

# BUDGET SPEECH 2010

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

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## A. ECONOMIC PERFORMANCE

Mr Speaker Sir, I beg to move, That Parliament approves the financial policy of the Government for the Financial Year 1<sup>st</sup> April 2010 to 31<sup>st</sup> March 2011

### Weathering the Storm

A.1. Our economy contracted by 2.0% in 2009. The damage was less than we had expected a year ago. However, this outcome did not reflect the severity of the economic crisis that hit countries worldwide.

A.2. The world suffered its worst and most wide-spread recession in over 60 years. Global financial markets seized up in a way that has never happened before. Trade in goods and services also fell sharply, especially in Asia.

A.3. We could not avoid this global contraction as a small economy which lives by exporting to Asia and the world. From the peak to the trough of this cycle, our GDP contracted by 10%.

A.4. We took forceful measures to support our economy. We brought in the Resilience Package aimed primarily at avoiding excessive job losses. The Jobs Credit and SPUR (Skills Programme for Upgrading and Resilience) helped companies limit retrenchments and retrain their workers; the Special Risk-sharing Initiative (SRI) supported bank lending, especially to SMEs; tax reductions helped companies with their cash flow and encouraged them to begin investing for recovery; and significant direct assistance helped Singaporean households to see through the crisis. The Government also took the unprecedented step of obtaining the President's approval to draw on past reserves to fund the Jobs Credit and the SRI scheme, so as to ensure that there was full confidence in our ability to intervene robustly, and to take further measures if necessitated by the crisis.

A.5. The Resilience Package kept confidence up and helped Singapore avoid the worst of the global crisis. Taking both the recession and the recovery together, our economy has contracted less than most other highly globalised economies. Resident unemployment reached 5% in the third quarter of 2009, but has since fallen back to 3%. The labour market is once again tight, in many industries. We have avoided the 'jobless recovery' being experienced in several of the advanced economies. Further, outstanding bank loans to businesses have stabilised, with new loans in fact picking up significantly since November last year.

A.6. We weathered the crisis and emerged strongly both because of the effective Government response and the collective efforts of our people – our workers, unions and employers, our community organisations and voluntary groups, and all our citizens. We tackled this crisis together, the Singapore way.

## Fiscal Position for FY2009

A.7. Because our economy contracted by less than expected last year, our budget position has also turned out better than projected. The basic deficit (Operating Revenues minus Expenditures for FY2009) is now estimated at \$8.5 billion compared to the \$14.9 billion that was expected. So we ended up with a basic deficit at \$8.5 billion, which is 3.3% of GDP.

A.8. Our budget estimates in January last year reflected the grave uncertainties facing the world economy at the time and the expected sharp contraction in our own economy. The Government had forecasted a reduction of 2% to 5% in our GDP in 2009, which was also broadly similar to the market consensus forecasts at the time. The economy eventually showed negative growth of 2.0%, with better than expected performance of both employment and incomes - corporate incomes and personal incomes. Consequently, income tax revenues exceeded projections. Further, a strong recovery in the volume of transactions in the property market boosted stamp duty collections which ended up \$1.3 billion higher than initially estimated.

A.9. The estimated basic deficit of \$8.5 billion for FY2009 was nevertheless large, at 3.3% of GDP. Taking into account the Net Investment Return Contribution and the budgeted top-ups to endowment and trust funds, we now estimate a lower overall budget deficit of \$2.9 billion (1.1% of GDP) for FY2009. This compares with the \$8.7 billion overall deficit that was budgeted a year ago.

A.10. Taken together, the better-than-expected performance of the economy and the property market accounted for almost all of the improvement in our budget position. In essence, it reflected the return of confidence to our economy.

## The Decade Ahead

A.11. Prospects for 2010 are good, although we have to be watchful for risks. The IMF projects world growth to swing from negative territory last year to 3.9% this year. However, the path to recovery is unlikely to be smooth. The recent problems over sovereign debt in Greece could be contagious. Efforts by governments to reduce deficits so as to prevent unsustainable increases in debts, while necessary, will inhibit growth over the shorter term.

A.12. Barring further major problems in global finance, we expect Singapore's growth to be around 4.5% to 6.5% in 2010. This is a strong expansion, but has to be seen against the contraction that we saw last year. This cyclical bounce in the economy does not reflect what we can sustain over the medium to long term.

A.13. Likewise, we should guard against over-exuberance in our property market. While the recovery in home prices over the last year reflects confidence in a recovering economy, we have to be vigilant to the risks of a property bubble forming. That is why in September last year, the Government took the first step, by eliminating housing loan schemes which defer principal payments to the future. Three days ago, we took a further pre-emptive step, imposing a seller stamp duty for residential properties that are sold within one year from the date of purchase, and lowering mortgage borrowing limits. These calibrated measures will discourage short-term speculation and reduce the risk of the property market overheating, which will inevitably hurt the economy.

***Building capabilities to sustain our growth***

A.14. We have to gear ourselves up to sustain growth over the next five to 10 years. As the Economic Strategies Committee (ESC) has identified, there will be no lack of opportunities for Singapore, especially with the rise of Asia and the emerging markets. Even the advanced economies, which are expected to grow sluggishly, offer significant opportunities for Singapore-based companies to expand within niches of high-value, sophisticated demand.

A.15. Our challenge is to capitalise on these opportunities and grow our economy even with the slower growth of our workforce. The ESC, drawing on views from the public and private sectors, unions and academia, has set out its recommendations on how we should transform our economy to achieve this. We have to chart a new course for growth: based on skills, innovation and productivity. We must also pursue initiatives to make Singapore a vibrant and distinctive city, and a home that provides an outstanding quality of life for our people.

A.16. The Government has accepted the key thrusts of the ESC report. Budget 2010 sets out the main actions the Government will take to help Singapore succeed in these new directions. During the Committee of Supply (COS) Debate, Ministries will set out their responses on several other issues. Further programmes and initiatives will be rolled out over the next one to two years to implement the recommendations of the ESC.

## **B. TOWARDS AN ADVANCED ECONOMY: *SUPERIOR SKILLS, QUALITY JOBS, HIGHER INCOMES***

B.1. Budget 2010 therefore looks beyond the immediate rebound in the economy. It focuses on building up the capabilities we need for a phase shift in our economy over the next decade, with growth being based on the quality of our efforts rather than the over-expanding use of manpower and other resources.

B.2. Our key goal is to grow our productivity by 2% to 3% per year over the next decade, more than double the 1% we achieved over the last decade. Raising skills and productivity is the only viable way we can achieve higher wages, and it is the best way to help citizens with low incomes. If we achieve this goal, we can raise real incomes by one-third in 10 years.

B.3. It will also allow us to maintain a healthy rate of economic growth of 3% to 5% a year, even with slower growth of our work force.

B.4. The Government will commit its resources and energies to support this major uplift in productivity. But this has to be a comprehensive national effort, with everyone pitching in and taking ownership. That is the only way we can attain superior skills in every vocation and at every level, shift enterprises to higher-value activities, and create quality jobs for all our people. It is how we will make Singapore an advanced economy.

## A Major Investment for the Future

B.5. Budget 2010 will provide a major investment for this future. First, the Government will launch a sustained initiative to help enterprises and workers raise productivity – by deepening skills and expertise, and innovating to create more value. This initiative will cost the Government \$5.5 billion over the next five years alone.

B.6. Second, we will further support the growth of more globally competitive Singapore companies. We will help companies which are seeking to commercialise R&D, and those which are expanding abroad. The next five to 10 years offer a window of opportunity for Singapore firms to establish themselves in markets abroad, while their skill-sets are in high demand. By supporting the internationalisation of these companies, we can also grow and sustain high-value activities in Singapore and create more good jobs, in both manufacturing and service vocations.

B.7. Third, we will help include everyone in growth. We will continue to build a society where everyone has the best opportunity to reach further and stretch their potential, and every family can progress and enjoy a better quality of life. The Budget will provide further support for our low-wage workers to upgrade themselves, and more help for families with children and for older Singaporeans. We will also restructure our property tax system to benefit the majority of home owners.

