BUDGET STATEMENT 2011

Delivered in Parliament on 18 February 2011 by Mr Tharman Shanmugaratnam, Minister for Finance, Singapore

Contents

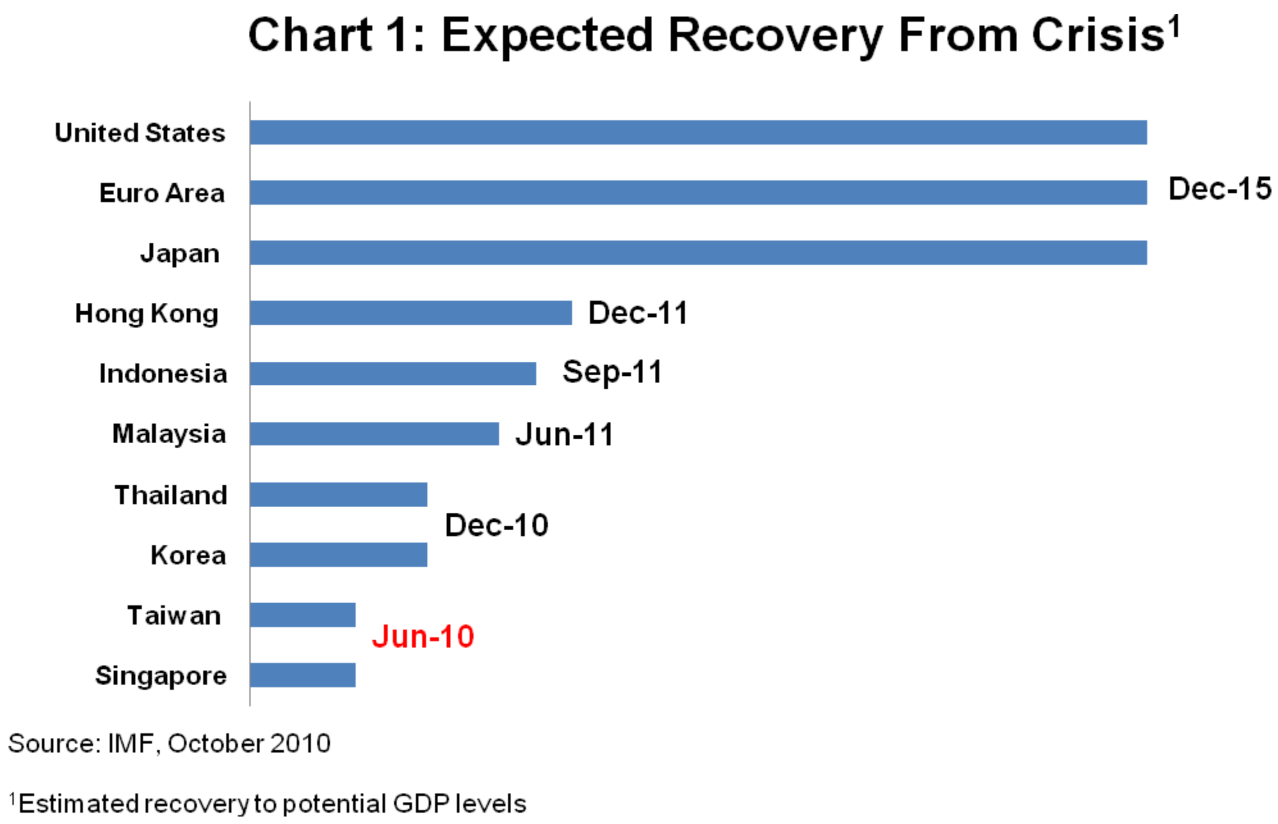
A. ECONOMIC PERFORMANCE

A.1. Mr Speaker Sir, I beg to move, that Parliament approves the financial policy of the Government for the Financial Year 1st April 2011 to 31st March 2012.

An Exceptional Year

A.2. Our economy has done exceptionally well in the past year. After two weak years in 2008 and 2009, when growth was close to zero, our GDP grew by a record 14.5% in 2010. Unemployment is down to the levels seen in early 2008, before the crisis.

A.3. We have recovered faster than most economies. The IMF has estimated how long various economies will take to get back to their potential GDP levels – in other words their potential based on longer-term trends. Singapore had recovered fully from the crisis by the second quarter of 2010, like Taiwan. Most other Asian economies did so by the end of last year, or will get back to their potential levels in the course of this year. However, the outlook for the US, the Eurozone and Japan is challenging, with recovery from the crisis expected to take at least another four years (see Chart 1).



A.4. Our stronger recovery was partly good fortune, as global trade and confidence in Asia turned around. But it also reflected the way we prepared ourselves for the turn in the winds. We intervened during the crisis to help employers hold on to the workers they would need for the future, and to use the downturn to improve their skills. We also helped workers who lost their jobs to get back into the workforce, by matching them to new employers quickly.

A.5. Our companies made good use of our crisis measures, including the Jobs Credits, SPUR, and the Government's loan guarantees under the Special Risk-Sharing Initiative (SRI). We were therefore ready to seize opportunities when the winds shifted. In short, our crisis strategy worked.

2011 Outlook – Opportunities and Risks

A.6. As we are now well past the rebound from the crisis, our economy will grow more slowly this year. But Singapore will continue to benefit from the global economic recovery, as well as the competitive edge we have gained over the last few years.

A.7. The external environment is however more complex this year. Growth in the emerging economies, which accounts for two-thirds of global growth, is expected to remain strong. However, these economies are also seeing a build-up of inflationary pressures. Food and other commodity prices have climbed sharply, because supply has been affected by harsh weather conditions while demand continues to grow in China and elsewhere. The political uncertainties in the Middle East have also driven oil prices up. There will not be early relief from these inflationary pressures. Further spikes in commodity prices could lower economic growth in Asia, if governments are forced to tighten domestic policies to control inflation.

A.8. The recovery in the advanced economies, especially the US, is picking up steam. Business investment has restarted and manufacturing activity is strengthening. These are the positives. However, these are only cyclical improvements, while growth prospects continue to be weighed down by structural difficulties. In particular, a combination of high long-term unemployment, weak housing markets and large household debts will depress consumption for some years. Heavy budget cutting in Europe, the UK and Japan, and the withdrawal of the fiscal stimulus in the US later this year, will also dampen growth. In addition, there remain risks in global finance. Problems surrounding sovereign debt in parts of Europe are causing concern.

