

Singapore Budget 2010: Productivity as the Springboard to Growth

- A heavy emphasis on productivity was expected, with this budget being a follow-through of the Economic Strategies Committee recommendations, containing more concrete measures to position Singapore on the next growth phase. This compares with FY2009's Budget which was more focused on coping with the economic crisis.
- Ways to increase productivity was comprehensively addressed in the form of a Productivity and Innovation Credit, involving tax deductions for companies on a range of activities along the innovation value chain.
- On the labour aspect, \$2.5 bn will be spent over the next 5 years on Continuing Education and Training to raise skills and qualifications. Employers and employees alike will also be compensated for undergoing training.
- Raising levy rates over the next 3 years is another key aspect of the productivity drive, to regulate the flow of foreign workers.
- This fiscal year will see an overall deficit of \$2.96 bn, or 1.1% of GDP, due to higher revenues from taxes and fees.
- Corporates got their fair share of tax breaks in this budget, in securing financing as well as undertaking M&A activity.
- The introduction of a tiered property tax looks to be a more equitable system which will see the lower-income living in HDB paying less in property tax.

A heavy emphasis on productivity was expected, with this budget being a follow-through of the Economic Strategies Committee recommendations, containing more concrete measures to position Singapore on the next growth phase. This compares with FY 2009's Budget which was more focused on coping with the economic crisis. With the economy now on a normalizing path, this budget is a good start in propelling the economy forward, with productivity the key driver. Ways to increase productivity was comprehensively addressed in the form of a Productivity and Innovation Credit, involving tax deductions for companies on a range of activities along the innovation value chain. Tax deduction of 250% of expenditures on those activities capped at \$300,000, (which can also be converted to a cash grant of \$21,000) will go some way in pushing companies, especially SMEs to raise productivity. On the labour aspect, \$2.5 bn will be spent over the next 5 years on Continuing Education and Training to raise skills and qualifications. Employers and employees alike will also be compensated for undergoing training, through the Workfare training scheme which will provide employers with 90-95% of funding for absentee payroll, while workers will get cash grants capped at \$400 per year. Older workers will also receive more payouts through the Workfare income supplement. A National Productivity Fund with a target size of \$2 bn, will provide grants to help enterprises, with the construction sector a key beneficiary, receiving \$250 mn of the first \$1 bn. A National Productivity and Continuing Education Council will be set up to institutionalize the productivity push.

Raising levy rates over the next 3 years is another key aspect of the productivity drive, to regulate the flow of foreign workers. Levy rates on Work Permit holders will be raised by between \$10-\$30 starting Jul 1 this year, and the total increase in levy rates will be \$100 over the 3 years of 2010- 2012 per worker in the manufacturing and services sector. Those in the construction sector will see a larger increase. S-Pass workers will also see hikes in the levy rates of \$100 and \$120 respectively for the first and second tiers, from \$50 currently. This will reach \$150 and \$250 by 2012. We

Singapore Budget Statistics							
	FY2005	FY2006	FY2007	FY2008	FY2009	FY2009	FY2010
SGDbn				Actual	Budget*	Revised*	Government Forecast*
Operating Revenue	28.17	31.29	39.65	41.09	33.43	38.57	40.73
Taxes and Fees	28.17	31.29	39.65	41.09	33.43	38.57	40.73
Total Expenditure	28.63	29.90	33.31	38.09	43.62	42.89	46.37
Operating Expenditure	21.44	23.92	26.22	28.73	32.16	31.75	33.90
Development Expenditure	7.19	5.98	7.09	9.36	11.46	11.14	12.47
Primary Budget Balance**	(0.46)	1.39	6.34	3.00	(10.19)	(4.32)	(5.64)
% of GDP	(0.2)	0.6	2.6	1.1	(3.9)	(1.7)	(2.0)
Less: Special Transfers	0.83	3.57	2.20	7.10	6.15	5.60	5.15
Add: NII Contribution	2.78	2.13	2.30	4.34	7.67	7.03	7.83
Overall Budget Balance	1.49	(0.05)	6.44	0.24	(8.67)	(2.89)	(2.96)
% of GDP	0.7	(0.0)	2.6	0.1	(3.3)	(1.1)	(1.1)
Source: Ministry of Finance							
* Figures may not add up due to rounding							
** Surplus (Deficit) before Special Transfers and Net Investment Income (NII) contribution							

believe this move will hurt labour-intensive companies in the short-term, but as companies adapt by restructuring and becoming more efficient, this should be beneficial in the long run. Raising levy rates is also a more flexible tool as compared to imposing quotas on foreign workers.