## **C. RAISING PRODUCTIVITY: SKILLS, INNOVATION AND ECONOMIC RESTRUCTURING**

### Our Basic Approach

C.1. Achieving 2% to 3% productivity growth per year for a whole decade will be a major challenge. While we achieved 5% productivity growth in the 1980s, and about 3% in the 1990s, we were starting from a lower level then. In 1980, we were only 20% as productive as the countries that were global leaders. We had great scope to catch up by importing existing technologies, automating low-value manual activities in factories, and evolving from a workforce where few workers had completed a post-secondary education to one in which most younger people do. Today, levels of productivity in our larger sectors are about 60% that of the leaders. The scope to improve is clearly there, but the easy gains in productivity are over.

C.2. Making the next leap in productivity will require a multi-faceted effort. It will involve transformations at three levels.

C.3. First, we have to restructure our overall economy towards higher-value activities and exit from less efficient ones. This broad economic restructuring is how major improvements in productivity have been achieved in many of the advanced economies. But the Government cannot decide which enterprises should succeed or phase out, or say exactly what the corporate landscape should look like 10 years from now. We must rely on the market to achieve this restructuring. 3% to 5% GDP growth per year does not mean every industry or business growing by 3% to 5%. More competitive and innovative players must be allowed to grow much faster, by bidding for the talent, manpower, land and other resources that they need.

C.4. The second level of productivity improvement will come from upgrading individual industries and enterprises. The Budget will extend strong support for them to do so, in every sector. We will give significant tax benefits to businesses that invest in skills and innovation, thereby lowering their effective tax rates. We will also provide grants for customised, industry-based initiatives. Indeed, in industries like construction, individual firms can only improve if the industry as a whole upgrades its norms and practices.

C.5. The third level of productivity improvement comes from raising the skills and creative potential of every worker. We will progressively build up a first-class system for Continuing Education and Training (CET) over the next decade. This will be a major investment in our people, up and down the skills ladder. However, we can only make our next leap in productivity and incomes if every individual takes the initiative to develop his skills and expertise, and accomplish more in his job and career. Our employers must also empower their people to find new ways to add value, and help unlock every worker's potential. The best companies already do this; we must spread this enabling culture across all businesses.

C.6. Achieving our goal of 2% to 3% productivity growth per year, for a leap of one-third over the next 10 years, will therefore require everyone to play their part – businesses and industry associations, workers and unions and the Government – and work closely together. The Government will commit \$1.1 billion a year over the next five years in the form of tax benefits, grants and training subsidies to support this combined, national effort to raise productivity.

***Managing our dependence on foreign workers***

C.7. To complement investments in productivity, we must also manage the supply of foreign workers. If we make low cost foreign workers too readily available, employers will not have sufficient incentive to upgrade their operations and upskill their workers. But if we cut back too sharply on the supply of foreign workers, then despite companies' best efforts to raise productivity, they may not be able to compete with other Asian players, and in many industries they will not find enough local workers to grow.

C.8. Reducing our dependence on foreign workers will pay off in higher productivity over the long term, but there are real trade-offs in growth and incomes over the shorter term. We must therefore move forward in a balanced manner.

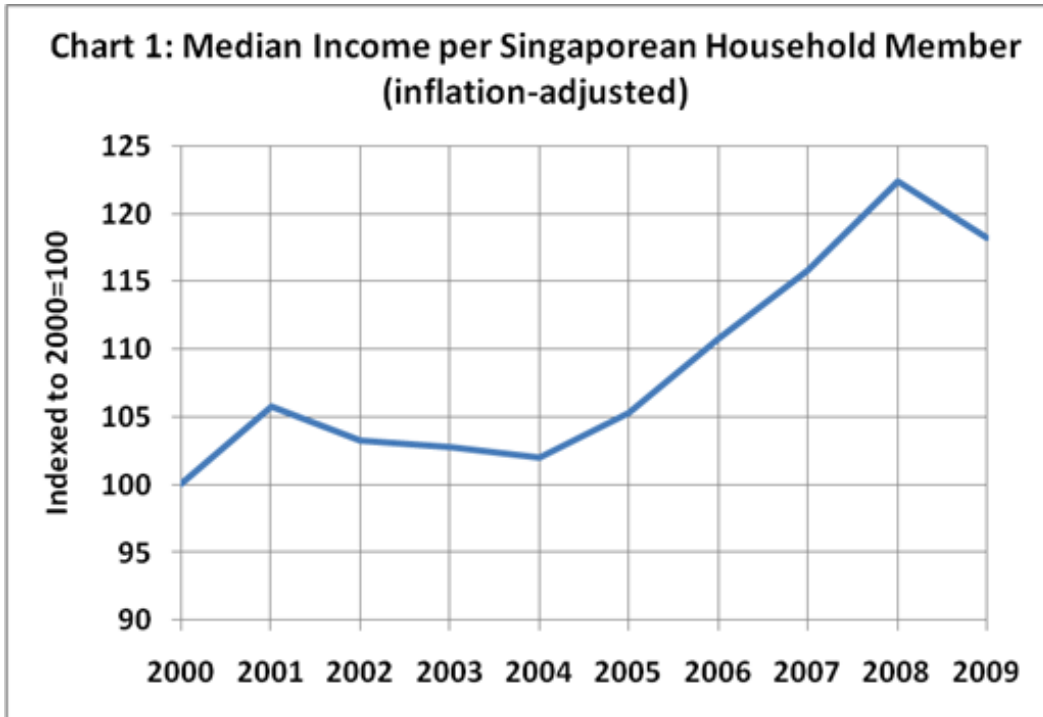
### *How we grew incomes in the last decade*

C.9. Indeed we faced similar trade-offs in the past decade. Much of our growth in the last 10 years took place from 2004 to 2007, when our GDP grew an average of 8% per year. We were able to achieve this because companies could obtain the workers they needed to seize opportunities to expand while the environment was favourable. Foreign labour also allowed the construction sector to grow quickly, and eased supply bottlenecks in the property sector. Our workforce grew rapidly over those four years, by 5% per year, with foreigners accounting for about half of the growth.

C.10. By going for growth when the conditions allowed, we offset the downturns we experienced earlier in the decade – first, when the global dot-com bubble burst in 2000, then with 9/11, and again when SARS hit us in 2003. The upshot is that by allowing in foreign workers so that we could go for growth in the good years, we reduced unemployment, and raised wages for Singaporeans after the standstill in the first part of the decade. As Chart 1 shows, it enabled the median income per household member<sup>1</sup> to rise significantly from 2005 to 2008 – in fact contributing virtually all income growth that occurred in the past decade. (Median income over the decade grew by 20%, adjusted for inflation, and virtually all of it happened during that four-year period.) This was therefore not a strategy of “growth at all costs”, but of growing our economy to raise Singaporean incomes.

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<sup>1</sup> Data refers to non-retiree Singaporean households. It excludes households consisting solely of non-working persons over 60.



***Complementing productivity incentives with higher foreign worker levies***

C.11. We now need to take calibrated steps to manage our dependence on foreign workers. They already comprise almost a third of the total workforce, and there are social and physical limits to how many more we can absorb. As the ESC recommended, we should moderate the growth of the foreign workforce, and avoid a continuous increase in its proportion to the total workforce.

C.12. The best way to do this is through the price mechanism, that is, by raising foreign worker levies rather than by imposing numerical limits. This allows the foreign workforce to fluctuate across the economic cycle, and also enables employers who are doing well and need more foreign workers to continue to hire them rather than be constrained by fixed quotas. We will phase in higher levies gradually over the next three years, so that companies know well in advance what will happen and have time to adjust.

C.13. The increase in levies will be complemented by the strong financial support from the Government, through tax benefits and grants to help businesses that invest to raise their employees' skills, to improve efficiency or to create more value. In fact, over the next five years, the government financial support that the business sector will receive for productivity upgrading will be significantly larger than the additional payment they have to make in foreign worker levies.