A.9. We will have to watch the risks and be ready to respond if global growth falters. Overall, however, we face a positive environment for Singapore. The Government expects Singapore's economy to **grow by between 4% and 6% in 2011**. This is still above our estimated trend growth of 3% to 5% for the next 10 years, and reflects the continuing momentum in the economy. Investments and activities are still flowing into Singapore, attracted especially by opportunities in Asia. The record investments that we saw in 2010 are also of an exceptionally high quality, and will create 21,300 new skilled jobs once these projects are fully realised.

A.10. However, **inflation** is a key concern for everyone this year, and especially for low-income families. CPI inflation was 4.6% year-on-year in December 2010. We expect inflation to be around 3% to 4% this year, higher in the first half before moderating later in the year. However, a large part of the CPI inflation increase can be explained by higher COE premiums and the higher imputed values of owner-occupied homes, compared to a year ago. For the majority of households, these increases do not mean substantially higher cash outlays. The Monetary Authority of Singapore's (MAS) core inflation measure, which excludes the effects of these two factors on the CPI, is projected at 2% to 3% for 2011 as a whole.

Fiscal Position for FY2010

A.11. Our strong growth last year, far better than either the Government or the markets expected at the start of the year, has yielded an improved fiscal position for **FY2010**. The better growth is estimated to account for about 80% of the increase in revenues over what we projected a year ago. The property market was also much stronger, resulting in further increases in stamp duties and other revenues.

A.12. We had originally estimated an Overall Budget Deficit of $3.0 billion or about 1.0% of GDP for FY2010. Given the much improved economic performance, we now expect the overall budget to be **close to a balanced position**, with a small deficit of $0.3 billion or 0.1% of GDP.

Putting Back into Past Reserves

A.13. Members will recall that the Government had sought and obtained the President’s approval to draw $4.9 billion from Past Reserves, to fund the Jobs Credit Scheme and the Special Risk-Sharing Initiative under the Resilience Package. We were in the midst of a global crisis of unprecedented scale. Our access to Past Reserves gave us the resources and confidence to deal decisively with the downturn and to be prepared to take further measures if the situation worsened. In the event the amount drawn for these two schemes was $4.0 billion, less than expected.

A.14. We have recovered well from the crisis, putting our fiscal position on stronger footing. With the much lower deficit we achieved last year, as well as our good Budget position this year, we should be able to achieve an overall budget surplus during the current term of Government. We have thus decided to **put back into Past Reserves the $4.0 billion that we had drawn earlier for the Resilience Package**. I have informed the President of our decision.

A.15. There is no legal or constitutional obligation for the Government to return to Past Reserves any amount drawn. However, it is the responsible and prudent thing to do, once a Government has secured a stable fiscal position within its term. This is the way to uphold the philosophy that has enabled us to build up and maintain our reserves, and derive from it income each year to meet our strategic needs.

B. BUDGET 2011: GROWING INCOMES, STRENGTHENING OUR SOCIETY

Building for the Future

B.1. We are taking major steps in this year's Budget to **strengthen our economy and society for the future.** The Budget has two objectives.

B.2. **First**, we must **grow incomes for all Singaporeans.** We aim to raise incomes by 30% in real terms over this decade. However, we can only achieve this if we grow our economy, upgrade our businesses and invest in raising skills, craftsmanship and the quality of service in every job. That is the only way we can improve incomes and living standards, including for those at the lower end of the income ladder.

B.3. This year's Budget doubles our commitments to achieving this objective. We will significantly enhance support for companies to invest in workers' skills and productivity, and to help Singaporeans upgrade. We will also boost assistance for our companies to venture abroad, and to entrench high-value economic clusters in Singapore.

B.4. Together, these efforts comprise our core economic agenda. If we succeed, we will make the breakthrough into becoming a first-rate developed economy a decade from now, with advanced skills and higher incomes, and a larger base of globally competitive enterprises.

B.5. **Second**, we will **strengthen our society**. We will take further measures to ensure an inclusive society – where everyone can contribute and share in the country's progress, regardless of where they start from. The Budget will introduce tax measures to expand support for lower- and middle-income Singaporeans. We will help their children get the best start in life through education, from pre-school through to tertiary education. We will enhance grants to help lower-income Singaporeans own their own homes. We will commit substantially more resources towards developing a top quality long-term care sector for the elderly. We will also raise the quality of life for all Singaporeans, by investing in the rejuvenation of our HDB neighbourhoods and developing a vibrant and widely accessible arts and culture scene.

B.6. **Finally,** we will also be able to **share surpluses** with Singaporeans this year. As I explained earlier, we have first, as a matter of prudence, used our surpluses to put back in Past Reserves what we had drawn during the crisis. Next, in Budget 2011, we are moving ahead with major measures for our future – to build up a vibrant economy and enable an inclusive society. However, our strong Budget also allows us to provide an additional package of benefits to all Singaporeans this year.

B.7. This is a bonus, but it is not merely incidental to our fiscal policy approach. It is how we share and redistribute the benefits of growth with Singaporeans, while keeping to fiscal discipline. This package of surplus-sharing will also help most of our lower- and middle-income households to offset their higher costs of living this year.

Dealing with Inflation

B.8. However, while we are able to share surpluses with Singaporeans this year, this is not the main way we deal with the rising cost of living. Let me briefly explain how we approach this problem of inflation.

B.9. As a country that imports almost all we consume, we will always be vulnerable to inflation abroad. This time round, it is mainly food, utilities and other fuel-related charges that are concerning most Singaporeans

B.10. Our first approach is to seek to moderate **medium-term** inflationary pressures through the Singapore dollar exchange rate policy of the MAS. The MAS has permitted the Singapore dollar to appreciate against a basket of foreign currencies over the last 18 months, which has helped counter inflation in imported goods. However, using the exchange rate to offset sudden spikes in prices, such as what we have seen in oil prices over the last six months, would require a sharp appreciation of the Singapore dollar. This would disrupt our exporters.

B.11. Second, the Government will stay alert to any attempts by businesses to profiteer or collude to raise prices excessively. This is unlikely to happen in most industries, because firms which raise prices excessively risk losing business to their competitors. Nevertheless, the Ministry of Trade and Industry (MTI) has been monitoring retail prices, and will be forming a group under Minister of State (MOS) Lee Yi Shyan to keep a closer watch on any excessive price increases or anti-competitive practices. In fact, some of our businesses can also be angels. NTUC Fairprice has just cut prices of its house brand items by 5% till the end of May, and NTUC Foodfare has also announced that it will not increase the prices of basic beverages like tea and coffee at most of its outlets.