Manageable Deficit

This fiscal year will see an overall deficit of \$2.96 bn, or 1.1% of GDP, due to higher revenues from taxes and fees, as well as a smaller amount of special transfers than we had anticipated. The deficit is estimated to be even slightly larger than the revised FY 2009 budget deficit of \$2.89 bn. This is largely due to strong Net Investment returns for FY2010.

For Corporates

Corporates got their fair share of tax breaks in this budget. In anticipation of more M&A activity by companies, the government will provide a one-off tax allowance to help subsidise the acquisition costs. The allowance will be 5% of the value of the acquisition. The bugbear of SMEs- access to financing- was made easier. To help companies get start-up capital, tax deduction of 50% on the investment were introduced for angel investors. The government will also provide up to \$250 mn to match private sector investments. We believe these should facilitate access to funding and provide more channels and avenues for start-ups to obtain financing.

For Households

As for the introduction of a tiered property tax, this looks to be a more equitable system which will see the lower-income living in HDB paying less in property tax. Households will also gain in the form of increased tax reliefs such as parent, spouse, dependent and course fee reliefs. Top ups to CPF Medisave accounts for older Singaporeans, Medifund, ElderCare Funds, and Post-Secondary Education Accounts were also included. But there's a noticeable absence of tax rebates and direct cash handouts this year, as the economy pulls through the worst of the economic crisis.

Property

The government has already addressed speculative activity in the property market, with recent measures to impose a 3% stamp duty on property sold within a year, as well as lowering the loan-to-value ratio at 80%. According to media reports over the weekend, Minister for National Development Mah Bow Tan noted that there was a 'high risk' of a property bubble forming in the private homes market.

Main Fiscal Measures Announced

Raising Productivity:

- Introduce 'Productivity and Innovation Credit' which will provide 250% tax deductions for the first \$300,000, for investments in a broad range of activities along the innovation value chain such as R&D, registration and acquisition of intellectual property, design activities, automation through technology or software, and training of employees. All businesses will be eligible for the Credit, from YA2011 to YA2015. Businesses which have at least 3 local employees have the option to convert up to \$300,000 of their Productivity and Innovation Credit a year into a cash grant of up to \$21,000. This component will be reviewed after 3 years. IRAS will release more details in June 2010.
- Target to put \$2 billion into the National Productivity Fund. Around \$250 million out of the first \$1 billion of funding will be dedicated to raising productivity in the construction sector.
- Establish a high-level National Productivity and Continuing Education Council which will be chaired by DPM Teo Chee Hean.
- Target to spend \$2.5 billion over the next 5 years on Continuing Education and Training (CET).
- Introduce a 3-year Workfare Training Scheme (WTS) to complement the Workfare Income Supplement (WIS). It will be aimed at helping older workers, but will also be open to younger WIS recipients (aged 35 years and above).
- Enhancement of the WIS. Starting from 2010, maximum payouts for the WIS will be increased by between \$150 and \$400. The scheme will also be extended to workers earning up to \$1,700 a month – up from the current limit of \$1,500.
- To manage Singapore's dependence on foreign workers. Levy rates will be raised by between \$10 and \$30 for most Work Permit holders on 1 July 2010 and this will be raised gradually in 2011 and 2012. Taking the three years together, there will be a total increase of about \$100 in average levies per worker in manufacturing and services. The construction sector will see a larger increase.
- For S Pass workers, there will now be two levy tiers. The rates for the first and second tiers will be \$100 and \$120 in July 2010, up from a single rate of \$50 currently. Further adjustments will then be phased in until the rates reach \$150 and \$250 by July 2012. MOM and MND will release more details of the changes to the Foreign Worker Levy later this week.
- A new M&A allowance equivalent to 5% of the value of the acquisition and capped at \$5 million in a single YA, will be introduced from 1 April 2010 to 31 March 2015. Stamp duty on the transfer of unlisted shares for qualifying M&A deals will also be remitted, capped at \$200,000 per year. More details will be released by the IRAS by June 2010.
- Phase out of Industrial Building Allowance with immediate effect.
- Land Intensification Allowance (LIA) on qualifying capital expenditures incurred for the construction of a qualifying building or structure (one of nine industry sectors). This incentive will be in place for 5 years commencing on 1 July 2010. Details will be released by June 2010.
- Commit \$45 million over five years to enhance SPRING's Business Leaders Initiative.

