

SINGAPORE BUDGET 2010 TAX SPECIAL



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The Singapore government delivered its promise for an expansionary budget that will help business recover from the turbulent times on 22 February 2010.

The Budget Speech delivered by **Minister for Finance Tharman Shanmugaratnam** unveiled a comprehensive multi-billion-dollar plan that was built on three strategic trusts: to help raise productivity through skills, innovation and economic restructuring; to grow globally competitive companies and to include all Singaporeans in the growth.



Minister for Finance
Tharman Shanmugaratnam
Source: Ministry of Finance

The Minister projected that the Singapore economy is expected to grow around 4.5 percent to 6.5 percent in 2010, barring further major problems in global finance. This is a strong expansion, but the expansion has to be seen against the contraction in 2009.

In 2009, the lower overall budget deficit is now estimated at \$2.9 billion (1.1 percent of GDP) as compared to \$8.7 billion that was budgeted a year ago. The better-than-expected budget position can be accounted by the better performance of the economy and the property market. It reflects the return of confidence to our economy.

Going forward, the challenge for Singapore is to capitalise on these opportunities and grow our economy even with the slower growth of our workforce. "Our priority must now be to improve the quality of jobs", Mr Tharman said.

"To raise skills and productivity is the only viable way we can achieve higher wages, and is the best way to help citizens with low incomes", he added. The key to achieving this, Mr Tharman said, is to boost productivity and manage the economy's dependence on foreign labour.

Budget 2010 comprises four key components. See Figure 1 for a quick summary. The Government

plans to boost productivity, spur innovation, grow globally competitive companies and help workers upgrade. The Government sets the goal of growing Singapore's productivity by 2 percent to 3 percent per year, over the next decade. However, "making the next leap in productivity will require a multi-faceted effort", said the Minister. Various measures were set out for businesses and individuals to achieve this.

FOR BUSINESSES

Businesses have much to cheer with the unveiling of a series of measures aimed at helping them to improve their bottom-line, ease their overall tax burden, defray training cost of employees, facilitate restructuring of companies, encourage partnerships and spur innovation. This multi-pronged approach would have an impact on all businesses on several fronts.

Broad-based measures like tax reduction for all companies which invest in innovation and funding for initiatives are welcome booster shots for the business. Other measures like the proposed deferment of import Goods and Services Tax (GST) will help to ease the cash-flow headaches of many GST-registered companies dealing with huge volume of imports.

ENABLING PRODUCTIVITY TO GROW BY 2% TO 3% PER YEAR

The Government proposed to spend \$1.1 billion a year over the next five years in the form of tax benefits, grants and training subsidies to support the national effort to raise productivity. It aims to involve transformation at three levels:

- Restructure the overall economy towards higher-value activities and exit from less efficient ones;
- Upgrade individual industries and enterprises; and
- Raise the skills and creative potential of every worker.

A part of the proposal also plans to reduce Singapore's dependence on foreign workers gradually where Singapore will stand to benefit in the long term with higher productivity. Specifically, a quarter of this \$1.1 billion funding will be set aside to raise productivity in the construction sector, which is heavily dependent on foreign workers and whose productivity is only half that of the US and one-third that of Japan. According to Ministry of Trade and Industry, the construction sector grew by just 0.9 percent for Q309 compared to the growth of 32.7 percent in the previous quarter. The focus on the construction sector is timely, given that the growth of this sector had significantly slowed down.

PAVING THE WAY FOR CORPORATE AMALGAMATIONS

In the corporate amalgamation framework introduced in Budget 2009, the Minister introduced a new framework that simplified significantly the tax burden when a company acquires another and takes over its assets and liabilities by allowing the tax benefits of the amalgamating companies to be transferred to the amalgamated entity. This year, the Government further introduced a one-off tax allowance scheme to help defray a portion of acquisition costs for the next five years. The allowance will be equal to 5 percent of the value of the acquisition. This good news is topped up with a further waiver of stamp duty on the transfer of unlisted shares for such deals worth up to \$100 million in any year. Companies that are planning for any mergers in 2010 will be able to take advantage of this enhanced scheme.