B.12. The third way we help Singaporeans with inflation is through our fiscal policies. We provide greater subsidies and benefits to those who need it most, in health, education, housing and other areas. These are permanent programmes. On top of this there is more help for the needy through ComCare and a whole range of community-based programmes – just like the daily meal vouchers that Southwest CDC, using a donation from a local entrepreneur, has just expanded to reach out to 2,000 students living in the district.

B.13. The final approach, however, is the most fundamental. We must continue to grow Singaporeans' incomes, so that even after taking into account inflation, their real purchasing power increases. It is not possible to achieve this every year, but we must grow the real incomes of Singaporeans over time. That is indeed the first major strategy of this Budget.

C. GROWING INCOMES FOR ALL SINGAPOREANS

SUSTAINING GROWTH

C.1. To raise Singaporeans' incomes over the next decade, we must first sustain our economic growth. Without a growing economy, no strategy can realistically raise incomes, whether for the average citizen or those at the lower end of the workforce.

C.2. We expect Singapore to be able to sustain growth of 3% to 5% on average over the rest of the decade, lower than the 4% to 6% we had expected for the last decade. It is however not possible to achieve this steady rate of growth every year. We cannot avoid the impact of global recessions, but our strategy is to recover quickly each time. We also seize the opportunity to grow faster when global conditions are positive because we know that the economic cycle will eventually turn.

C.3. By growing faster when conditions are right, we are not therefore going for growth for its own sake. It is the way for us to **achieve an average growth that is in line with our longer-term potential**, and thereby grow Singaporeans' incomes on a sustainable basis.

C.4. We saw this in the last decade. We had three recessions – in 2001, again from 2002 to 2003, and during the global financial crisis in 2009. Despite these recessions, we averaged creditable growth of 5.5% per annum over the decade. This was only possible because we grew well during the recoveries following each recession, making up for the periods of slow growth.

C.5. Had we not seized opportunities and attracted investments vigorously after each storm, we would have done significantly worse than we actually did over the decade. Incomes of Singaporeans would have grown much more slowly or not at all, with the brunt of the difficulties being borne by those at the bottom.

C.6. Consider what happened to **low-income Singaporean workers**, at the 20th percentile of incomes. Their wages grew by about 23% in the last decade, or by 5% in real terms. (This is without taking into account the Workfare payments they have received since 2008.) But virtually **all the increase in their incomes happened in the second half of the decade**, when our economy grew well. It more than made up for the first half of the decade, when weak economic growth kept wages at the bottom stagnant (see Annex A-1).

C.7. Because we grew well in the second half of the decade, we brought unemployment down, raised demand for workers and enabled wages to pick up for many at the lower end of the workforce.

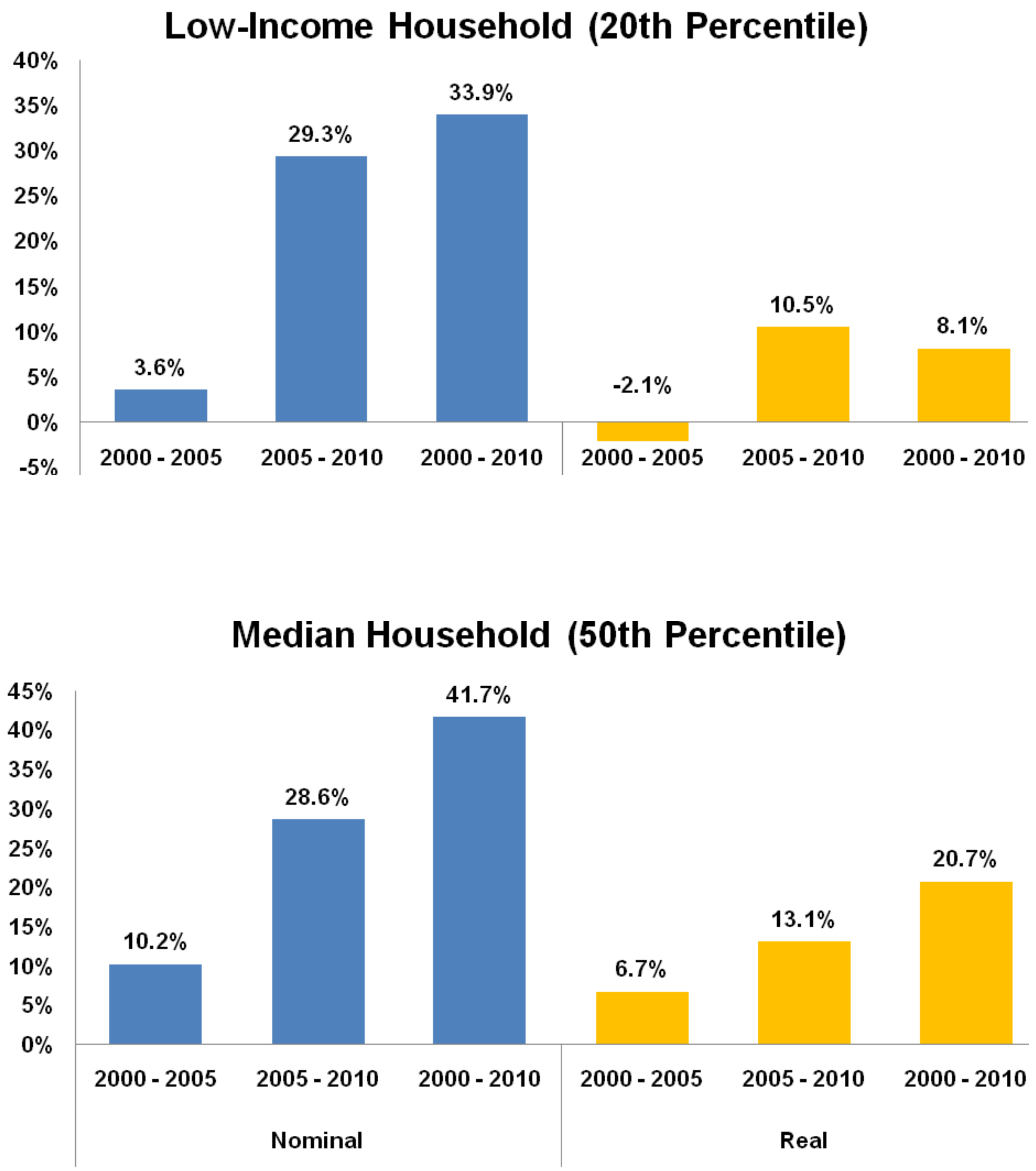
C.8. The challenge of keeping jobs and growing incomes for low-skilled workers is ever-present. The reasons are well-known – competition from China and other emerging players has exerted downward pressure on wages of low-skilled workers all around the world, at the same time that IT and other technologies have replaced many simpler jobs in factories, offices, stores and other workplaces. It has led to stagnating or falling wages at the bottom end in most developed societies. In Asia, we see it happening in Japan; even in Korea, which has a competitive and dynamic economy, wages of those at the bottom end have fallen in real terms.