- Sustain commitment to public sector basic- and mission-oriented research at 1% of GDP. Govt to add another \$1.5 billion into the Fund in 2010
- Commit \$450 million over 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, in areas such as urban mobility, environmental sustainability and energy security.

Growing Globally Competitive Companies:

- Angel investors enjoy 50% tax deduction (capped at \$500,000) on his investment at the end of a two-year holding period, provided he has invested a minimum of \$100,000 of equity investment in a qualifying start-up in a given year. The scheme is valid from 1 March 2010 to 31 March 2015.
- Partnerships for Capability Transformation (PACT) programme to subsume the Local Industry Upgrading Programme (LIUP). The govt will set aside \$250 million over five years to strengthen procurement linkages between MNCs and local companies
- Extend the Development and Expansion Incentive scheme to law practices providing international legal services which will allow approved law practices to enjoy a 10% concessionary tax rate on incremental income derived from performing international legal services.
- Enhancements to Financial Sector Incentives (FSI).
- Extension of and enhancement to listed REIT concessions.
- Expand the scope of GST zero-rating for the marine industry.
- Renewal of the Investment Allowance scheme which grants an additional 50% allowance for aircraft rotables for another five years. The rules for claiming the allowance will also be liberalised.
- Deferring import GST to ease cashflow for GST-registered businesses effective 1 October 2010.

For Individuals and Households:

- Shift to a progressive property tax regime payable from January 2011. Introduction of three tiers of tax rates – 0% (first \$6,000 of AV), 4% (for the next \$59,000 of AV) and 6% (in excess of \$65,000) – under the new schedule for owner-occupied residences.
- Increase the parent relief, and also enhance the relief for taxpayers who are taking care of handicapped parents and grandparents.
- Expansion of wife relief to spouse relief effective from YA2010.
- Increase the income threshold for dependant-related reliefs from \$2,000 to \$4,000 and remove the income threshold for handicapped dependant-related relief effective from YA 2010.

- Increase the course fee relief from \$3,500 to \$5,500 with effect from YA 2011.
- Tax deduction of 250% will be extended for another year for donations made during the period from 1 January 2010 to 31 December 2010.
- One-off top-up to the CPF Medisave Accounts of older Singaporeans aged 50 and above. Most Singaporeans aged 50 to 59 will receive a top-up of \$200 to \$300. The majority of those aged 60 to 69 will get a top-up of \$300 to \$400, while those aged 70 and above will receive a top-up of \$400 to \$500
- Top-up to Post-Secondary Education Account (PSEA) scheme. Children between 7-20 years old will receive \$100-\$500.

Other Tax Measures:

- Enhance the Transport Technology Innovation Development Scheme (TIDES+) for new green vehicles.
- Reduce the withholding tax rate of non-resident public entertainers from 15% to 10% for five years to 31 March 2015.
- Duty-free allowance for additional one litre of wine.

Source: Ministry of Finance

Disclaimer: This analysis is based on information available to the public. Although the information contained herein is believed to be reliable, UOB Group makes no representation as to the accuracy or completeness. Also, opinions and predictions contained herein reflect our opinion as of date of the analysis and are subject to change without notice. UOB Group may have positions in, and may effect transactions in, currencies and financial products mentioned herein. Prior to entering into any proposed transaction, without reliance upon UOB Group or its affiliates, the reader should determine, the economic risks and merits, as well as the legal, tax and accounting characterizations and consequences, of the transaction and that the reader is able to assume these risks. This document and its contents are proprietary information and products of UOB Group and may not be reproduced or otherwise.