000 Sgd per business entity.

## 3. Enhancement of Retirement Coverage

It has been announced an increase in CPF rates for workers aged 55 to 70 that will take effect from 1 January 2023, further to the previous raise occurred from 1 January 2022. Therefore, local workers of this age group will see a total increase of three to four percentage points in their CPF contribution rates over these two years. Such an increase aims to help senior workers in achieving a higher retirement pay-out and therefore address the rising costs of living.

To mitigate the rise of CPF cost for business, also due to the previous increase of CPF contribution rates in 2022, the Government is providing employers with a one-year CPF Transition Offset equivalent to half of the increase in employer CPF contribution rates for every Singaporean and Permanent Resident worker they employ who is aged above 55 to 70.

The following table shows the proposed contribution rates from 1 January 2023 (increase % compared to the current level are reported in brackets):

Age Band	CPF Contribution Rates			CPF Transition Offset
	Total	Employer	Employee	
≤ 55 yo	No changes			
>55 to 60	29.5% (+1.5%)	14.5% (+0.5%)	15% (+1%)	0.25%
>60 to 65	20.5% (+2%)	11% (+1%)	9.5% (+1%)	0.50%
>65 to 70	15.5% (+1.5%)	8.5% (+0.5%)	7% (+1%)	0.25%
>70	No changes			

#### 4. Foreign Workers Policies

##### Changes in minimum qualifying salary

The Minister has announced the increase to the minimum qualifying salary for new Employment Pass ('EP') and S Pass applicants. The target is to ensure that EP and S Pass holders are comparable in quality to the top one-third earners of the local Professional, Managerial, Executive and Technical (PMET) and Associate Professionals and Technicians (APT) workforce respectively. Older and more experienced S Pass and EP applicants will need higher salaries to qualify, and this increases progressively with age. In particular:

- *Employment Pass*  
From September 2022, the minimum qualifying salary for new EP applicants is raised from 4,500 Sgd to 5,000 Sgd. AS to the financial services, which has higher salary norms, the threshold is raised from the current 5,000 Sgd to 5,500 Sgd.
- *S-Pass*  
From September 2022, the minimum qualifying salary for S-Pass holders is also raised from 2,500 Sgd to 3,000 Sgd. As to the financial services, the threshold is raised to 3,500 Sgd. The minimum qualifying salary for new S-Pass applicants will then be further increased in September 2023 and again in September 2025.

##### Change in Foreign Worker Levy (FWL) Rates

The Tier 1 SPass FWL will be progressively raised from 330 Sgd to 650 Sgd as follows:

Tier	Dependency Ration Ceiling	Current Levy Rates	New Levy Rates		
			From 1 Sep 2022	From 1 Sep 2023	From 1 Sep 2025
Tier 1	≤ 10%	330 Sgd	450 Sgd	550 Sgd	650 Sgd
Tier 2	>10%	650 Sgd			

#### 5. Personal Income Tax: Enhancing the Progressivity of the Tax System

Purpose of the measure is to achieve a greater progressivity in the personal income tax system. With effect from earning accrued in 2023 (Year of Assessment 2024), the top marginal personal income tax will be increased as follows:

- The portion of chargeable income tax in excess of 500,000 Sgd up to 1 million Sgd will be taxed at 23%; and
- The portion of chargeable income tax in excess of 1,000,000 Sgd will be taxed at 24%

both up from the current 22% rate.

#### 6. Minimum Effective Tax Rate Regime

In response to the global minimum effective tax rate under the Pillar 2 Global Anti-Base Erosion ("GloBE") rules of the BEPS 2.0 project, the Ministry of Finance is exploring a top-up tax called the minimum effective tax rate (METR). The METR will top up a multinational enterprise (MNE) group's effective tax rate in Singapore to 15%.

The METR will apply to MNE groups operating in Singapore that have annual revenues of at least 750 million Eur, as reflected in the consolidated financial statements of the ultimate parent entity.

IRAS will study the METR further and consult industry stakeholders on the design of the METR.



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Should you have any queries on how Budget 2022 may impact your business, please feel free to contact Asian Tax Advisory Singapore Pte Ltd.

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