C.9. Fortunately for us, we have been able to avoid a sustained decline, and instead achieved some growth in real incomes at the 20th percentile of workers over the last decade, unlike in many other economies. **Further, we have created many more jobs**. More of our people have joined the workforce, raising our participation rates closer to OECD levels. The result has been higher household incomes, as more members of the family have been able to find work, including part-time jobs.

C.10. This chart (Chart 2) shows what happened. **For Singaporean households at the 20th percentile of incomes, real incomes went up by about 8% over the decade** – as growth in the second half of the decade more than offset the decline in real incomes that took place earlier. Further, this increase in incomes **does not take into account the significant increase in net transfers from the Government** that low-income households received over the decade.

C.11. Income growth was stronger for **median Singaporean households**. Their **real incomes grew by 21% over the decade** – again with more of this growth taking place in the second half-decade.

Chart 2: Growth of Household Income Per Member[1]



Source: DOS

[1]Based on Singaporean households with at least one employed person. The CPI for the lowest 20% is used to compute the real changes for the low-income household. Overall CPI is used for the median household.

C.12. Our growth strategies are therefore working. We can and should do more to help Singaporeans who have seen little improvement in their wages. For example, the NTUC and WDA have been working intensively to up-skill workers in the cleaning and security industries and partner with companies to create better paying jobs for them.

C.13. But the vast majority of Singaporean households, including both the median and the lower-income households, have seen significant improvement in real incomes in the last five years, and consequently for the decade as a whole. Growth has also given us the resources to invest for Singaporeans' future, in education and healthcare, and in providing the highest quality living environment in Asia. We have grown so that we **raise living standards and benefit our people**.

Changing How We Grow

C.14. However, we are changing the way we grow. Our local workforce will expand slowly in the next 10 years. We also should not become ever more dependent on foreign labour. We must therefore restructure our economy and raise skills in every job, so that productivity becomes the key driver of growth.

C.15. Even including the exceptional productivity growth we experienced last year on the back of strong GDP growth, productivity improvements contributed to just **one-third** of our economic growth over the past decade[1]. In the next decade, productivity needs to contribute **two-thirds** of our economic growth. Otherwise we will fall short of the 3% to 5% economic growth that we are aiming for.

[1] Productivity growth over 2000-2010 averaged 1.8% per year. This was about one-third of GDP growth over the period. Productivity growth over 1999-2009 was lower, at 1.2% per year, which was about one-quarter of GDP growth over that period.

C.16. We have targeted to improve our productivity by 2% to 3% per year on average, or **30% cumulatively over 10 years**. This will be significantly higher than the 20% increase we managed over the last decade. Achieving this will **bring us up to today's levels of productivity in the most advanced economies** – the US, Japan and the Scandinavian region.

C.17. It is a **challenging target**, but we are devoting substantial resources to achieve it. Last year, we set aside $1 billion in a National Productivity Fund (NPF), and set up the National Productivity and Continuing Education Council (NPCEC) to oversee its use and coordinate the national effort to boost up-skilling and raise productivity. We also lowered taxes to support a broad base of investments in productivity, through the Productivity and Innovation Credit (PIC) scheme.

C.18. Budget 2011 will build on the strategies that we embarked on last year. I will now elaborate on the specific initiatives.

BOOSTING SKILLS AND PRODUCTIVITY

Enhanced Support for Business Restructuring and Skills Upgrading

C.19. We will provide a significant boost to the schemes we announced last year to help businesses to restructure their operations, up-skill workers and create better quality jobs.

Doubling our Investment in the National Productivity Fund

C.20. Our industry associations, businesses, unions and government agencies have been working out detailed roadmaps to tackle the productivity challenge.

C.21. For example, NParks has been working with the landscape industry and WDA on a new apprenticeship scheme which will provide training to build deeper trade skills, and a structured career path. An apprentice with qualifications from ITE could start off with a pay of $1,500, and aspire to become a Master Tradesman in 10 years, and more than double his starting pay. The upgrading of jobs will be complemented by increased use of technology, such as automatic irrigation and targeted weed control systems, which can reduce need for low-skilled manpower by 30% to 50%.

C.22. The utilisation of the NPF is expected to reach $150 million by this year, and based on plans for the various industries, will reach more than $800 million by 2015. This amount could grow, as more proposals come in over the next few years.

C.23. To ensure continued support **beyond the first five years** for this long-term effort to restructure our industries, I will **top up the NPF with another $1 billion** this year. This will bring the total fund size to the target of $2 billion.

C.24. More details on the work of the NPCEC will be provided by DPM Teo Chee Hean during the Budget Debate.

Further Enhancement of Productivity and Innovation Credit (PIC)

C.25. Last year, I introduced the five-year PIC scheme. The scheme was especially geared towards SMEs. Taking into account feedback from the various trade and business associations, I will make **significant enhancements to the PIC scheme**.

C.26. I will now allow businesses to **deduct from their taxable income 400% of their expenditures** in any of the six broad categories of investment under the scheme, for example, training or investment in automation equipment. This is up from the 250% tax deduction introduced last year. I will also **raise the cap for such claims for each**

category of investment from $300,000 to $400,000 of expenditure. As before, businesses can undertake any number of investments in a year, in the six categories.

C.27. Let me illustrate the significance of this enhanced scheme, with the example of a company which makes investments totalling $500,000 – comprising $400,000 on automation equipment such as computers, and $100,000 on training for its staff. Under the scheme introduced last year, it would have enjoyed savings of $187,000 off its tax bill. With the enhanced PIC, it will now enjoy almost double the tax savings, amounting to $340,000. In other words, **the PIC scheme will pay for two-thirds of the value of its investments** (see <u>Annex A-2</u> for details of this example).

C.28. I will also enhance the current cash payout option under the scheme, which was introduced last year to benefit SMEs who pay little or no taxes currently, but wish to invest in productivity and grow. I will allow businesses to opt for a **cash payout of up to $30,000 for the first $100,000 of their investments**, in lieu of tax deductions. This is an increase from the maximum grant of $21,000 that a business can currently get under the PIC.

C.29. I will also introduce other changes to make it easier for businesses to make full use of the PIC scheme. First, to **help SMEs benefit from the PIC scheme**, last year I had allowed businesses to combine their annual expenditure caps for YA 2011 and YA 2012. I will now extend this principle, so that businesses can combine their annual expenditure caps for the following three years, from YA 2013 to YA 2015. It will help an SME that is planning a **large investment in any one year** to benefit from the full 400% tax deduction.

