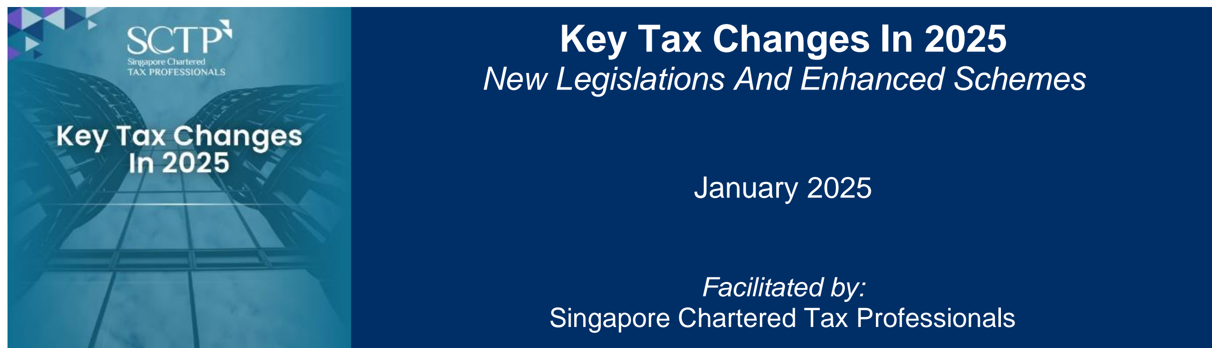

Key Tax Changes In 2025

New Legislations And Enhanced Schemes

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KEY TAKEAWAYS

- Parliament passed the Multinational Enterprise (Minimum Tax) Bill to implement two top-up taxes under the BEPS 2.0 initiative.
- The Refundable Investment Credit is a tax credit with a refundable cash feature designed to align with the Global Anti-Base Erosion rules for Qualified Refundable Tax Credits.
- Businesses can now include designer fees and professional fees as qualifying renovation and refurbishment expenditure under Section 14N of the Income Tax Act 1947.

As a small and open economy, Singapore maintains its competitive edge by implementing tax policies that align with international developments while addressing local priorities. Entering the new year, we review several key tax updates in Singapore that take effect in 2025.

(1) Domestic Top-Up Tax and Multinational Enterprise Top-Up Tax

Under Pillar Two of the Base Erosion and Profit Shifting 2.0 (BEPS 2.0) initiative, the Global Anti-Base Erosion (GloBE) rules introduce a global minimum effective tax rate of 15% for large multinational enterprise (MNE) groups.

On 15 October 2024, Parliament passed the Multinational Enterprise (Minimum Tax) Bill to implement two new top-up taxes under the BEPS 2.0 initiative:

(i) Domestic Top-up Tax (DTT), and
(ii) Multinational Enterprise Top-up Tax (MTT).

The two top-up taxes apply to large MNE groups – those with annual group revenue of at least €750 million in at least two of the four preceding financial years – for their financial years commencing on or after 1 January 2025.

DTT applies to large MNE groups with respect to the profits of their group entities operating in Singapore and is payable if the group's effective tax rate (ETR) in Singapore is below 15%.

MTT applies to large MNE groups parented in Singapore, in respect of the profits of their group entities operating outside Singapore. Where the ETR of the MNE group's entities in any foreign jurisdiction is below 15%, MTT will be imposed to top up the ETR to 15%.

KEY CONSIDERATIONS

The Pillar Two GloBE rules introduce significant compliance requirements and complexity for affected MNE groups. While many jurisdictions have implemented GloBE rules based on the core principles of the OECD's Pillar Two framework, the legislation being put in place in each jurisdiction may not be identical.

It is thus important for affected MNE groups to first familiarise themselves with the details of the Multinational Enterprise (Minimum Tax) Act 2024 (MMT Act) and note its nuances when implementing DTT and MTT in Singapore.

In Singapore, an investment entity or an insurance investment entity (as defined in the MMT Act) is treated as an excluded entity and is not subject to DTT; this is to maintain tax neutrality of such investment vehicles. DTT is computed based on local financial accounts if certain conditions are met, such as the Singapore entities of the MNE group having the same financial year as the ultimate parent entity.

Besides collecting and managing significant amounts of financial data across the many jurisdictions where the MNE group operates, the tax and finance team is also required to perform complex calculations of jurisdictional ETRs, identify "top-up" tax liabilities, as well as prepare and file the requisite tax returns in the relevant jurisdictions. Sufficient resources should be made available to empower the tax and finance team to manage these new compliance obligations.

On 31 December 2024, the Inland Revenue Authority of Singapore (IRAS) published an e-Tax Guide on "Multinational Enterprise Top-up Tax and Domestic Top-up Tax" to set out the key parameters of the MTT and DTT.

