

Media Release

22 February 2010

The Minister for Finance, Mr Tharman Shanmugaratnam, delivered the Budget Statement for the Financial Year (FY) 2010 on 22 February 2010.

TOWARDS AN ADVANCED ECONOMY: SUPERIOR SKILLS, QUALITY JOBS, HIGHER INCOMES

1. Budget 2010 focuses on building up the capabilities needed to transform our economy over the next decade. The Government has accepted the key thrusts of the Economic Strategies Committee (ESC)'s recommendations. We are charting a new course for growth, based on skills, innovation and productivity.

2. The key goal is to grow productivity by 2% to 3% a year over the next decade. If the goal is achieved, real incomes can be raised by one-third, ten years from now. Budget 2010 provides a major investment for this future through the following three approaches:

(i) **Raising Productivity** by helping enterprises and workers to deepen skills and expertise, and to innovate to create more value;

(ii) **Growing Globally Competitive Companies** by enabling companies to develop growth capabilities, commercialise their research and development (R&D) and to expand abroad; and

(iii) **Including All Singaporeans in Growth** by continuing to build a society where everyone has the best opportunity to reach further and stretch his or her potential, and enjoy a better quality of life.

(A) RAISING PRODUCTIVITY: SKILLS, INNOVATION & ECONOMIC RESTRUCTURING

3. Achieving 2% to 3% productivity growth per year for a whole decade will be a major challenge, and will require a multi-faceted effort. It will involve transformations at three levels – restructuring the economy towards high value activities; upgrading individual industries and enterprises; and raising the skills and creative potential of every worker. The Government will commit \$5.5 billion over the next five years to help enterprises and workers raise productivity.

4. To complement investments in productivity, the foreign worker levies will be raised. The increase in levies will be calibrated and phased in over the next three years to allow companies time to adjust.

5. The main initiatives for raising productivity are as follows.

At the national level:

- **National Productivity and Continuing Education Council.** A high-level National Productivity and Continuing Education Council -- chaired by DPM Teo Chee Hean, and including members from the Government, business community and the labour movement -- will be established. It will :
 - Galvanise the major national effort to boost skills and enterprise productivity;
 - Develop a comprehensive system for continuing education and training (CET); and
 - Oversee the work of the different government agencies and promote close collaboration amongst the business sector, workers and unions, and the public sector.

To invest in the continuing education of our people:

- **Building a first-rate Continuing Education and Training (CET) system.** The Government will spend \$2.5 billion over the next five years to build up an outstanding CET system. It will be a comprehensive and customised approach, focusing on every trade and skill level, and including the development of centres of excellence that are focused on specific industries and clusters of enterprises.
- **Workfare Training Scheme (WTS).** The Government will introduce a three-year WTS to complement the Workfare Income Supplement (WIS), which will:
 - Subsidise 90% to 95% of absentee payroll and course fees for employers, when they send their low-wage workers for training;
 - Provide cash grants, capped at \$400 per year, when WIS recipients complete their training; and
 - Introduce a structured training programme for those with very low skills, including those who are unemployed.

- **Enhancing Workfare Income Supplement (WIS)**. The Government will enhance the WIS as follows:
 - *Higher payouts*. Maximum payouts for the WIS will be increased by between \$150 and \$400, with more going to older workers to encourage them to remain in the workforce; and
 - *Extension to more workers*. The Government will extend WIS to workers earning up to \$1,700 per month – up from the current limit of \$1,500 per month.

Further details of the enhancements to Workfare (WIS and WTS) will be announced during the Ministry of Manpower's Committee of Supply.

To support enterprise investments in innovation and productivity:

- **Productivity and Innovation Credit**. The Credit will provide significant tax deductions for investments in a broad range of six activities along the innovation value chain comprising:
 - Research & Development (R&D);
 - Registration of Intellectual Property – including patents, trademarks, and designs;
 - Acquisition of Intellectual Property – for example, when a company buys a patent or copyright for use in its business
 - Design activities;
 - Automation through technology or software; and
 - Training of employees

All businesses will be eligible for the Credit, based on their spending on any of these activities. 250% of expenditures on each of these activities can be deducted from their taxable income. The deductions for each activity are capped at \$300,000 expenditure for each Year of Assessment, but there is no limit on the number of activities they can undertake to benefit from the scheme. The Productivity and Innovation Credit will take effect from Year of Assessment 2011 to Year of Assessment 2015.

To support cash-constrained business, the Government will allow businesses the option to convert up to \$300,000 of their Productivity and Innovation Credit into a cash grant of up to \$21,000 per Year of Assessment. This option will be available for Year of Assessment 2011 to Year of Assessment 2013, and will be reviewed after the three years.

- **National Productivity Fund**. The Government will create a new National Productivity Fund to support initiatives customised to specific industries, clusters and enterprises, which :

- Will provide grants to help enterprises in all sectors, with special emphasis initially on sectors where there is potential for large gains in productivity.
- Can 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.