C.30. Second, PIC benefits are currently limited to spending on R&D done in Singapore. Responding to the feedback we have received, I will now also allow businesses to enjoy PIC benefits on expenditure for R&D done abroad.

C.31. For the companies that are investing in productivity improvements, **it effectively amounts to a significant cut in the corporate taxes that they would pay.** Take for example a medium-sized company with annual turnover of about $5 million and net profit of $200,000, and which invests $40,000 in productivity. The generous tax deductions under the PIC would reduce the company's tax burden by some 60%, from 8% to 3% as a percentage of its net profits (see Annex A-2 for details of this example).

C.32. These changes will take effect immediately, so that businesses can enjoy the enhanced deductions for YA 2011 for the productivity investments they have already made. The PIC scheme will cost the Government **$520 million per year**.

Expanding Training Support

C.33. We are moving ahead with our Continuing Education and Training (CET) plans. Last year, we announced the Workfare Training Scheme (WTS) to give additional training support for older, low-wage workers. This year, we will strengthen our support for professionals, managers, executives and technicians (PMETs), who in fact now make up more than half of our workforce.

C.34. We will **increase both the capacity and quality of CET for PMETs**. The Ministry of Education (MOE) will expand the capacity for diploma-level programmes at our polytechnics by about 60%, to about **10,000 places by 2015**. The Ministry of Manpower (MOM) will also introduce an umbrella programme for PMETs, Skills Training for Excellence Programme (STEP).

C.35. We will also **make it more affordable for PMETs who wish to upgrade** their qualifications or obtain new skills. First, we will increase subsidies significantly for Singaporean adults who pursue their first degree or diploma on a part-time basis at any of our polytechnics, CET centres, universities or UniSIM. They will receive the same percentage cost subsidy on their part-time courses as what a full-time student currently enjoys. For example, it will mean a part-time undergraduate student in an engineering degree at NTU will pay about $16,000 over a five-year course, down from $21,000 currently. Trainees who obtain their first part-time polytechnic diploma, ITE NITEC or Higher NITEC certificate will benefit from increased subsidies through a completion award. Those who complete their first Workforce Skills Qualification (WSQ) diploma or certificate can also qualify for the award. This award will be applicable to Singaporeans who graduate from 1 March 2011.

C.36. About **30,000 Singaporeans will benefit** from these subsidies. Our CET enhancements will cost the Government about $30 million per year. More details on these initiatives will be announced by the Minister for Education and the Minister for Manpower in the Committee of Supply (COS).

C.37. In addition to these enhancements for PMETs, I will also make a **$500 million top-up to the Lifelong Learning Endowment Fund (LLEF)**, thus increasing the fund size to $3.6 billion. This will increase the base level of long-term assured funding for CET, to complement the allocations from future annual budgets.

Adjusting to Higher Labour Costs

Raising Employer CPF Contributions and CPF Salary Ceiling

C.38. As our economy has recovered strongly, it is timely that we review our CPF contribution rates and the CPF Salary Ceiling. In 2003, we cut the total CPF contribution rate by three percentage points to 33%, and set a target range of 30% to 36%. In the years since, we have progressively raised the employer contribution rate. With the outlook for continued growth in 2011, we will **raise the employer contribution rate by another 0.5 percentage points**, from 15.5%[2] to 16%, which will restore the total contribution rate to 36%. The additional 0.5% will go into the Special Account.

C.39. We will also revise the CPF Salary Ceiling from $4,500 to $5,000 per month to keep pace with income growth in recent years. This will align the salary ceiling back to the 80th percentile income, and help middle-income Singaporeans. To give employers sufficient time to adjust, both these changes will only take effect in September this year.

C.40. In line with the higher CPF Salary Ceiling, we will also raise the contribution cap within the Supplementary Retirement Scheme (SRS), which offers tax incentives to encourage voluntary retirement savings to complement the CPF.

C.41. We also want to help self-employed persons (SEPs) increase their savings under the CPF scheme to enjoy the good interest rates and save for their medical and retirement needs.

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[2] As announced in May 2010, the employer CPF contribution rate has been raised by 0.5% point in September 2010, with another 0.5% point increase due in March 2011, which will bring the employer CPF contribution rate to 15.5% in March 2011.

C.42. The CPF Board and NTUC have been active in reaching out to the SEPs and encouraging them to make Medisave contributions. Companies that work with SEPs can also help. For example, under the National Taxi Association's Drive and Save scheme, taxi companies have agreed to co-contribute to the Medisave of their taxi drivers.

C.43. To support such initiatives, I will grant tax deduction to eligible companies that make voluntary contributions to the Medisave accounts of their SEP partners, up to $1,500 per SEP per year. I will also exempt SEPs from paying tax on these contributions. This will take effect from YA 2012.

Managing our Reliance on Foreign Labour

C.44. Last year, we had set out a schedule to progressively raise foreign worker levies and tighten the levy tiers from July 2010 to July 2012. Since then, our economy has grown much faster than either the Government or businesses expected. The local labour market is at virtually full employment levels. If we do not take further steps now to raise the Foreign Worker Levy, it will be difficult for us to prevent the proportion of foreign workers from rising over time, and exceeding our long-term target of one-third of the workforce.

C.45. We will thus introduce further levy increases for all sectors this year. Most of the additional measures will be phased in at six-monthly intervals, starting only from 1 January 2012, and extending till 1 July 2013, one year beyond the previous schedule. This will give companies time to prepare for the changes.

C.46. Last year, we announced that average levy per foreign worker for the Manufacturing and Services sectors will be raised by about $100 between 2010 and 2012. For the Manufacturing sector, over and above the earlier announced increase of about $100, we will increase the levy by an average of another $60 by July 2013.

C.47. We will go further in the Services and Construction sectors, where the scope for productivity improvements is greatest. For the Services sector, we will tighten the levy tiers and raise levies such that the average levy goes up by a further $180 by July 2013 on top of the earlier announced increase of about $100. For the Construction sector, average levy rates will go up by a further $200 over the same period on top of the earlier announced increase of about $130.

C.48. To manage the continued increase in demand for S Pass holders, we will also increase the levy rates for this category from $50 prior to the adjustments made on 1 July 2010, to $300 to $450 by July 2013, depending on the number of S Pass holders hired by the companies.

C.49. The overall dependency ratios for all categories of foreign workers (Work Permit as well as S Pass holders) will remain unchanged. The Ministry of Manpower (MOM) and the Ministry of National Development (MND) will release more details on Monday.