C.14. This will therefore be our basic approach. The Government will provide enterprises and workers with full support to upskill, innovate and develop the capabilities to create more value with the same amount of work. We will facilitate economic restructuring to help dynamic and entrepreneurial players to grow faster. And we will complement this by raising the cost of employing foreign workers, especially those with lower skills, so as to incentivise companies to increase productivity.

C.15. Our efforts, taken together, with everyone playing their part, will transform Singapore into an advanced economy: with superior skills, quality jobs and higher incomes for our people.

C.16. I will now elaborate on each of our main initiatives to boost skills, innovation and economic restructuring.

#### National Productivity and Continuing Education Council

C.17. First, we will establish a high-level National Productivity and Continuing Education Council. The Council will include members from the Government, business community and labour movement.

C.18. DPM Teo Chee Hean will chair this Council. It will galvanise the major national effort required to boost skills and enterprise productivity, and develop a comprehensive system for continuing education and training. The Council will oversee the work of the different Government agencies and promote close collaboration amongst the business sector, workers and unions, and the public sector.

C.19. More details on the composition of the Council and how it will approach its work will be announced later by DPM Teo.

### Investing in Continuing Education

C.20. Continuing Education and Training (CET) will be our next major wave of investment in our people. We will build up an outstanding CET system for adults, to complement a first-rate education system for our young. In total, we will spend \$2.5 billion over the next five years on CET.

C.21. Singaporeans' adaptability has always been one of our key strengths. That is how we have progressed from one phase of development to another since the sixties. Even without much formal education, our workers have been able to adapt to new needs on the job. However, the next phase of gains in productivity will require us to develop competence in more complex tasks, mastery of skills and depth of expertise in every trade and profession. It will require both a comprehensive and customised approach, including the development of centres of excellence that are focused on specific industries and clusters of enterprises.

C.22. We will also develop a continuous ladder of skills and qualifications that anyone can acquire at different stages in their lives. We will continue to strengthen links between the Workforce Skills Qualifications (WSQ) and what individuals acquire through the post-secondary and tertiary education system, so that workers can build on skills obtained through either pathway.

C.23. This need for a comprehensive CET system becomes more important as our workforce gets older. The Government will help employers to invest in their workers, so they can keep building on their knowhow and maximise their value in the workplace.

***An additional boost for older, low-wage workers***

C.24. We will place additional emphasis on our older, low-wage workers, by providing them the needed support to enhance their skills and continue to be valued in the workplace.

C.25. Currently, we have the Workfare Income Supplement, or WIS, to encourage older low-wage workers to stay in the workforce. We will undertake two further enhancements to help this group, following the recommendations of the ESC.

### ***Introduction of Workfare Training Scheme (WTS)***

C.26. We will give further incentive for employers and low-wage workers to commit to training. We will introduce a three-year Workfare Training Scheme or WTS to complement the WIS. It will be aimed at helping older workers, but will also be open to younger WIS recipients (aged 35 years and above). In other words, it will be open to all recipients under the WIS. The WTS will help them overcome barriers to training and capitalise on opportunities to advance through the CET system. The WTS will firstly provide their employers with 90% to 95% of funding for absentee payroll and course fee outlays. Secondly, to recognise the efforts of the workers who go for this skills upgrading, we will provide them with cash grants when they complete their training. The grants will be capped at \$400 per year. WTS will also include a structured training programme for those with very low skills, including those who may be out of a job.

### ***Enhancement of Workfare Income Supplement (WIS)***

C.27. That is the first initiative, to help older, low-wage workers. Next, we will enhance the WIS itself. Starting from 2010, maximum payouts for the WIS will be increased by between \$150 and \$400<sup>2</sup>, with more going to older workers to encourage them to remain in the workforce. For example, a 60-year-old worker will get an annual WIS payment of up to \$2,800, an increase of \$400, up from \$2,400 currently. We have also decided to extend WIS to workers earning up to \$1,700 a month – up from the current limit of \$1,500. This will ensure that as low-wage workers upgrade their skills and begin to earn more, their WIS benefits do not decrease too quickly.

C.28. The enhanced WIS will cost an additional \$100 million annually and will benefit about 400,000 low-wage workers.

C.29. Further details of the enhancements to Workfare (WIS and WTS) will be announced by the Minister for Manpower in his Committee of Supply speech.

### Supporting Enterprise Investments in Innovation and Productivity

C.30. Our second major area of investment is aimed at catalysing improvements in enterprises themselves. We will support businesses that are re-engineering their work processes and re-designing jobs so as to help their employees create more value. Equally important, we will support their efforts to innovate – to gain competitiveness, come up with new products and services and generate additional revenue streams.

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<sup>2</sup> On average, workers currently receiving a full year's worth of WIS will see an additional \$208 in annual WIS payouts.

C.31. We will provide tax incentives for businesses in all sectors to invest in upgrading their operations and creating new value. We will also extend substantial grants to specific industries, clusters and even enterprises. These grants will be of greatest benefit to the SME sector. In fact, both the tax incentives and grants would be of greatest benefit to the SME sector.

***Productivity and Innovation Credit***

C.32. First, we will introduce a ‘Productivity and Innovation Credit’. The Credit will provide significant tax deductions, for investments in a broad range of activities along the innovation value chain. Specifically, it would cover spending on the following activities within this innovation value chain:

- Research & Development;
- 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 finally
- Training of employees.

C.33. So, these are six activities which will be covered under the Productivity and Innovation Credit. All businesses will be eligible for the Credit, based on the amount they invest in any of the activities covered by the Credit. They can deduct 250% of their expenditures on each of these activities from their taxable income. I have capped the enhanced tax deductions at \$300,000 of expenditures for each activity so as to focus the benefits on SMEs.

C.34. It may be helpful to illustrate this. For example, if a company spends \$300,000 on automation, it can deduct not just the usual 100% of the expenditure under normal tax rules, but an additional 150% under the scheme. This works out to an additional \$450,000 of deductions, which will give the company tax savings of about \$76,500. If the company also spends \$150,000 to design a new product, it will save a further \$38,300. As Members can see, the company will then enjoy total tax savings from investing in the two activities, of \$114,800 on an investment of \$450,000.<sup>3</sup> In other words, the company gets back a quarter of its investment through additional tax benefits from the Government. The company can undertake any number of activities under the scheme in a year.

C.35. The Productivity and Innovation Credit is a major enhancement to what businesses can currently receive. Currently, only R&D qualifies for higher tax deductions, of up to 150% of expenditures. The new Credit will spur a much broader range of innovative activities as well as provide an unprecedented level of tax deductions, at 250% of expenditures on each activity. Further, businesses who are investing in the training of their employees can enjoy the tax benefits under the Credit on top of the various WDA subsidies – including the new WTS that I just spoke about. The Productivity and Innovation Credit will be available for five years, Years of Assessment 2011 to 2015.

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<sup>3</sup> Assuming a marginal tax rate of 17%.

C.36. To support small but growing businesses which are cash-constrained, I will also allow businesses 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<sup>4</sup>. This will help businesses that are starting off with low taxable income, but want to grow by investing in technology or upgrading their operations.

C.37. Businesses in all sectors can take advantage of this scheme - not just manufacturing enterprises that are investing in machinery. For example, a Japanese food outlet at Iluma Mall called Ebisboshi Shotengai invested \$160,000 to implement a wireless self-ordering system – apparently the latest technology from Japan, which allows customers to simply tap on the menu using a wireless stylus pen, to send their orders to both the kitchen and the cashier’s desk. It is a “talking” pen which repeats customers’ orders aloud. In the future, it could give some advice as well on what to order. [*Laughter from hon. Members*]. Not only has it reduced customers’ waiting time, it has translated into faster turnover. The restaurant has also been able to employ only two-thirds the number of staff it would normally have required, and expects to fully recover its investment in the self-ordering system in two years. If we apply our scheme to a case like this, not only is it in the enterprise’s interest to invest as it will recover its investments within a period of years – in this case, two years – but it would also get from the Government a tax credit that provides them tax savings upfront.

