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MANAGING PARTNER'S MESSAGE



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2017 ended somewhat on a positive note. The economy grew 3.5 percent more than double beating initial forecast attributed primarily to the upswing in the global economic growth. For several years of lacklustre economic performance, businesses can now look forward to a possibly promising and upbeat prospect for 2018 despite worries on terrorism, tension on the Korean peninsula and the US radical approach to international trade and foreign policy that may affect the global economy for the year.

More importantly, businesses are anticipating what's coming in the upcoming Budget announcement. The Finance Minister will read the Singapore Budget in Parliament on 19 February. With the upswing mood, we can expect the government to pressed on with their economic restructuring plans and measures to ensure sustainable growth for the foreseeable future. As usual, BDO will organise our annual Budget Seminar. I would like to invite you to our seminar and take this opportunity to gain insights on the Budget and the proposed changes from our tax specialists and guest speakers. Details on the seminar are on page 8.

I hope you will enjoy and benefit from the articles that we have for you on this issue. Have a good read and enjoy!

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Pushing the Technology Envelope: Benefits and Limitations of Computer Generated Business Valuations

"Valuers will be made redundant in the next 20 years". This may be a haunting phenomenon to the business valuation industry. With the advancement of technology, from the Internet of Things (IoT) to autonomous vehicles, our lives are constantly being redefined by such disruptive technologies. The valuation profession, of course, is not spared.

In a Business Times interview of 7 April 2016, Mr Tan Choi Heng, First Vice-President of The Singapore Institute of Surveyors and Valuers (SISV) said, "while professional valuers use technology to enhance their productivity, the technology is 'a means to an end' but not an end in itself'. While the institute supports the use of computer modelling, it was emphasised that "these are only tools to assist the valuer and cannot replace the rigorous process of inspection, data collection, validation, verification, and analysis undertaken by a professional valuer." Moreover, "a valuation report is a legal document that may become admissible evidence in court."

Essentially, valuation systems are perceived to provide the same service as a valuer. With more and more of such systems flooding the market, the level of competition is expected to increase. Such technological advancement may be seen as a serious threat to the valuation industry, even to the extent of the profession being replaced. To stay ahead of the game, there is a constant need to innovate the service offerings by providing cross function services, e.g. accounting advisory.

However, on the legal front, the valuation process hinges on the professional valuer's experience and sensitivity to the market conditions. In any transaction, both vendor and purchaser have to be guided by the best available advice to make

a well-informed decision. Such analytical skills and experience cannot be replicable based on the existing valuation technology.

With a variety of valuation systems available online, from fee-paying software to free services, one may access these systems with a click of the keyboard to generate an indicative value of one's company or business, even without having any formal valuation training and knowledge. By using specific valuation frameworks as hardcoded within each system, the software will automatically generate the required results, thereby emphasising the system's convenience, speed, simplicity and cost-effectiveness. Particularly for start-ups with limited funding, having a grasp of the "true" value will potentially enhance ones' position in the negotiation process.

However, having a specific inbuilt valuation framework does have its limitations, especially when no secondary cross-check is carried out to ascertain the reasonableness of the derived results. Also, the prescribed valuation framework may not be suitable for certain circumstances. Companies may have different financial and operational characteristics which would require more complex valuation considerations. Such considerations may not have been factored into when developing the valuation framework, which at times may be overly simplistic. Moreover, the standardised risk parameters adopted by the valuation framework prevents user manipulation.

For example, regardless of the company's future strategies and plans, Calc SML assumes a fixed constant growth rate which may be suitable for mature companies with stable growth. In determining the discount rate, Calc SML over



generalises both financial and market risks which may vary from industry to industry. Finally, Calc SML assumes that the company will not exist in perpetuity, but rather exit after a prescribed forecast period.

In the case of both BizEx and LV which adopt a fixed multiple of earnings based on pre-determined market conditions, one-off or non-recurring items are included in the computation of earnings which may be inappropriate, especially in the determination of sustainable earnings. Furthermore, LV adds on the net asset of the company to the final value which may be unsuitable as not all assets are liquid, and therefore a liquidity discount ought to be imputed.