C.50. Taken together, the increases in foreign worker levies and CPF contributions will raise business costs. The CPF changes will increase annual labour costs of businesses by 0.5% on average. The Foreign Worker Levy adjustments, including those announced last year, would add roughly 1.7% to annual labour costs when fully implemented in 2013. This is the **right time to make these adjustments**, while the economy is growing well.

C.51. However, the increases in foreign worker levies are not merely a cyclical response to current conditions. This is the **direction we are**

setting for the long term, so as to provide clear and strong incentive for businesses to upgrade their operations, train up their workers and reduce their dependence on lower-skilled foreign workers. We understand that when the economy is doing well, the number of foreign workers will rise faster. But this has to be offset by a slowdown or even reduction in the number of foreign workers when the economy grows more slowly. Hence, should demand for foreign labour continue to strengthen beyond what we expect in the next two years, the Government will have to review if there is a need for further tightening.

C.52. In the past too, we had made short-term reductions to foreign worker levies in response to economic downturns, as a means to reduce business costs. **We will avoid cyclical adjustments to foreign worker levies in the future.** Instead of cutting levies, we will adopt other measures to help companies through a downturn, such as the enhanced training subsidies we provided in the last recession.

C.53. The Government is also providing firms with substantial assistance to help them upgrade their operations and train their workers, through the NPF and the enhanced PIC scheme. **Companies should take maximum advantage of these schemes to restructure, improve their efficiency, grow their businesses, and to offset the impact of higher labour costs over time.**

Helping Companies with Rising Costs

C.54. I recognise that many companies have seen significant cost pressures in the last year besides increases in their wage bills. Rentals have increased, and so have utility bills. I have therefore decided to provide a set of one-off support measures for companies this year.

Corporate Income Tax Rebate and SME Cash Grant

C.55. First, companies will receive **a 20% corporate income tax rebate, capped at $10,000, in YA 2011.**

C.56. However, many of our small companies may not benefit fully from the corporate tax rebate as they pay very little taxes. In fact, more than 85% of eligible companies will receive less than $5,000 from the tax rebate. Therefore, I have also decided to provide the option of a **one-off SME Cash Grant this year, amounting to 5% of a company's revenues in YA 2011, subject to a cap of $5,000**. They must, however, have made CPF contributions in YA 2011.

C.57. Companies will automatically receive the **higher of** the corporate tax rebate or the grant when IRAS assesses their tax returns. In total, this will cost the Government about $560 million.

Special Employment Credit

C.58. As a further measure, I will provide employers with a one-off **Special Employment Credit** for older Singaporean workers who are covered by the Workfare scheme. The Credits will be paid out over three years, and will encourage employers to attract and keep older workers. Employers will receive a Special Employment Credit of up to 50% of employer CPF contributions for workers aged 55 to 59. They will get a higher Credit of up to 80% of employer CPF contributions for workers aged 60 and above. The Special Employment Credit will cost the Government about $100 million.

SUPPORTING ENTERPRISE GROWTH

C.59. In Budget 2011, we will make several major investments in our corporate ecosystem. We will help our companies make the most of opportunities in emerging markets, and **entrench our position as a Global-Asia Hub**. We will do more to **groom globally competitive local enterprises**. In addition, we will introduce incentives to **strengthen our economic clusters,** by deepening capabilities and enhancing their competitiveness.

Grooming Enterprises

Differentiating Support for High-Growth Enterprises

C.60. We are making major, broad-based commitments to help all enterprises upgrade and make productivity improvements. However, to restructure our economy, our fundamental approach towards the SME sector must ultimately **favour companies that are more dynamic and innovative**. We must provide them room to grow – to attract the managerial talent and skilled workers they need, and to expand internationally.

C.61. We will **commit $850 million in grants under the Enterprise Development Fund (EDF) over the next five years**, to be administered by SPRING and IE Singapore. This is a substantial increase of about 45% from the previous five-year tranche. One of the priorities of the EDF is to help high-growth enterprises in their overseas expansion.

C.62. Demand in Asia is growing rapidly for competencies and strengths that Singapore companies possess, in areas such as urban solutions and clean technology, as well as in service sectors including healthcare and education. We will boost support significantly to help our companies build capabilities and defray their costs when they venture into new markets in the region and elsewhere.

Foreign Tax Credit Pooling

C.63. I will also simplify and reduce the taxation of foreign income, so as to support companies that are globalising and earning a larger share of their income overseas. I will introduce foreign tax credit pooling to encourage remittance of foreign income to their Singapore bases. It will also give them greater flexibility in the use of their foreign tax credits, reduce their tax payable, and simplify tax compliance. This measure will cost the Government $22 million per year.

Catalysing Cross-Border Financing

C.64. **Cross-border financing is another important enabler for our strategy of growing globally competitive enterprises.** The Economic Strategies Committee (ESC) had recommended that a specialised institution be set up in Singapore to address current structural gaps in financial markets, namely the limited capacity for long-tenor project finance, as well as inadequate access to trade finance for SMEs, especially in their dealings in emerging markets.

C.65. We have developed our plans to plug these gaps. I will first explain our approach to strengthening **project financing**. Our aim is to work with commercial players, so as to catalyse and not crowd out market participants. The Government is working with Temasek Holdings to develop this initiative. Temasek is in discussions with potential partners on establishing an institution that is financially and commercially viable and sustainable. The Government is prepared to provide some initial support for such an institution during its start-up phase.

C.66. To complement this, we are also in advanced discussions with multilateral agencies to partner in offering **political risk insurance** for infrastructure projects. This is especially relevant for Singapore corporates venturing into unfamiliar markets.

C.67. The second area we are addressing is **trade financing**. Our review has concluded that a full-fledged, dedicated trade finance institution would not be ideal as it would require significant economies of scale to be viable. The Government is therefore exploring a model by which our trade finance schemes can be outsourced to existing specialist providers. As these providers have well-developed risk assessment and underwriting capabilities, they would be able to provide trade finance solutions that better meet the needs of SMEs. We will provide an update on this study by the second half of this year.

Reaping Economic Value from R&D

C.68. We will add to our investments in R&D, with an increasing share going towards supporting private sector R&D activity and commercialisation. These are long-term investments, but we have to keep up our steady commitments to R&D, if we are to make the transition towards a high-value economy with a broad base of innovative enterprises. Our Research, Innovation and Enterprise (RIE) 2015 plan for the next five years was announced by the Prime Minister in September last year so I will not expand on this here.

C.69. To support the broadening of our research agenda and increasing commercial outcomes from the RIE 2015 plan, I will **top up the National Research Fund by $1 billion** this year.