DEVELOPMENT OF CENTRES OF EXPERTISE BY THE NATIONAL PRODUCTIVITY AND CONTINUING EDUCATION COUNCIL

To help enterprises in all sectors, the National Productivity and Continuing Education Council has been set up to oversee the work of the different government agencies and promote close collaboration among the business, workers and unions, and the public sector. With special emphasis initially on sectors where there is potential for large gains in productivity, the \$2 billion fund, with \$1 billion being injected in 2010, administered by the Council will be used to develop centres of expertise for a range of industries, which will grow a knowledge base for enterprises to tap on to develop productivity solutions. It will be used to support broad-based tax reduction for companies which invest in innovation, with funding for initiatives customised to specific industries and clusters. Most enterprises will stand to benefit from this funding.

BUDGET 2010

A QUICK SUMMARY

BOOST PRODUCTIVITY (\$5.5 billion over next five years)	<ul style="list-style-type: none"> • \$1.1b tax benefits, grants and training subsidies to raise productivity • \$1b to create a new National Productivity Fund • \$2.5b over 5yrs for continuous education & training • \$480m productivity and innovation costs
SPUR INNOVATION	<ul style="list-style-type: none"> • \$1.5b to promote research and development • \$450m to boost private-public partnership
GROW GLOBALLY COMPETITIVE COMPANIES	<ul style="list-style-type: none"> • \$1.5b to support expansion of SMEs • \$100m to facilitate M&A • \$250m to encourage Partnership for Capability Transformation • \$100m to strengthen business association • \$60m to support angel investors
HELP WORKERS UPGRADE	<ul style="list-style-type: none"> • \$1m enhanced WIS Payout • New Workfare Training Scheme

DEEPENING SKILLS AND EXPERTISE THROUGH CONTINUOUS EDUCATION AND TRAINING

\$2.5 billion will be spent over the next 5 years to support training of our people to develop a continuous ladder of skills and qualifications that anyone can acquire at different stages in their lives. This investment makes sense as individuals need to be equipped with the necessary skills-sets to support Singapore's aim towards becoming an advanced economy with superior skills. Singaporeans will need to develop their competencies to perform more complex tasks and to ensure mastery of skills and depth of expertise in every trade and profession.

BIG CARROT GIVEN TO SPUR INNOVATION

The Government will invest \$480 million a year for the Productivity and Innovation Credit scheme. This scheme gives significant tax deductions for companies that invest in a broad range of activities along the innovation value chain. The scheme is aimed at helping Small and Medium-sized Enterprises (SMEs) raise their level of innovation and productivity. Specifically, claims can be made if business owners invest in research and development activities, buy or register intellectual property such as patents, trademarks, designs, patent or copyright for use in their business. They can deduct 250 percent of their expenditure spent on these activities up to \$300,000 for each activity.

Besides more tax relief for business owners that innovate, the Government will also continue to promote research and development in the public sector. \$2.2 billion had been put into the National Research Fund in previous years and there will be another \$1.5 billion added to the Fund this year to support this continuous commitment.

Together with the two schemes above, another \$450 million will be spent over the next five years to start a Public-Private Co-Innovation Partnership for government agencies to work with private sector companies in co-developing innovative solutions for medium- to long-term needs. The areas of partnership includes urban mobility, environmental sustainability and energy security. This partnership will also be extended to small and untested companies to encourage innovation in the private sector. Key government agencies will share their technology roadmaps and future needs publicly, and provide grants to help companies test-bed innovative solutions to meet these needs.

Most SMEs stand to benefit from these schemes as these will help to defray their cost of innovation, which largely include manpower costs and investment on technology. With these cost-savings, companies can then continue to run their operations in Singapore as opposed to bringing the business to other parts of the region which offer cheaper operating costs.

SHARING THE RISK OF START-UPS AND BRINGING SMES BEYOND SINGAPORE

To attract "angel investors" to nurture start-ups, the Government will spend \$60 million over the next

five years to incentivise private individuals with appropriate investment and business expertise to provide financing to start-ups. An "angel investor" is usually a rich individual who provides capital for a business start-up, usually in exchange for convertible debt or ownership equity. Under this incentive, an eligible angel investor who commits a minimum of \$100,000 of equity investment in a qualifying start-up in a given year can claim 50 percent tax deduction on his investment at the end of a two-year holding period. This deduction is subjected to a cap of \$500,000 of investments in each Year of Assessment.