It is therefore up to the users' discretion to weigh the benefits and limitations of such valuation systems and select the right solution which best suits their requirements. Computer generated valuations may be useful as an initial gauge of valuation, especially during the initial stage of a transaction whereby a rough indicative value is required. Also, the awareness of such tools

being available to the general public can make such computer-generated valuation a form of a self-checking mechanism, thereby ensuring that professional valuers take extra care in their computations.

In conclusion, the advent of valuation systems will become an industry fixture. With more and more of such valuation systems entering the market, the level of competition is expected to increase for business valuers. Although such threat may still be viewed in its infancy stage, business valuers should not be complacent but instead seek innovation to complement existing valuation services, lest that we become redundant in the near future.

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Think Tax, As You Plan Your Year Ahead



Let's welcome 2018 with optimism as the heavy rain showered on Singapore should signify prosperity, abundance and opportunities amidst rapid pace of change and global uncertainty.

Taking some important steps at the beginning of the year would pave way for a bright year ahead. The first step would be to review and plan your business tax situation for the year and consider which tax opportunities may be available and beneficial to your business. Talking to a trusted BDO advisor can help alleviate your burden, answer any questions in your planning process and potentially identify tax savings opportunities specific to your circumstances.

1. Purchase big-ticket items early and consider GST registration

With the Finance Minister Heng Swee Keat hinting at upcoming tax hikes in his 2017 Budget Speech and more recently, Prime Minister Lee

Hsien Loong's comments that Singapore will be raising taxes as government spending on social services and investments grows, an increase in GST rate seems inevitable. The big question seems to be "When?"

Currently, only GST-registered businesses are able to recover GST on their business purchases and expenses (subject to certain conditions). For businesses who are not GST-registered or are partially exempt GST-registered businesses (and not able to recover GST in full), the businesses may wish to make its big businesses purchases (e.g. renovation of office, machinery or equipment) before the GST hike.

For non GST-registered businesses, it is also timely to re-consider if it is worthwhile to apply for GST registration by performing a cost-benefit analysis, as the irrecoverable GST will add on to your business costs.

2. Preparing for a GST hike

For businesses who choose to remain non GST-registered, you may want to prepare for any upcoming GST hike by budgeting in a higher GST rate in your costing. It may be safe to budget a GST rate of 10%, considering the GST rates in the region. Businesses should also take into account proposed changes that may see GST been charged on digital supplies and online purchases going forward.

Steps to prepare your business for any upcoming GST hike e.g. training and updating your staff with the new and/or transitional rules, getting your software ready should also be in your to do list, although not immediate.

3. The Road to Internationalisation

As you plan your business expansion, going regional or international may come to mind. Businesses can automatically claim 200% tax deduction on the first S\$100,000 of eligible expenses for the following four activities per assessment year with no prior approval from International Enterprise Singapore required:

- Overseas business development trips and missions;
- Overseas investment study trips and missions;
- Overseas trade fairs; and
- Approved local trade fairs.

Businesses will need to maintain relevant documentation as proof of expenditure and purpose in the event of a tax query. In this regard, businesses should start collating information for qualifying expenses incurred during the year 2017 on qualifying overseas business development trips or start planning for overseas business development / investment study trips / trade fairs for 2018 to maximize tax savings available under this scheme.

4. Personal Income Tax Relief Cap

At the personal front, be prepared for less disposable income when with effect from the YA 2018, the total amount of personal income tax reliefs that an individual taxpayer can claim is subject to an overall relief cap of S\$80,000 per assessment year.

As an individual taxpayer, you should continue to claim the applicable personal income tax reliefs if you have fulfilled the qualifying conditions. If the total amount of reliefs claimed is in excess of the relief cap, the personal income tax reliefs will be limited at S\$80,000. It may be timely to start the conversation with family members as you consider your tax relief claim and/or your share of the tax reliefs.

5. Key Take-Away

The fundamental premise is that taxation is inevitable and there is little to like about it. Whether it is direct or indirect tax, it will hit your pocket and good planning will bring you a long way. At BDO, we believe in providing our clients with bespoke advice, please feel free to contact us today and a trusted BDO advisor would be happy to assist you with your business and personal tax planning.

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Should SMEs Invest in Social Media?

Walk into a MRT train and you might find commuters scrolling through their Facebook news feed. Walk into a café and you might find diners uploading pictures taken of their food on Instagram.

Why Should I Be Using Social Media For My Business?