Strengthening Clusters

Becoming a Global-Asia Hub

C.70. We are making good progress to becoming a Global-Asia Hub - a location of choice in Asia for global companies as well as a launch-pad for Asian enterprises to globalise. For example, a study by the Business Times and the Accounting and Corporate Regulatory Authority (ACRA) found that about 51% of international companies registered in Singapore in 2009 were from Asia, up from 40% in 2000.

C.71. We will **set aside $2.5 billion over the next five years under the Economic Development Assistance Scheme (EDAS)** to enable EDB to further strengthen Singapore's value proposition as an Asian base for corporate headquarters and other high-value activities. This will support new efforts, such as developing a talent pool of professionals and executives with a strong understanding of Asian markets and businesses, as well as attracting global mid-sized companies to set up their first Asian base in Singapore.

Enhancing Competitiveness of Our Business Hub

C.72. I will now highlight key tax changes in strategic business sectors to enhance our overall competitiveness as a Global-Asia Hub. The details, along with other minor tax changes, are set out in Annex A-2.

C.73. I will start with the financial sector. Banks are increasingly tapping funds from non-bank sources such as hedge funds and insurers which are not covered under the current inter-bank interest withholding tax exemption. To help banks access more diversified funding sources for their lending business and strengthen our position as a regional funding centre, I will exempt all interest payments made by banks and similar financial institutions from withholding tax. I will also extend the tax exemption schemes for Captive Insurers, Specialised Insurers and Marine Hull and Liability Insurers, to grow their technical expertise and underwriting capacity in Singapore.

C.74. Next, the maritime sector. The GDP contribution of the sector has increased from 5% to over 7.5% in the past decade. To further promote its growth, I will introduce the Maritime Sector Incentive (MSI) with effect from 1 June 2011. This scheme will streamline and enhance existing maritime tax incentives. New tax benefits such as certainty of withholding tax exemption for interest payments on loans to build or buy ships will also be introduced to further entrench international ship operators and encourage the growth of the shipping-related services sector in Singapore.

C.75. I will also expand the scope of GST zero-rating for repair and maintenance services performed on ship parts and components, so as to further promote our maritime sector.

C.76. The biomedical sector continues to grow in importance as a key contributor to our economy. Singapore is fast developing into a location for businesses to manage their clinical research and manufacturing. To support growth in the biomedical sector, I will grant GST relief for imported clinical trial materials, as well as enhance the Approved Contract Manufacturer and Trader Scheme.

C.77. I will allow GST zero-rating for specified services supplied to overseas persons, if they are performed on goods kept in qualifying specialised warehouses and eventually sent overseas. This scheme will help to promote the use of specialised storage facilities that store high-value collectibles such as art and antiques.

C.78. Lastly, to strengthen our commodity markets, I will enhance the Global Trader Programme to qualify all derivative trades under the scheme.

MISCELLANEOUS TAX INITIATIVES

C.79. I will also introduce a few other tax-related changes.

C.80. First, to help start-ups. They often incur substantial costs before they begin generating revenue. I will now allow businesses to **claim tax deductions on pre-commencement expenses incurred** in the accounting year immediately before the year in which they earn their first dollar of trade receipts.

C.81. I will also make **refinements to the current tax deduction scheme for companies that purchase shares for the purpose of their equity-based remuneration schemes**. I will henceforth allow for tax deductions when they make such purchases through the special purpose vehicles that are set up as trustees to administer the schemes.

C.82. Next, I will **raise the excise taxes by between 5% and 10% on two classes of non-cigarette tobacco products**.

C.83. Finally, I will also **extend the Green Vehicle Rebate scheme for another year till 31 December 2012**. In the meantime, we will undertake a comprehensive review on the measures to promote the adoption of green vehicles, as part of our overall efforts to promote sustainable development.

D. STRENGTHENING OUR SOCIETY

BUILDING AN INCLUSIVE SOCIETY

D.1. Let me now go on to the second major thrust of the Budget, which is about strengthening our society. We will do more to build an inclusive society, where lower-income citizens can aspire and work towards a better life, and where everyone can contribute and share in Singapore's progress. The most important way for us to achieve this is to sustain our growth, create good jobs and provide opportunities for everyone to keep upgrading. That is the only way we can grow the incomes of Singaporeans sustainably and over the long term.

D.2. However we cannot leave social cohesion purely to market forces. Left to the market, incomes will continue to diverge, and opportunities too will diverge. This is happening around the world, in almost every society that is integrated into global markets.

D.3. That is why the Government has intervened significantly in Singapore to tilt benefits in favour of those lower down the income ladder. But we must avoid the mistakes of the developed countries which have built up unsustainable systems of entitlements – in healthcare, unemployment insurance and pensions. These have not only meant high taxes today, but huge debts and unfunded government liabilities which can no longer be postponed. Worse, the over-generous social entitlements have progressively reduced the work ethic over time. Some of these developed countries are now undertaking painful reforms to gradually recover their economic dynamism.

D.4. Our approach must therefore remain centred on **opportunities, not entitlements.** This is why we are focusing on helping the low-income group through **education, employment and home ownership**:

- We will give their children every support in education, and provide pathways for every ability and talent. We must do everything we can to keep social mobility going with each new generation.
- Second, we will support employment, which is our real safety net in Singapore. Instead of automatic unemployment benefits, we have automatic employment benefits. Through Workfare, we top up to the wages of older, lower-income workers, and provide them extensive support to upgrade in their jobs.
- Third, we help lower-income Singaporeans own their own homes so that they too can see their assets grow as Singapore

progresses. Even amongst the lowest 20% of our households, the home ownership rate is about 85%[3]. No other society comes close. But we will do even more.

D.5. We complement this with ComCare and our health subsidies for the needy, and strong incentives to encourage philanthropy and community giving.