The Government targets to put \$2 billion into the National Productivity Fund. To start, the Government will inject \$1 billion into the Fund in 2010, which it expects will be able to support initiatives over the next five years. Around \$250 million of the initial \$1 billion will be dedicated to raising productivity in the construction sector.

To complement the support for enterprise innovation and upgrading, foreign worker levies will be raised:

- **Phasing increase in foreign worker levies.** As a first step, the Government will raise levy rates by between \$10 and \$30 on 1 Jul 2010. It will phase in further adjustments of the levy rates and dependency ratio tiers in 2011 to 2012. Taking the three years together, there will be a total increase of about \$100 in average levies per worker in manufacturing and services. A larger increase will be phased in for the construction sector, where there is much scope for productivity improvements. The overall dependency ratio for all categories of foreign workers (work permit and S Pass holders) will remain unchanged.

In July 2010, the Government will also change the current single rate (\$50) for S Pass workers for all sectors, to two tiers (\$100 and \$120) based on dependency ratios. It will phase in further adjustments until the rates reach \$150 and \$250 by July 2012.

To support business restructuring:

- **Tax allowance and stamp duty relief to defray mergers & acquisitions (M&A) cost.** The Government will introduce, for five years, a one-off new tax allowance scheme (equal to 5% of qualifying acquisitions) to help defray some of the costs incurred in M&A. The Government will also, as a one-off new tax concession, waive stamp duty for qualifying acquisition of unlisted shares for five years.

To enhance land productivity:

- **Land Intensification Allowance.** The Government will phase out the Industrial Building Allowance (IBA) scheme, and introduce a Land Intensification Allowance (LIA) to support enhanced land productivity among industrial users.

The LIA will give businesses in nine industry sectors (which have large land-takes) new tax allowances on qualifying building costs if they meet or exceed the Gross Plot Ratio (GPR) benchmarks set for their respective sectors. Businesses that meet the applicable benchmarks will receive more generous allowances than are currently offered under the IBA. Existing IBA claimants can continue to claim their remaining IBA on qualifying capital expenditures until they are written down.

(B) GROWING GLOBALLY COMPETITIVE COMPANIES

6. The Government will introduce initiatives to help enterprises grow into globally competitive companies by: (i) building capabilities through partnerships; (ii) reaping commercial advantage from R&D; and (iii) improving access to growth finance.

The main initiatives are as follows:

(i) Building Capabilities through Partnerships

- **Partnerships for Capability Transformation (PACT)**. Currently, EDB operates the Local Industry Upgrading Programme (LIUP) to strengthen procurement linkages between MNCs and local companies. The new PACT programme will subsume LIUP by focusing not only on procurement based on existing capabilities, but also on the development of new capabilities for our local enterprises to meet stringent manufacturing quality and certification requirements. \$250 million will be set aside over five years to defray part of the qualifying expenses for such partnerships.
- **Scaling up support for business associations**. The Government will commit \$100m over five years to scale-up its support for business associations to drive productivity at the industry level and facilitate international market access for their members. SPRING and IE Singapore currently work closely with business associations to build industry-wide capabilities in manpower and technology, and establish overseas presence through several initiatives such as the Local Enterprise and Association Development programme (LEAD) and Enterprise Development Centres (EDCs).
- **Nurturing the next generation of business leaders**. The Government will commit \$45 million over five years to enhance SPRING's Business Leaders Initiative to attract young talent into SMEs, and groom a future generation of SME managers and entrepreneurs.

(ii) Reaping Commercial Advantage from R&D

- **Topping up the National Research Fund**. The Government will sustain its commitment to public sector research at 1% of GDP going forward. It will put

another \$1.5 billion into the National Research Fund to support this commitment.

- **Boosting Private Sector R&D.** The aim is to grow private sector R&D spending from 2% of GDP currently to 2.5% over the next five years. The new Productivity and Innovation Credit scheme, together with the innovation vouchers that SPRING provides to SMEs, and potential partnerships that companies can form with public sector research institutes, will make Singapore one of the most compelling locations for private sector R&D in Asia.
- **Public-Private Co-Innovation Partnership.** The Government will help innovation-driven companies turn their R&D into marketable solutions by committing \$450 million over five years to start a Public-Private Co-Innovation Partnership. Government agencies will work with private sector companies in co-developing innovative solutions for their medium to long term needs, in areas such as urban mobility, environmental sustainability, and energy security. 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.

(iii) Improving Access to Growth Finance

- **Tax deduction for angel investors.** The Government will introduce a new incentive to support early-stage funding for start-ups and young companies. An eligible angel investor who commits a minimum of \$100,000 equity investment in a qualifying start-up in a Year of Assessment can claim 50% tax deduction on his investment at the end of a two-year holding period. The deduction is subject to a cap of \$500,000 of investments in each Year of Assessment. This scheme will be available for the next five years and will cost around \$60 million.
- **Catalysing growth investments through co-investment.** To help catalyse financing for companies that have achieved initial success and are looking to scale up, the Government will mobilise up to \$1.5 billion of growth capital by seeding a range of funds, in which the Government will contribute up to half of the capital. This will be implemented in phases. In the first phase, which will be launched this year, the Government will supply up to \$250 million to generate up to \$500 million through matching private sector investments in Singapore-based enterprises.
- **Promoting cross-border financing.** The Government agrees that we should find ways to plug existing gaps in financial markets to meet the needs of internationalising companies. Government support may be required for such an institution to insure long-term risk. The Government is studying various models and evaluating how best to develop a market-based, commercially-run

institution to support and catalyse the growth of cross-border financing for Singapore-based companies.