Social media is like the world's largest cocktail party, where people can listen to others talking and join the conversations with other people about any topic of their choice. In an age where we are now more connected than ever before, social media marketing is an invaluable tool and has led companies, organisations and governments to figure out how to accomplish more with less money – to get their messages out there and talked about, without spending as many dollars on declining media like television, radio and print. Word-of-mouth marketing has always been considered the purest and best form of marketing, and social media has continued to prove this fact in many ways. Thanks to social media, word can spread much faster now as compared to two decades ago. People like to share and feel connected to each other, brands, organizations and even governments they like and trust.

For SME firms, knowing how to capitalise on this is crucial. In order to truly differentiate themselves from their competitors, SMEs need to understand that social media marketing revolves around more than just uploading social media posts on a regular basis.

Where Should I Start?

Knowing what to do with social media in order to be successful is key and several actions are found to be vital for engaging customers online: asking users questions – be it general or business-related – putting feelers out for advice and solutions, sharing stories and posting inspirational quotes.

A large percentage of Singaporeans are heavy consumers of social media, but what SME owners must first focus on is their target market. The key

questions to think about are who your customers are, where they usually live, what their lifestyles are, what their interests are, business wise and outside of business, and that would give you big clues as to the social networks they are likely to be using.

When Can I Best Utilize Social Media?

There are four stages of a customer life cycle which forms the whole brand experience:

- Discovery – A potential customer is introduced to your brand
- Consideration – He/she considers your brand's offerings compared with those of your competitors
- Conversion – He/she purchases and becomes your brand's customer
- Engagement – You nurture engagements with those wonderful people who purchase your brand's products or services

Social media is best utilized during the Discovery and Engagement stages. However, SME firms are still using social mainly for the sake of converting a follower to a sale. That's like painting with a hammer. You can do it – sort of – but it obviously makes far more sense to use a brush. This is particularly true when attempting to engage cynical Generation X clients or advertising-weary Millennials and Generation Zs.

They want to hear your story. They want to know whether you share the same values and have a solution to a challenge they may be experiencing. No matter their age, virtually anyone who engages with your brand on social media wants to get to know you. So, instead of heading for a hard sales pitch, expect to build a relationship over time through compelling social media content.

Time to Take Action

No matter what the size of your business or organization, you too have the ability to follow simple rules of social media to reap the rewards. SME firms need to know that marketing in a



social media world is not about broadcasting your message and getting the largest reach and frequency. It is about tapping in to the conversation, listening, engaging and empowering. The loudest, biggest spenders don't win anymore. The smartest, most flexible listeners do.

What Social Media Can and Can't Do

Before I end this article, I would like to share three key points about social media to dispel any myths you may have heard:

1. **Social media cannot make up for a bad product or company.** If you're marketing a bad product or service, not only will social media not help you but it will actually hurt your cause because word will spread quickly. The good news is, if you're using social media well, you will quickly know when you have bad products, employees or processes and can fix these problems before they cause any serious damage.
2. **Social media won't lead to overnight sales success.** Success will take time, and it will eventually come in increased buzz, referrals, traffic, and eventually, sales. Social media is not an instant win. We are talking about building
- relationships with people, and that invariably takes time.
3. **Social media is not free.** It will take time and/or money to achieve sustained growth. Since it is free to join Facebook and any social network worth talking about, many SME firms think social media is free, or at least cheap. Although it is nearly impossible to spend the kind of money on social media that large companies regularly have spent on television, building and executing a likeable social media plan will take lots of time and work. Ultimately, such a plan cannot be the sole effort of any one marketing or public relations department. Instead, it must be integrated across your entire company.

Now, let's get sociable.

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Singapore **Budget 2018** Seminar

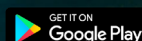
1 March 2018, 9 am to 4.30 pm | Mandarin Orchard Singapore

As Singapore forges ahead to achieve sustainable growth and a positive future, how will the 2018 Singapore Budget proposals impact you, the business community and our economy? What to look out for as the nation transforms in this digital age? Will changes in the tax measures present opportunities or risks to you and your business?

Join us at our annual BDO Budget Seminar where our tax specialists and guest speakers share their viewpoints and discuss implications arising from the Budget. For registration details, scan the QR code* or click the link below:

<https://www.bdo.com.sg/en-gb/events/singapore-budget-seminar-2018>

*requires a third-party QR Reader apps available from



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