(2) Refundable Investment Credit

In the lead up to the implementation of the Pillar Two GloBE rules in Singapore, the Singapore business community has raised concerns that the global minimum ETR of 15% on in-scope MNE groups may negate the benefits of Singapore's tax incentives and affect the country's competitiveness.

This sentiment was highlighted by Indranee Rajah, Second Minister for Finance, during her second reading speech on the Income Tax (Amendment) Bill and Multinational Enterprise (Minimum Tax) Bill on 14 October 2024, "The global economic landscape is becoming increasingly competitive, and Singapore needs to keep pace with the competition in order to continue attracting investments to grow our economy and create good jobs for our people."

Enter the Refundable Investment Credit (RIC) – Singapore's answer to the threat to traditional tax incentives posed by Pillar Two.

"The RIC will give us a useful tool to attract and support businesses that undertake substantive and high-value economic activities here. It will allow us to anchor and encourage high-quality investments, create good jobs for Singaporeans, and support our green transition."

RIC is essentially a tax credit with a refundable cash feature designed to be consistent with the GloBE rules for Qualified Refundable Tax Credits.

The tax credit may be used to offset corporate income tax payable, including DTT and MTT. If the RIC quantum exceeds the amount of taxes payable by the company, the unutilised credits will be refunded to the company in cash within four years from when the company satisfies the conditions for receiving the credits.

RIC is granted on an approval basis, through the Singapore Economic Development Board (EDB) and Enterprise Singapore (EnterpriseSG). It supports high-value and substantive economic activities such as investing in new productive capacity like new manufacturing plants and production of low-carbon energy.

Companies can receive up to 50% of support on each qualifying expenditure category. Each RIC award will have a qualifying period of up to 10 years.

KEY CONSIDERATIONS

RIC is a viable alternative for large MNE groups whose existing Singapore tax incentives are negated by the GloBE rules as it can significantly reduce the cost burden of large investments. Businesses that do not have sufficient tax liabilities may also benefit from RIC because unutilised credits can be refunded to the company in cash within four years.

Companies that are looking to make significant new investments in Singapore may approach EDB or EnterpriseSG to discuss any proposed project.

(3) Enhancement to Renovation and Refurbishment Scheme

Section 14N of the Income Tax Act 1947 was introduced to allow a tax deduction for qualifying capital expenses incurred by taxpayers for the renovation or refurbishment works done to their business premises (renovation and refurbishment or R&R expenditure). The deduction, which helps reduce business costs, is given over a period of three consecutive years on a straight-line basis.

To ease compliance burdens and improve the relevance of the R&R scheme, several enhancements have been made with effect from year of assessment (YA) 2025:

(a) Option for One-Year Write-Off

All businesses are given an option to claim R&R deductions in one YA instead of over three YAs, subject to the prevailing expenditure cap (currently at $300,000). This option has now been made permanently available to businesses, allowing them greater flexibility to manage their cashflow needs.

(b) Expanded Scope of Qualifying Expenditures

Recognising that it is now common for designer and professional fees to be incurred for renovation works, the scope of qualifying expenditures has been expanded to include designer fees or professional fees that do not affect the structure of the business premises (where approval from the Commissioner of Building Control is required).

(c) Fixed Relevant Three-Year Period

Prior to YA 2025, Section 14N deduction was claimed on qualifying R&R expenditure for every three-year period starting from the YA in which the business first incurred R&R expenditure and made a claim under Section 14N. The relevant three-year period is now fixed, with the first fixed three-year period being YA 2025 to YA 2027.

As a transitional measure, a taxpayer whose previous relevant three-year period does not coincide with the first fixed three-year period will be allowed a refreshed expenditure cap of $300,000 for the period from YA 2025 to YA 2027.

KEY CONSIDERATIONS

Businesses looking to renovate and refurbish their premises may plan their projects strategically to take advantage of the expanded scope of qualifying expenditures and the refreshed expenditure cap from YA 2025.

For example, if a company’s previous relevant three-year period is from YA 2023 to YA 2025 and it had already fully utilised its expenditure cap of $300,000 in YA 2023 and YA 2024, under the transitional measure, it is allowed a refreshed $300,000 expenditure cap for the period from YA 2025 to YA 2027.

Separately, it should be noted that a company opting for a one-year write-off for Section 14N deduction may make an irrevocable election on a YA-by-YA basis. The company may claim Section 14N deduction over three years in subsequent YAs if it has not made an election for these YAs.

Conclusion

There you have it, the key Singapore tax updates to look out for in 2025. By planning ahead, you can meet the new compliance requirements and take full advantage of the new schemes where applicable. And with that, may you have an "uneventful year" with no surprises from the taxman!

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