C.38. The Productivity and Innovation Credit scheme will cost us \$480 million a year.

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<sup>4</sup> Businesses can convert up to \$300,000 of the tax deductions and allowances credited to them into cash, up to a maximum of \$21,000 in cash each year. We will review this cash conversion component of the Productivity and Innovation Credit after 3 years.

## National Productivity Fund

C.39. We will complement this broad-based tax reduction for all companies which invest in innovation, with funding for initiatives customised to specific industries, clusters, and enterprises.

C.40. For this second pillar of support for enterprise productivity, we will create a National Productivity Fund. We target to put \$2 billion into this new Fund. To start, we will inject \$1 billion into the Fund in 2010, which we expect to be able to support initiatives over the next 5 years. This is a major commitment. In setting aside funds now, we make clear the Government's long-term support for productivity improvements, irrespective of the state of the economy.

C.41. The National Productivity and Continuing Education Council will establish the priorities and programmes of this new Fund, and tie together the efforts of all stakeholders – government agencies, industry associations, unions and enterprises.

C.42. The National Productivity Fund will provide grants to help enterprises in all sectors, with special emphasis initially on sectors where there is potential for large gains in productivity. The Fund can also 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.

### ***Construction sector initiatives***

C.43. Construction is a key sector which needs to improve. Its productivity levels are estimated to be about half of that in Australia and one-third of that in Japan. Around \$250 million out of the first \$1 billion of funding for the National Productivity Fund will be dedicated to raising productivity in the construction sector. This will include initiatives to help our local contractors develop capabilities in areas such as complex civil engineering and building projects, to invest in new technologies, and upgrade to a higher quality workforce. The Minister for National Development will announce more details during the Committee of Supply.

C.44. Our challenge is to make innovation and productivity improvements second nature to both companies and employees, and in every sector. Some Singapore companies have already gained strong competitive advantage by doing so. Keppel Offshore & Marine, for example, has made major changes to how oil rigs are constructed by using new manufacturing concepts, detailed production planning and most importantly, by sharing the responsibility for innovation and continual improvements with employees, with everyone taking responsibility.

C.45. Productivity is now a way of life across the yard – from crane signalmen using air pressure in a “Miracle Trolley” to lift heavy weights and halve the number of man-hours required; to machinists applying new methods to minimise vibration and hence double productivity; to electricians using an in-house innovation comprising Teflon rollers to ease the task of laying cables within restricted spaces; to pipefitters using another in-house innovation to shorten the time they need to dispense pipes by 40%. None of this is rocket science, but it means improvements year after year and in a record year like Keppel O&M had in 2009, a productivity bonus of nine months across the board.

#### Raising Foreign Worker Levies

C.46. Next, raising foreign worker levies. We will complement our support for enterprise innovation and upgrading by raising foreign worker levies. The increase will be calibrated and carefully phased in, so as to give companies a clear incentive to upgrade while providing them time to develop plans to re-gear and grow through productivity improvements.

C.47. We will gradually raise the foreign worker levies, and tighten the levy tiers that are based on the proportion of foreign workers in a company's workforce. The changes will start with a modest increase in levies in 2010, and will involve further increases over the next two years. The overall dependency ratio for all categories of foreign workers (Work Permit as well as S Pass holders) will remain unchanged.

C.48. As a first step, levy rates will be raised by between \$10 and \$30 for most Work Permit holders on 1st July 2010. We will phase in further adjustments in levy rates and dependency tiers 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. So, a \$100 increase on average, reflecting the effect of both levy rate increases as well as the tightening of dependency tiers. The construction sector, where there is much scope for productivity improvements, will see a larger increase, i.e. larger than \$100.

C.49. We will also make changes for S Pass workers. There will now be two levy tiers. Currently, there is just a single-tier of \$50. 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 for the two tiers by July 2012.

C.50. MOM and MND will release more details of the changes to the Foreign Worker Levy later this week.

C.51. The changes in foreign worker levies will provide clear incentives for businesses to restructure and upgrade their operations so as to rely less on lower skilled foreign workers. Businesses will receive significant financial support from the Government to do so through the schemes I highlighted earlier – the Productivity and Innovation Credit, the National Productivity Fund and training subsidies. These schemes will help them to invest in productivity and to develop higher-skilled workers, especially Singaporeans. Their investments can be in many forms – automating processes, training their employees, using pre-fabrication in construction or spending on design to create higher value – but the resulting productivity gains will benefit both businesses and workers.

### Supporting Business Restructuring

C.52. Our final strategy for achieving higher productivity is to support the progressive restructuring of our overall economy, towards higher-value and more innovative players. This is as important as the upgrading within each industry or enterprise which is also what we will promote.

C.53. We must encourage a continuous flow of start-ups and new entrants into the economy, and allow the most efficient and competitive players the room to grow and scale up, either through organic growth or through mergers and acquisitions (M&A). The less competitive businesses, large or small, have to be encouraged to upgrade themselves. Those unable to do so will over time lose out in the marketplace.

C.54. This restructuring is especially important in creating a dynamic and viable SME sector. More SMEs are now developing capabilities for innovation, and creating a competitive edge for themselves. We must help them grow, and acquire the scale required to attract talent, invest in technologies and compete effectively in overseas markets.

*Facilitating economic restructuring through M&A*

C.55. The economic recovery – both locally and abroad – provides a window of opportunity for growth through acquisitions. We will facilitate mergers and acquisitions, but companies must decide for themselves whether it makes more business sense to grow organically or through M&A.

C.56. Last year I introduced the corporate amalgamation framework. Under this tax framework, the tax benefits of the amalgamating companies can be transferred to the amalgamated entity.

C.57. This year, we will take a further step. M&A can be a costly and resource intensive process, particularly for acquiring companies which are not large players. I will therefore introduce, for five years, a one-off tax allowance scheme to help defray a portion of acquisition costs.

C.58. The allowance will be equal to 5% of the value of the acquisition. The acquisition of a \$50 million company, for example, will give the acquiring company a tax allowance of \$2.5 million. It will be able to deduct \$2.5 million against its taxable income over five years, resulting in total tax savings of \$425,000<sup>5</sup>. I will cap the allowance granted at \$5 million in a single Year of Assessment<sup>6</sup>. This is to focus on helping the SME sector develop vibrance and dynamism.

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<sup>5</sup> Assuming a marginal corporate income tax rate of 17%.

<sup>6</sup> This \$5 million cap will in effect allow for acquisitions of up to \$100 million in any year, and provide a maximum tax benefit of about \$850,000 for all deals during the year.

C.59. The new allowance is designed for simplicity. Previously, interest expenses incurred in acquisitions could be deducted against taxable dividend income. This is no longer possible, as dividend income is no longer taxable. The new allowance will help the acquiring firm offset part of its costs, but without seeking to distinguish between interest costs and other costs. It is therefore neutral between debt and equity in financing transactions.

C.60. As a further measure to reduce the cost of M&A, I will also waive stamp duty on the transfer of unlisted shares for such deals. This will apply to such deals worth up to \$100 million in any one year. Listed shares are already exempt from stamp duty currently. This one-off concession for unlisted shares will also be available for five years.

C.61. The two incentives together will cost about \$100 million a year.

### Enhancing Land Productivity

C.62. Besides raising labour productivity, we have to move progressively to make better use of land, given the limits to how much additional land we can reclaim. As the ESC has recommended, we should promote the intensification of industrial land use, towards more land-efficient and higher value-added activities.

C.63. The Industrial Building Allowance (IBA) was introduced in 1940s to encourage industrialisation. The IBA, has met its objective but is no longer adequate or relevant to meet our current priorities. It does not distinguish between efficient and inefficient uses of land. I will therefore phase out the IBA. Existing IBA claimants can continue to claim their remaining IBA on qualifying buildings until their allowances are written down.

