

## Helping SMEs cope with the downturn

SINGAPORE

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### Singapore Budget 2009 has unveiled innovative remedies and clear steps to help viable firms stay afloat.

Size does matter, especially during a crisis as severe as the current credit crunch. In recent months, Singapore has witnessed a sharp decline in exports, industrial production, and the increasing threat of rising unemployment.

The impact of the crisis has been especially acute for small and medium-sized enterprises (SMEs), having less resources and a greater sensitivity to economic swings. Facing such harsh realities, all eyes were on Budget 2009 for measures to help viable SMEs stay afloat and position themselves for long-term growth.

Responding to the downturn, Finance Minister Tharman Shanmugaratnam unveiled a Resilience Package; a supply-side approach to alleviate the current woes of businesses in Singapore. While the measures apply to all businesses, SMEs stand to be the big beneficiaries.

Broadly, the measures may be grouped into three categories addressing both the short and long-term needs of SMEs: 1) credit crunch measures; 2) cash-flow measures; and 3) measures to position businesses for long-term growth.

Firstly, the measures to provide more access to credit unveiled in the Budget will be critical in helping SMEs cope with the credit crunch and obtain access to vital loans.

In Budget 2009, the Special Risk-sharing Initiative (SRI) was launched to tackle this issue. Arguably, the SRI is not specifically tailored towards addressing the financing needs of SMEs, as the scheme extends government support to mid-sized companies.

However, one may recall that the government had acted earlier to specifically address the credit issues facing SMEs last year. This was through a host of enhanced financing schemes such as the Micro Loan Programme and the Local Enterprise Financing Scheme, which were effective as of Dec 1, 2008. Now, the government will assume as much as 90 per cent of the default risk on loans. It is hoped these financing schemes will be effective in stimulating bank lending. However, success ultimately depends on the willingness of the banks themselves to do their part by lending and facilitating access to credit for SMEs.

Secondly, but of no less importance, are the cash flow-related measures to help viable companies survive the downturn. These cash-flow measures are aimed at the two biggest cost components of most companies – manpower and rentals.

The Jobs Credit scheme was unveiled to help stem job losses during the current recession. Under the scheme, employers will receive from the government a 12 per cent cash grant on the first \$2,500 of each month's wages for each employee on their Central Provident Fund (CPF)-related payroll.

According to Spring Singapore, SMEs account for six in every 10 Singaporean jobs. Assisting SMEs in reducing labour costs would go a long way towards saving jobs in Singapore.

With the grants to be paid out quarterly, this cash grant would also in effect be equivalent to a nine percentage-point cut in CPF. By nature, this is almost equivalent to a direct injection of cash as it translates into immediate savings for SMEs.

#### Saving Jobs

With these savings, many companies should also be able to channel some of the money saved towards increasing training for staff, research, the building up of cash reserves or simply find it helpful in going towards managing their overall costs.

However, if the downturn worsens, this scheme is no guarantee against future layoffs.

Aside from helping companies with their wage bills, another measure to lower operating costs for SMEs (albeit indirectly), is the property tax rebate of 40 per cent on commercial and industrial properties for calendar year 2009. As rental costs constitute one of the main overhead costs for many SMEs, these rebates may indirectly help ease the cash-flow burden on SMEs.

If this rebate is passed on in full by private landlords to their SME tenants, it would translate into an approximately 4 per cent decrease in rental costs for tenants. For businesses operating in HDB or JTC buildings, tenants will also be enjoying a 15 per cent rental rebate.

Some early signs suggest that some private landlords are preparing to commit themselves to passing on their property tax rebate to tenants. Hopefully, this is an indication of more of such announcements to come.

At a time when cash is king, another eagerly anticipated measure which was high on KPMG's wish list has been addressed. Although just a temporary measure, companies can now carry back losses for the years of assessment 2009 and 2010 of up to \$200,000 for each year of assessment.

This is an increase from the previous amount of \$100,000, and businesses can claim these against up to three previous years of income instead of one.

Provisional claims based on estimated losses instead of actual losses will now also be allowed. The significance of this is that businesses will be able to receive tax refunds for prior years' taxes paid much earlier.

For example, a loss-making company with a financial year ending Dec 31, 2008 can submit its provisional claim for loss carry-back immediately, and may get a tax refund within two months. This is subject to certain conditions such as having no outstanding tax liability with the IRAS (Inland Revenue Authority of Singapore) being met.

Companies must, however, take care that the calculations for losses to be carried back are reasonably accurate to avoid potential penalties in the case of incorrect claims.

Thirdly, while helping businesses cope with the downturn, longer-term competitive measures were also introduced. The much-anticipated one percentage-point cut in corporate income tax rate from 18 per cent to 17 per cent was announced. This means that a company with a normal chargeable income of \$300,000 would have an effective tax rate of approximately 8.4 per cent, after taking into account the partial tax exemptions.

There are also measures to encourage businesses to continue to invest in capital equipment. Plant and machinery may now be written down in two years instead of three, with 75 per cent of the expenditure claimable in the first year. Refurbishment expenses may be written down within a year.

#### Looking ahead

We should also not forget the significant research and development (R&D) - related tax incentives which were announced in last year's Budget. The intention then was to enhance the incentives available to SMEs and to encourage investments by SMEs in R&D.

In the current economic environment, companies hoping to take advantage of the enhanced deductions for capital investment and R&D to position themselves for an upturn may find themselves incurring tax losses as a result of R&D investments.

Under the enhanced loss regime, these losses can be carried back against previous year's profits. This could result in significant tax refunds for SMEs. It would provide added incentive for companies to continue investing in their businesses.

Singapore's Budget 2009 has therefore unveiled some innovative remedies and laid out clear steps to help viable companies stay afloat in these challenging times. Only time will tell if the worsening crisis calls for more off-Budget measures to aid SMEs through this financial storm.

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