Another initiative announced was the new \$1.5 billion co-investment programme, to be spent over the next 10 years, for which the Government will contribute up to half the capital to assist SMEs to expand overseas. The first phase will be launched this year, with the Government funding up to \$250 million to match private sector investments.

Both schemes will greatly benefit the SMEs. SMEs are generally small and vulnerable and have limited capacity and resources to grow. With these assistance schemes, they can become the launch pad for Singapore to leap ahead.

FOR INDIVIDUALS

Individuals, too, stand to reap the benefits of the Budget, which is aimed at including all Singaporeans in the country's growth, supporting the lower-income earners and supporting families to move out of the downturn. Among the goodies they stand to receive are more income tax breaks for those with elderly or handicapped dependents, new progressive property tax system, top-up of CPF Medisave, Medifund, Eldercare fund and Post-Secondary Education accounts, increase in course fees relief, enhancement of tax deduction on donations and enhanced Workfare Income Supplement (WIS).

OWNER-OCCUPIED PROPERTY OWNERS REJOICE

Given the new three-tiered progressive property tax system, all HDB flat owners and a large majority of private property owners will enjoy tax savings of \$240 a year. The first tier is zero percent, followed by 4 percent and 6 percent. The first \$6,000 of a home's annual value will be exempted from property tax. The next tier will be taxed at 4 percent, and the balance of a home's annual value in excess of \$65,000 will be taxed at 6 percent. This new schedule will apply to property tax payable from January 2011.

NO CUT IN PERSONAL TAX RATE AGAIN

Once again, the hoped-for personal income tax rebates and reduction in personal income tax rates especially for the top marginal group was not part of the Budget. In the absence of personal income tax rebates, an average taxpayer would now have to fork out more in income tax. There was also no change in the top personal income tax rate. This remains at 20 percent, above Hong Kong's top rate of 16 percent.

MORE HELP FOR LOW-WAGE WORKERS VIA ENHANCED WIS AND WORKFARE TRAINING SCHEME

There will be more incentives for employers and low-wage workers to commit to training with the introduction of the new Workfare Training Scheme (WTS). This is a three-year programme to complement the WIS with the aim to overcome barriers to train low-wage workers. Employers who send their workers on training will receive 90 percent to 95 percent of funding to defray their payroll cost and subsidise the course fee. In addition to that, to recognise the efforts of workers who go for skills upgrading, employees who attend training will be provided cash grants of up to \$400 per year when they complete their training. WIS will also be enhanced such that the payout will be increased by between \$150 and \$400, with more going to older workers to encourage them to remain in the workforce. The income criteria for WIS applicant will be expanded to workers earning up to \$1,700 a month as compared to \$1,500 previously. This increase in income ceiling will definitely encourage more workers to participate in the WIS programme and to go for training courses.

MORE RELIEFS FOR ELDERLY OR HANDICAPPED DEPENDENTS

More income tax reliefs are now made to benefit middle-income groups, and support families with elderly and handicapped members. For handicapped-dependant-related reliefs, the income threshold condition will be removed in recognition of the extra resources and attention needed in providing care to the disabled and for all other dependant-related reliefs the income threshold of \$2,000 will be increased to \$4,000. Parent relief will increase by \$2,000 to \$7,000 if the taxpayer lives with the dependant or by \$1,000 to \$4,500 they do not. Handicapped parent relief is greater: \$11,000 (\$3,000 now) if the taxpayer lives with the handicapped dependant or \$8,000 (\$1,500 now) if they do not. These better measures will very much alleviate the financial burden of this group of taxpayers and is also in-line with the Government's effort to "continue to build a society where every Singaporean shares in the country's growth" said the Minister.

CONCLUSION

The measures announced in Budget 2010 are undoubtedly in line with the Minister's statement last year that the Budget would be expansionary. It clearly delineates various new and enhanced initiatives to raise productivity and enable sustainable growth of the Singapore economy. Certainly, some of the measures added reassurance while some provided room for new growth opportunities. However, it remains to be seen in the one-year time frame whether these measures are effective in bringing Singapore's economy to the next phase amid the country's recovery from the global economic crisis.

This report was contributed by ICPAS Research.

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