C.64. I will however introduce a more targeted scheme to support enhanced land productivity among industrial users. The new Land Intensification Allowance or LIA will apply to nine sectors which have been identified as those with large land take (the details are at Annex 1). It will give businesses in these sectors tax allowances on their building costs if they meet or exceed the Gross Plot Ratio (GPR) benchmarks set for each sector. To encourage land intensification, these benchmarks will be set at around the 75<sup>th</sup> percentile of actual GPRs for each of these sectors. Businesses that meet this benchmark will receive more generous allowances than are currently offered under the IBA<sup>7</sup>.

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<sup>7</sup> Businesses will be able to claim an initial allowance of 25% and an annual allowance of 5% and will be able to fully claim the qualifying costs in 15 years, instead of an annual allowance of 3% and full claim over 25 years as under IBA.

## **D. GROWING GLOBALLY COMPETITIVE COMPANIES**

### Internationalisation – A Growth Imperative

D.1. Next, growing globally competitive companies. In order to reorient our economy towards higher value-added activities, we must support rapidly growing companies. More Singapore companies are emerging with significant competitive strengths of their own and are now expanding into international markets.

D.2. Even our SMEs are internationalising. Amongst our top 500 SMEs, overseas revenues have grown by 60% over the last two years, and they now account for 57% of their total revenues.

D.3. A major part of global growth in the next decade will come from emerging markets, and especially Asia. Rapid urbanisation and an increasing demand for higher-value services will give Singapore companies opportunities to expand in these markets – in sectors like clean energy, waste and water management, healthcare, education and transport management. However, given the intensifying competition from companies both in Asia and around the world, we must move decisively in the next decade to establish significant presence in these high-growth markets.

D.4. The G3 markets – US, Europe and Japan – will also remain major sources of demand for Singapore companies. As a relatively small player, we still have significant growth potential even if the overall growth of these advanced markets is constrained.

D.5. Take the furniture industry. Last month, at the Cologne furniture fair, Singapore furniture companies secured spot sales of \$14 million and, potentially, some \$230 million worth of follow-up sales. Likewise in the services sector, CSE Global, a home-grown IT systems integrator, earns about 70% of its revenues from the advanced economies. In 2006, for example, it won a bid to develop a fully-integrated and paperless healthcare records system for the UK National Health Service, serving 50,000 clinicians and support staff.

D.6. There is therefore a world of opportunities for our companies – in Asia and the emerging markets, as well as in the G3 economies. SPRING, IE Singapore and EDB are providing them with valuable support, in areas such as capability development, internationalisation and financing. We will further boost our efforts to help local players grow into globally-competitive companies. These efforts will comprise three major thrusts, which I will elaborate on in turn.

#### Building Capabilities through Partnerships

D.7. First, building capabilities through partnerships. We must build and maximise the synergies amongst companies in Singapore, both local and foreign. The MNCs, as well as smaller global enterprises, are growing their base in Singapore and expanding out from here into Asia. They are valuable potential partners to our local firms, helping them to plug into world markets and thereby scale up their operations, while collaborating with them to develop new, cutting-edge competencies.

### ***Partnerships for Capability Transformation (PACT)***

D.8. EDB operates the Local Industry Upgrading Programme (LIUP) to strengthen procurement linkages between MNCs and local companies. It has worked well, encouraging more than 200 MNCs to procure from over 1,000 local suppliers.

D.9. We will now build on this collaborative approach by focusing not only on procurement, but also on the development of new capabilities for our local enterprises. This will include helping local companies develop the competencies needed to meet stringent manufacturing quality and certification requirements. This will be under a new programme called Partnerships for Capability Transformation, or PACT for short, which will subsume the existing Local Industries Upgrading Programme. We are setting aside \$250 million over five years to defray part of the qualifying expenses for such partnerships.

### ***Business associations as growth champions***

D.10. Next, our business associations, including both our trade associations and chambers of commerce, can be powerful change agents in strengthening capabilities and internationalisation. The furniture industry example I gave earlier illustrates how businesses are banding together can reinvent even our traditional sectors. The Singapore Furniture Industries Council has run more than 120 courses over the last six years. They also created a brand for the furniture cluster – Singapore Mozaic – which is now earning recognition in the global marketplace. In fact, some of our local furniture companies use that cluster brand, Singapore Mozaic, rather than their own brands, when they market in some overseas markets.

D.11. SPRING and IE Singapore work closely with business associations through several initiatives such as the Local Enterprise and Association Development programme, LEAD for short, and the Enterprise Development Centres (EDCs). We will commit \$100 million over five years to scale up our support for business associations to drive productivity at the industry level, and to facilitate international market access for the members.

***Nurturing future business leaders***

D.12. Next, we have to nurture the next generation of business leaders. Our universities and polytechnics are putting more effort into exposing their students to industry. More than half of their students now go on at least one industry attachment by the time they graduate.

D.13. We have a generation of SME leaders who have built up successful businesses from scratch. Ensuring that these SMEs have a continued pipeline of talent is therefore a critical priority, so as to grow the value that is embedded in these firms.

D.14. The Government cannot direct leadership succession in SMEs, but we can help support the flow of talent to SMEs. We will commit \$45 million over five years to enhance SPRING's Business Leaders Initiative. This is an umbrella programme to attract young talent into SMEs, and groom a future generation of SME managers and entrepreneurs.

## Reaping Commercial Advantage from R&D

### *Gaining dividends from our R&D investments*

D.15. R&D. Over the last 10 years, we have transformed Singapore's R&D landscape. A vibrant ecosystem is emerging, comprising a diverse range of research facilities, both in the private and public sectors. In the next decade, we must build on our initial investments, especially by expanding private sector R&D, and move decisively to commercialise R&D so as to maximise returns from these investments.

D.16. Finland illustrates how a sustained R&D policy can move a small economy to the innovation forefront. In the early 1990s, Finland's gross expenditure on R&D stood at 2% of GDP which was at that time below the OECD average. In the mid-1990s, the Finnish government dramatically increased funding for research and scientific education to bring their gross R&D investments to 3.4% of GDP by the end of that decade. Now, 20 years later and with close public-private collaboration, Finland has created an innovation economy that consistently tops the ranks in global indicators of scientific productivity and new-to-market product innovations.

D.17. For Singapore, our Gross Expenditure on R&D stood at 1.9% of GDP in 1990 and has grown to 2.8% in 2008, on track to achieving 3.0% this year. The ESC has recommended that we raise this further to 3.5% of GDP over the next five years, and that it be achieved through increased private sector R&D expenditure.

***Sustain commitment to public sector R&D***

D.18. The Government agrees with this target. First, we will sustain our commitment to public sector basic- and mission-oriented research at 1% of GDP. We have thus far provided \$2.2 billion to the National Research Fund. We will add substantially to this amount by putting another \$1.5 billion into the Fund this year to support this continuous commitment to R&D.

D.19. We have to maximise the linkages between public and private sector R&D. Closer interaction between corporate labs and research centres can support commercial innovation across a diverse range of industries, from clean energy to digital media. We have already started this process. One example is A\*STAR's aerospace consortium with 18 companies, comprising local SMEs as well as world-class aviation players. At the recent Singapore Airshow, the consortium showcased cutting-edge technologies co-developed by A\*STAR research institutes and industry experts.

D.20. Talent flow from the public sector research institutes to private corporate labs is part of the synergy that these linkages can create. In the last three years, 650 research engineers and scientists have moved out of the public sector to private corporate labs, including 100 seconded to local enterprises, as part of a joint SPRING-A\*STAR initiative to upgrade enterprises' technological capabilities.

***However, private sector R&D must grow***

D.21. While we will maintain public sector support for R&D at 1% of GDP, we should grow private sector R&D from 2% of GDP currently to 2.5% over the next five years.

D.22. The new Productivity and Innovation Credit scheme that I described earlier will provide significant incentive for companies to invest in R&D. It will provide a tax deduction of 250% on the first \$300,000 of R&D investments, and 150% on the remaining R&D costs. Together with the innovation vouchers that SPRING provides to SMEs, and the potential partnerships that companies can form with public sector research institutes, Singapore will be one of the most compelling locations in Asia for private sector R&D.