(C) INCLUDING ALL SINGAPOREANS IN GROWTH

7. The Government will continue to build and preserve a society where every Singaporean shares in the country's growth.

Specific initiatives that will benefit both lower and middle income households include the following:

- **Shifting to a progressive property tax regime.** Currently, owner-occupied residential properties are taxed at a concessionary 4% rate (instead of 10% for all other properties). In addition, owner-occupied residential properties with Annual Values (AV) below \$10,000 can enjoy the on-going 1994 property tax rebates ranging from \$25 to \$150, depending on the AV of their properties.

These will be replaced by a progressive property tax schedule for owner-occupied residential properties, for property tax payable from January 2011. Three tiers of property tax rates for such properties will be introduced: 0%, 4% and 6%. The first \$6,000 of AVs will be exempt from property tax. The next \$59,000 of the AV balance will be taxed at 4%, and the balance of AV in excess of \$65,000 will be taxed at 6%.

The new property tax system will benefit most Singaporeans. Owner-occupied homes will enjoy tax savings of \$240 as a result of the exemption of the first \$6,000 of AVs. All HDB flat owners and the large majority of private property owners will pay lower taxes. Owners of high end properties, with AVs of more than \$77,000, will typically see a small increase in tax payable, as their effective tax rates will be higher than the current 4%.

- **Enhancing Parent Relief and Handicapped Parent Relief.** The parent relief will be increased from \$5,000 to \$7,000 for taxpayers staying with their dependants, and from \$3,500 to \$4,500 for taxpayers who are not staying with their dependants. The handicapped parent relief will also be raised from \$8,000 to \$11,000 for taxpayers who stay with their handicapped dependants, and from \$6,500 to \$8,000 for taxpayers who are not staying with their handicapped dependants.
- **Enhancing Wife Relief to Spouse Relief.** Wives who are breadwinners can claim a spouse relief of \$2,000, similar to the current tax relief for husbands.
- **Enhancing Dependant Relief.** The maximum income that a dependant can be earning in order for a taxpayer to claim tax relief for supporting him will be raised from \$2,000 to \$4,000. This is to recognise taxpayers' efforts in

supporting family members who are genuinely dependant, while giving them the flexibility to do some incidental work. The income threshold will also be removed for reliefs relating to handicapped dependants, in recognition of the extra resources and attention needed in taking care of the disabled.

- **Increasing Course Fee Relief.** To support lifelong learning, the Government will increase the course fee relief from \$3,500 to \$5,500.
- **Topping-up to Central Provident Fund Medisave Accounts.** Top-ups amounting to a maximum of \$500 will be provided to older Singaporeans aged 50 and above.
- **Topping-up to Post Secondary Education Accounts (PSEA)** of young Singaporeans. Those aged 13-20 will receive up to \$500, while those in primary schools will receive up to \$200.
- **Topping-up of \$200 million each to Medifund and ElderCare Fund** as part of Government's ongoing efforts to set aside funds to meet Singaporeans' long term healthcare needs.

8. The Government will be spending \$1.4 billion in direct transfers for households in FY2010. Including the Workfare Income Supplement, the total sum of household benefits will be \$1.8 billion.

9. **Supporting Charitable Giving.** The Government will extend the 250% tax deduction for donations to Institutions of Public Character and other approved institutions for an additional year.

FY2010 BUDGET POSITION

10. The FY2010 Basic Balance, which excludes the transfers to endowment funds as well as the contributions from Net Investment Returns, is an estimated deficit of \$7.2 billion or 2.6% of GDP. The Overall Budget Balance for FY2010 is an estimated deficit of \$3.0 billion, or 1.1% of GDP.

11. To learn more about all the initiatives introduced in Budget 2010, visit the Budget 2010 website (www.singaporebudget.gov.sg), where you can read and download the Budget Speech and the Key Budget Initiatives.

MEDIA RELEASE ISSUED BY MINISTRY OF FINANCE

For media clarification, please contact:

Ministry of Finance

Jenny Ng
Senior Associate, Corporate Communications
DID: +65-63328290
HP: +65-98425970
Email: jenny_ng@mof.gov.sg

Glyn Tan
Associate, Corporate Communications
DID: +65-63327336
HP: +65-91918479
Email: glyn_tan@mof.gov.sg

Jerome Lee
Head, Corporate Communications
DID: +65-63327407
HP: +65-92368335
Email: jerome_lee@mof.gov.sg

- End of Media Release -