D.23. We will also be one of the most conducive locations in which companies, local and foreign, can commercialise R&D – translating ideas and inventions from anywhere in the world into prototypes and commercially-viable products and marketing them anywhere in the world.

#### ***Public-Private Co-Innovation Partnership***

D.24. The Government, as a significant consumer of products and services, can itself play a larger role to help innovation-driven companies turn their R&D into marketable solutions. This has taken place on an ad-hoc basis in the past. We will now do it proactively and systematically. We need many more examples like Hyflux, whose engagement with PUB opened up for the firm the ability to develop new capabilities and a track record which has helped it to grow internationally.

D.25. We will 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. This could include small and untested companies. 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.

## Improving Access to Growth Finance

D.26. Companies aspiring to grow and eventually become significant players in markets abroad need capital at various stages of their development. Existing schemes like SPRING's Local Enterprise Finance Scheme are working well. Following the ESC's recommendations, we will strengthen the availability of both growth capital to young companies and financing for companies' expansion overseas, including to emerging markets.

D.27. One of the hurdles companies face – not only in Singapore, but in many countries – is in securing finance at a very early stage of their growth. In recent years, there has been a shift in the venture capital industry towards later stage companies, especially towards those at the mezzanine stage, in other words, pre-IPO. So, there is a gap at the early stage of the company's growth. To bridge the gap, we will help strengthen the availability of early-stage and more patient financing.

Attracting investors to nurture start-ups

D.28. We want to encourage more angel investments, and we will do this by incentivising private individuals with appropriate investment and business expertise to provide financing to start-ups. Angel investing is at the higher end of the risk spectrum, with less assurance of returns. Successful angel investors nurture start-ups not just by contributing funds, but also by providing mentorship, and access to business networks and markets. We have a few well-known angel investors in Singapore, and we want to encourage more investors who can add value to start-ups.

D.29. I will therefore introduce a new incentive for angel investors. 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% tax deduction on his investment at the end of a two-year holding period. This deduction is subject to a cap of \$500,000 of investments in each Year of Assessment. SPRING will administer the scheme for eligible angel investors and qualifying start-ups. The scheme will be available for the next five years and is expected to cost the Government \$60 million over the period.

***Catalysing growth capital for SMEs***

D.30. Companies also need growth capital beyond the start-up phase. The Government will help catalyse financing for companies that have achieved initial success and are looking to scale up. However, the Government cannot pick winners. Our role will be that of the co-investor, relying primarily on the expertise and business networks of private fund managers. This is also essential to ensure commercial discipline in investments.

D.31. We will mobilise up to \$1.5 billion of growth capital by seeding a range of funds over 10 years, for which the Government will contribute up to half the capital.

D.32. We will implement the new co-investment programme in phases. We cannot hope to find good companies simply by pouring in liquidity. We will grow the programme in tandem with the appetite of the investing community and with the number of companies they find attractive.

D.33. The first phase will be launched this year, with the Government providing up to \$250 million to match private sector investments. This will allow for a few funds to be established, with a combined total of \$500 million of growth capital for Singapore-based enterprises. So, the first phase will be up to \$500 million, with half the sum of up to \$250 million being provided by the Government.

***Government's role in cross-border financing***

D.34. Next, we will also strengthen the market for cross-border finance, which has been one of the key hurdles faced by Singapore companies. The ESC has studied the issue, and obtained feedback from both banks and the corporate sector. The Government agrees that we should find ways to plug existing gaps in the financial markets arising out of structural constraints.

D.35. These gaps are not unique to Singapore. Most other markets face the same difficulties, with commercial banks on their own being unable to fully meet the needs of internationalising companies. Most other markets – including, in fact, the mature financial centres – have specialist financial institutions for cross-border financing, whether in the form of Export-Import Banks (EXIM Banks) or Export Credit Agencies (ECAs). The ESC has recommended that a specialised institution in Singapore along similar lines can help plug market gaps in cross-border financing.

D.36. We recognise that Government support may be required for such an institution to insure long-term risk. However, we agree with the ESC's view that any such institution must be commercially-managed, with the discipline to generate a fair return commensurate with the risks. Its business model must also involve collaboration with other financial institutions so as to catalyse cross-border funding.

D.37. The Government is studying various models and evaluating how best we can realise the development of a market-based institution to support and catalyse the growth of cross-border financing for Singapore-based companies.

### **Growing Our Role as a Global Business Hub**

D.38. I will also introduce additional incentives to encourage the expansion of specific economic activities with high growth potential. The details of the specific schemes that I am going to go through will be the Annex. I shall go through them fairly quickly.

#### ***Grow international legal services***

D.39. I will extend the Development and Expansion Incentive scheme to law practices providing international legal services so as to enhance our position as an arbitration hub. Under this incentive, approved law practices will enjoy a 10% concessionary tax rate on incremental income derived from performing international legal services.

***Promote financial services and transport hub***

D.40. We will continue to update our tax incentives for the financial services sector to ensure that they remain relevant, and encourage institutions to build up high value activities and expand their professional teams in Singapore.

D.41. I will also introduce a tax incentive to grow shipbroking and extend that for maritime financing activities. In addition, I will expand the scope of GST zero-rating for the marine industry.

D.42. The Maintenance, Repair and Overhaul (MRO) business is a growing opportunity for Singapore. To further enhance our competitiveness, I will renew 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.

***Other tax measures***

D.43. To encourage test-bedding of clean technologies, I will enhance the Transport Technology Innovation Development Scheme (TIDES) for new green vehicles. I will also expand the scope of the Green Vehicle Rebate scheme to include imported used green vehicles.

D.44. Singapore's entertainment scene is emerging as an important part of our appeal as a global city. To attract more internationally-rated acts and performances, I will reduce the withholding tax rate of non-resident public entertainers from 15% to 10% for five years.

D.45. I will introduce flexibility for travellers to purchase an additional litre of duty-free wine or beer in lieu of one litre of duty-free spirits. So, travellers who prefer wine or beer to spirits can now enjoy duty-free allowance on two litres of wine and one litre of beer, or two litres of beer and one litre of wine. This has the makings of a suitably difficult PSLE Maths question [*Laughter in the House*].

D.46. I will also introduce several GST-related changes to reduce compliance costs for businesses.

D.47. More details on all these changes, along with other minor tax changes, are set out in the Annexes to the Speech.

## E. INCLUDING ALL SINGAPOREANS IN GROWTH

### Growth with Opportunities for All

E.1. We are embarking on a major transformation of our economy. We will deepen skills and expertise at all levels, build up our companies' capabilities for innovation, internationalise, and make Singapore a vibrant global city.

E.2. At the same time, we must continue to build a society where every Singaporean shares in the country's growth. The key strategy for achieving this is to raise skills and productivity in every trade and at every level of the workforce. Global competition will continue to threaten the jobs and press down the wages of lower-skilled workers in the coming years. All globalised economies are facing this challenge, including those which are growing rapidly. Countries which have sought to slow down globalisation and protect their people from foreign competition have paid a heavy price in slower growth.

E.3. We introduced WIS as a major Government intervention to support the income of older low-wage workers and encourage them to stay in the workforce. With the enhancements to the scheme this year, a 55-year old worker earning a \$1,000 a month will receive an additional 18% top-up to his or her pay through the WIS. So, it is a significant intervention.

E.4. But we cannot build an inclusive society by depending on government transfers alone. The fundamental way to raise and sustain incomes for our low-wage workers is to help them to boost their skills, add to their confidence and enable them to contribute more in the workplace. Every individual, putting in the effort to improve, can then be worth more on the job and secure a better income.

E.5. The major investments that we are making to build up a first-rate system for continuing education and training, with special provisions for low-income Singaporeans, and to help companies create better jobs, are therefore central to our strategy of ensuring that all Singaporeans can share in growth. We are also assuring every child access to the best education from pre-school to tertiary level, with enriched pathways for different learning abilities, and substantial subsidies for the lower-income groups, so that every family can aspire to a better future.

E.6. I will now turn to some additional specific measures that you will take in this year's Budget that will benefit both our lower- and middle-income households.

### **Shift to a Progressive Property Tax Regime**

E.7. First, property tax. We will shift from our current system of a flat property tax rate for all owner-occupied residential properties to a system of progressive property tax rates based on the Annual Values (AVs) of these properties.

E.8. With the removal of estate duty in 2008, property tax serves as our remaining form of tax on assets. I had explained in 2008 when we removed the estate duty that the duty was impacting the middle and upper-middle income groups disproportionately compared to wealthier ones. At that time, when we were considering whether to do away with the estate duty, we had considered raising the exemption limits for non-residential assets, which are primarily financial assets, so as to correct for this problem where middle-income and upper-middle income families were being hurt disproportionately compared to the wealthier ones. However, doing so, raising the thresholds, would have further shrunk what was already a narrow base for estate duty and rendered the tax less effective.

E.9. I had also stated then that we intended to retain property tax in Singapore. Property tax did not affect our middle and upper-middle groups more than the wealthier ones. Further, it could not be tax-planned away unlike some elements of the estate duty system.

E.10. We will therefore keep property tax as a means of redistribution in our society, together with our income tax regime.

E.11. Income is taxed on a progressive basis in Singapore, which means we collect more taxes from the top income brackets - not only because they earn more but because the tax rate that they pay is higher. The top 10% of our working population accounts for about 94% of our total personal income tax collected. However, we have to keep income tax rates low in Singapore to maximise incentives for enterprise and hard work, so that our economy remains dynamic and all Singaporeans benefit.

E.12. Our property tax system currently does tax the wealthy more than others, because investment residential properties are taxed at 10% whereas owner-occupied homes are taxed at 4%. So, there are some elements of differentiation between the wealthy, who often have additional investment properties, and those who only have owner-occupied homes. However, there is scope for us to introduce further progressivity in property taxes.

E.13. A moderately progressive property tax system, together with an income tax system that collects more taxes from better-off individuals and a flat GST rate that everyone pays, will together form a fair system of taxes in Singapore. Everyone pays something, but the rich pay more. Taken together, the overall burden of taxes will and must remain low by international standards.

E.14. Our current system of property tax rebates aimed at supporting the lower- and middle-income groups was introduced together with the GST in 1994. It has significantly reduced property tax payable by HDB flat owners. However, as HDB homes gradually appreciate in value over the long term, flat owners will see an increasing property tax bill over time.

E.15. We provided special, additional rebates in January this year. On top of the 1994 rebates which had remained, we provided additional rebates in January this year, to mitigate the increases in tax payable as a result of increase in rentals and hence, AVs of HDB flats over the last two years. However, we need a longer-term solution that provides a fair and balanced system for all property owners.

E.16. I will therefore replace the 1994 GST rebates with a simple but progressive tax schedule for owner-occupied residential property.

E.17. We will introduce three tiers of tax rates – 0%, 4% and 6% – under the new schedule for owner-occupied residences. The first \$6,000 of AV will be exempted from property tax. The next tier will be taxed at 4%, and the balance of AV in excess of \$65,000 will be taxed at 6%. This new schedule will apply for property tax payable from January 2011.

E.18. This new system of property taxes is similar in concept to that of personal income taxes, where exemption is provided up to a minimum threshold of value, and progressively higher rates are applied at higher values. There is no change to the property tax structure of non-owner occupied residential properties and other properties, which will remain at a flat rate of 10% of AV.

E.19. This new system - 0%,4%,6% in three tiers -- will benefit most Singaporeans. All owner-occupied homes will enjoy tax savings of \$240 as a result of the exemption of the first \$6,000 of AV. This will mean that all HDB flat owners and the large majority of private property owners will pay lower taxes, compared to the current system.

E.20. Owners of high-end properties with AVs of more than \$77,000 will see a small increase in tax payable, as their effective tax rates will be higher than the current 4%. They comprise the top 3% of private owner-occupied residential properties, or the top 0.4% of all owner-occupied homes in Singapore. Homes with AVs of about \$80,000 will face only a small increase in tax, of slightly less than \$100 per year. A property with an AV of \$150,000, which typically is a large property in the central districts and is within the top 0.5% level of private owner-occupied homes, will face an increase in property tax of about \$1,500 per year. So when you take it together, the vast majority, not just HDB flat owners but of private property owners, will benefit from the system. A small minority will begin to see increasing tax rates next year, but most of them will see a very small increase in tax rates. Those with a very high-end properties -- and I gave the example of \$150,000 AV -- will see a meaningful increase in property tax of about \$1,500 a year.

E.21. However, our property tax rates, even for the high-end, will remain lower than in most international cities. That is as it should be, so that we remain a vibrant and attractive place for businesses and individuals alike.

E.22. This new progressive system of property taxes for owner-occupied homes will lower taxes for the vast majority of Singaporeans, and will cost the Government about \$230 million a year initially. And I have to emphasise that we are introducing a scheme that is going to benefit the majority, and is going to cost the Government more through reduced property tax revenues.

## **Increasing Tax Reliefs for Families**

E.23. Next, tax reliefs, under our income tax system. I am also making changes to our income tax reliefs, particularly to benefit our middle-income groups, and especially families providing support for their elderly and their handicapped members.

### ***Increase in parent relief***

E.24. First, I will be increasing the parent relief to give greater recognition to those who are looking after their parents and grandparents. Compared to the past, we will be seeing more families where the elderly have to be looked after by fewer children. I will hence 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***

E.25. Second, I will also allow wives who are taxpayers to claim a spouse relief of \$2,000, similar to the current scheme for husbands. This will help families where the wife is the breadwinner, for instance where the husband has retired. Accordingly, wife relief will be renamed as “spouse relief.”

### ***Enhancing dependant reliefs***

E.26. The next revision concerns the income threshold for all our dependant-related reliefs – in other words, the maximum income, currently \$2,000, that a dependant can be earning in order that the taxpayer can claim relief for supporting him. The dependants are not allowed to earn more than \$2,000 if the taxpayers are to claim relief for the dependants. I will increase the income threshold for dependant-related reliefs from \$2,000 to \$4,000. This increase recognises taxpayers' efforts in supporting family members who are genuinely dependant, while giving them the flexibility to do some incidental work.

E.27. Further, in recognition of the extra resources and attention needed in taking care of the disabled, I will remove the income threshold for handicapped dependant-related reliefs.

E.28. These changes in family-related reliefs will be implemented from Year of Assessment 2010, with the details in Annex 3.

### **Increase Course Fee Relief**

E.29. I will also increase the tax relief for course fees. Consistent with our support for lifelong learning, I will increase the course fee relief from \$3,500 to \$5,500 with effect from Year of Assessment 2011. Next, charitable giving.

### **Support for Charitable Giving**

E.30. Last year, I had increased the tax deduction for donations made in 2009 to Institutions of Public Character (IPCs) and other approved institutions from 200% to 250%. With the economic downturn, corporate donations nevertheless fell, and understandably. However, tax deductible donations from individuals held steady at \$200 million. Many charities found that the additional tax deduction was helpful in attracting donations especially given the difficult state of the economy. To encourage both individuals and corporates to give more as the economy recovers, I will extend the 250% tax deduction for an additional year.

### **Measures to Support Households**

E.31. This year, Singaporeans will continue to benefit from transfers to households that have been introduced in previous Budgets, including the fourth and last tranche of GST Credits and Senior Citizens' Bonus, and U-Save, S&CC and HDB rental rebates.

E.32. I will provide additional special top-ups in this year's Budget to help older Singaporeans as well as families with children.

**Top-up to CPF Medisave Accounts**

E.33. First, I will provide a 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 (see Table 1). The Medisave top-up will benefit slightly more than one million Singaporeans (1.02 million) and will cost the Government \$310 million.

**Table 1: Top-up to CPF Medisave Accounts of Older Singaporeans**

Annual Assessable Income (AI) in 2009	Annual Value of Home in 2009	
	Up to \$6,000	More than \$6,000
Up to \$29,000 <sup>8</sup>	Aged <sup>9</sup> 50-59: <b>\$300</b> Aged 60-69: <b>\$400</b> Aged 70 and above: <b>\$500</b>	Aged 50-59: <b>\$200</b> Aged 60-69: <b>\$300</b> Aged 70 and above: <b>\$400</b>
\$29,001 - \$100,000		
More than \$100,000	<b>\$0</b>	

<sup>8</sup> Based on the median gross annual income of employed residents (i.e. full-time and part-time) in 2008. The income threshold will also be adjusted for 2010 GST Credits and Senior Citizens' Bonus.

<sup>9</sup> Age in 2010.

***Top-ups to Medifund and ElderCare Fund***

E.34. I will also set aside an additional \$200 million in this year's Budget for Medifund which supports needy Singaporeans and another \$200 million for the ElderCare Fund as part of our ongoing efforts to set aside funds to meet our long-term healthcare needs.

***Top-up to Post-Secondary Education Accounts***

E.35. We set up the Post-Secondary Education Account (PSEA) scheme in 2007 to support families with children. Together with our enhanced bursaries and financial assistance schemes, the PSEA helps to encourage every family to put their children through a tertiary education at our ITE, polytechnics and universities.

E.36. I will provide a further top-up to PSEA accounts (see Table 2 below). Children in primary school will receive up to \$200 in their accounts, while those between 13 and 20 years old will receive up to \$500. With this latest top-up of \$500, a secondary school student living in a HDB home who has benefited from the previous top-ups would have \$1,900 in his account, which is about 85% of the cost of polytechnic tuition fees for one year.

**Table 2: Top-up to Post-Secondary Education Accounts**

<b>Age in 2010</b>	<b>Annual Value of Home in 2009</b>	
	<b>Up to \$11,000</b>	<b>More than \$11,000</b>
7 to 12	\$200	\$100
13 to 20	\$500	\$250

E.37. 650,000 young Singaporeans will benefit from this additional top-up, which will cost the Government \$230 million.

### **Impact of Transfers to Households**

E.38. Taking all our measures together, we will be spending \$1.4 billion this year in direct transfers for households. Inclusive of the WIS, the total sum transferred to households is \$1.8 billion.

E.39. While most Singaporeans will receive some benefits, more will go to those with lower and middle incomes. Let me give two examples to illustrate this.

E.40. The first is a low-income household, around the 20<sup>th</sup> percentile of the population, staying in a three-room HDB flat. The family comprises two working adults in their 30s, earning \$1,800 and \$800 a month, and an elderly parent in her 60s. The person with monthly income of \$800, who is the wife in her 30s, will receive WIS. She will receive \$1,100 this year which includes the special payment which we announced last year. Together with their GST Credits, Senior Citizens' Bonus, and Medisave top-up for the elderly parent, and their U-Save, S&CC and property tax rebates, the family can expect to receive about a total of \$2,900 in benefits in 2010.

E.41. The next example I will give is for a middle-income family, say a five-room HDB household between the 60<sup>th</sup> and 70<sup>th</sup> percentile of incomes. The benefits that they receive will also be significant. There are two working parents, with neither eligible for WIS. However, with two children, one in secondary school and the other in polytechnic, the family will receive PSEA top-ups. In total, it will receive about \$1,700 in benefits.

## F. BUDGET POSITION

F.1. Mr Speaker, Sir, let me now summarise the FY2010 budget position.

F.2. We expect a basic deficit of \$7.2 billion for FY2010 (the basic deficit refers to the balance of Operating Revenues and Expenditures before taking into consideration the Net Investment Returns Contribution and the top-ups we are making to our endowment and trust funds). This basic deficit at 2.6% of GDP is slightly smaller than what it was last year, when it was 3.3% of GDP.

F.3. Our Net Investment Returns Contribution is more than sufficient to fund this basic deficit. Before top-ups to trust funds and endowment funds, the budget would see a **small surplus of about \$0.6 billion (0.2% of GDP) for FY2010.**

F.4. **Our underlying revenue position remains sound.** Although our tax revenues this year will continue to be held down by the lagged effects of the recession, they are expected to recover in the coming years. We are therefore moving ahead with major investments in our future – in education and training, healthcare for a gradually aging society and the transport infrastructure required to connect up the island.

F.5. We are also investing to support the major uplift in productivity that Singapore must achieve over the next 5 to 10 years – raising skills across the board, and promoting enterprise innovation and restructuring. The resources that we set aside for the National Productivity Fund and the National Research Fund represent the Government's long-term commitment to help build an economy driven by innovation and productivity.

F.6. As a result of careful fiscal management during this term of Government, we are able to invest ahead. While we will see an **overall budget deficit of around \$3.0 billion (1.1 % of GDP) for FY10** after taking into account the top-ups to our endowment and trust funds, this is a manageable deficit as we have sufficient current reserves to fund it.

## G. CONCLUSION

G.1. Our priority during last year's global crisis was to keep jobs. Our priority must now be to improve the quality of jobs.

G.2. We have set ourselves the goal of growing Singapore's productivity by 2% to 3% per year, over the next decade. It is an ambitious target, but we can achieve it through a comprehensive national drive by our people to deepen their skills and expertise, and by our enterprises to innovate and create value in new ways.

G.3. Higher productivity is how we will achieve higher incomes and improve living standards, including those of low-wage workers. With 2% to 3% productivity growth each year, we can raise incomes by one-third over a decade, in real terms.

G.4. The Government will commit substantial resources to support this national effort. But it is ultimately the skills, ingenuity and drive of our people and companies that will determine if we succeed.

G.5. Every employer must take the initiative. They have to re-design jobs to make their employees more productive, and keep asking how they can help their people reach further and accomplish more. Companies must look for continuous improvements and breakthrough ideas, so as to compete based on new products and designs, distinctive brands or better service. More of our companies must now aspire to become leaders in Asian markets.

G.6. We will be a nation that recognises and rewards many routes to success – whether by growing skills on the job, entrepreneurship, academic and

professional training, scientific discovery or creative flair. But it also means a different motivation. Workers have to invest time to improve ourselves, taking years where necessary to build up expertise, and not be satisfied with doing the minimum or even being competent on the job. More Singaporeans must want to achieve mastery of the job – as machinists, engineers, teachers and counsellors, animators or even mixologists<sup>10</sup>. For those who are not familiar with mixologists, Wikipedia calls them “pouring professionals” – bartenders who specialise in cocktail mixtures. According to Wikipedia too, the term usually implies special expertise and professionalism [Laughter in the House]. And when we talk about a different motivation, our companies themselves have to aim to be the best they can be, beyond the immediate profits they earn.

G.7. There is no expiry date for learning. Whatever our age, we can continue to learn, upgrade and add value. Ms Pauline Ten, now 51, is one of many who exemplify this. She joined the workforce five years ago as a part-time worker at Han’s Cafe & Cake House, juggling this with being a homemaker. Soon after, she joined their full-time service crew, picked up skills on the job and became a supervisor after two years. She then went for external training on customer service, and raised her capabilities further. After four years on the job, she was promoted to an outlet manager, bringing her pay to \$1,800 – about \$1,000 more than when she started. She is now being groomed to be an area manager in the Han’s group.

G.8. Mr Speaker Sir, we are charting a new course for our economy, growing it by improving productivity. This will put us onto a virtuous cycle: building superior skills, quality jobs and higher incomes. It will also sustain healthy economic growth, giving us the resources to fulfil important goals of our

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<sup>10</sup> Wikipedia – A mixologist is a term for a bartender who specializes in the creation of cocktail recipes; the term usually implies special expertise and professionalism.

society – caring for our elderly, nurturing our young through a first-class education system, helping low-wage workers or those without jobs to earn a good living, and safeguarding our country’s security.

G.9. Fortunately, we have strengths to build on – our willingness to adapt to changed circumstances, our tenacity in overcoming the limitations of a small country and our will to succeed. These are real assets which will help us achieve this next transformation in our economy.

G.10. Mr Speaker Sir, I beg to move.