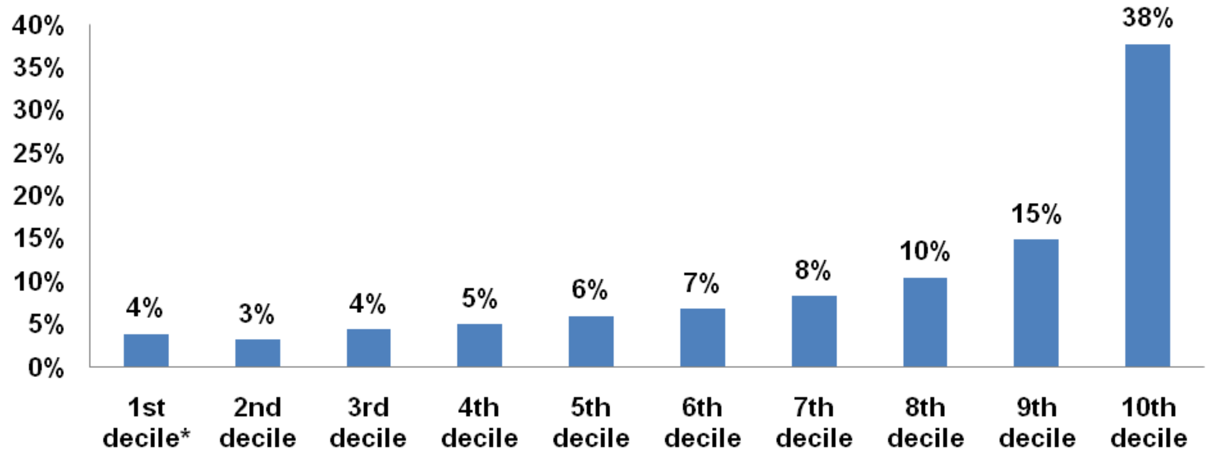
D.6. Further, when our economy does well and our Budget is strong, we share surpluses with Singaporeans through special transfers, with more going to those in the lower- and middle-income groups.

D.7. Together, it all adds up to **a highly progressive fiscal system**. If we add up all our taxes – income and property taxes, GST and other indirect taxes – we find that the **top 10% of households account for 38% of the taxes paid.** The top 20% contribute 53% of all taxes (see Chart 3). That is as it should be.

D.8. Our lower-income groups, on the other hand, receive substantially more transfers from Government than what they pay, including the GST and other taxes. For those in the second decile from the bottom, net transfers from Government over the last five years were in fact equal to about **23% of their incomes** (see Chart 4).

[3] Household Expenditure Survey 2007

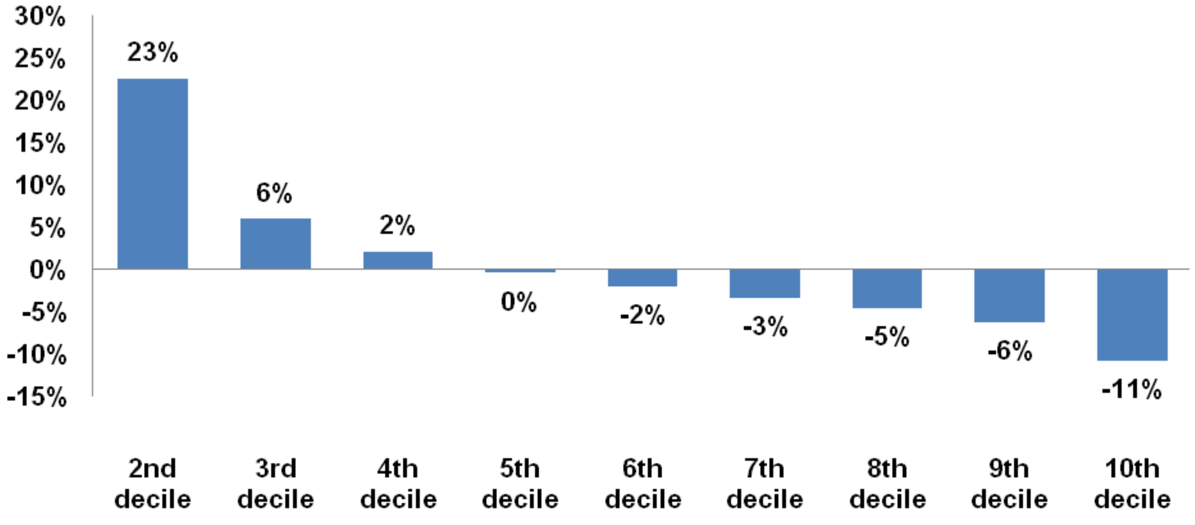
Chart 3: Proportion of taxes paid by Households, 2010[1]



Source: MOF Estimates
[1]The deciles are ranked by income from work.

*The first decile pays a higher proportion of taxes than the second decile as it includes households with no income from work, but who have other sources of income on which they pay taxes (e.g., rental of properties).

Chart 4: Transfers Net of Taxes, 2006 to 2010 (% of Household Income Per Member)[1]



Source: MOF Estimates
[1]Net transfers comprises Government transfers to Singaporean households, net of all taxes paid. The deciles are ranked by income from work.

Note: Data for the first decile has been excluded because they include retiree households and others with no income from work.

What Our Measures Add Up To

D.9. We will keep this progressive system, and enhance it further in this year's Budget.

D.10. The Budget will provide a package of benefits for Singaporeans adding up to **$6.6 billion** – **part of which to be received this year, and the rest being set aside for the future**.

D.11. First, I will provide a **'Grow & Share'** Package of **$3.2 billion** for households **this year,** with more going to our lower- and middle-income families. Second, I will set aside **$3.4 billion** now for **longer-term social investments** to enhance Singaporeans' well-being – especially to support a first-class long-term care environment as our citizens grow older.

D.12. These benefits however do not include other **permanent shifts in taxes and subsidies** that Budget 2011 introduces – including greater progressivity in our income taxes, and significantly enhanced bursary support for students.

REWARDING WORKING SINGAPOREANS

D.13. Let me start with measures to support working Singaporeans.

Workfare Special Bonus

D.14. Our Workfare scheme currently provides support for about 400,000 workers.

D.15. As the economy has performed exceptionally and our revenues have been strong in 2010, I will provide a **one-off Special Bonus payment for those on the Workfare Income Supplement (WIS) scheme**. The Workfare Special Bonus will be given for work done in 2010, as well as for this and next year. The Bonus will amount to 50% more WIS for work done in 2010, and 25% more WIS each year for work done in 2011 and 2012. Employees will receive these bonuses fully in cash.

D.16. This year, there will be two Bonus payments, with the first on 15 May 2011. Self-Employed Persons who make their Medisave contributions will also benefit. They will receive half of their bonus in cash, and the other half in their CPF Medisave accounts.

D.17. Let me give an example. A 55-year-old employee earning $1,000 a month last year will receive a regular WIS payout of $2,100. With the Workfare Special Bonus this year, he will get an additional 50%, or $1,050. This is equivalent to getting **one month extra pay, on top of the WIS which provides him more than two months' extra pay**.

D.18. The Workfare Special Bonus, together with the Special Employment Credit which I mentioned earlier, will therefore provide significant additional support over the next three years for older Singaporeans at work - helping them keep their jobs and topping up their pay, including more in the form of cash. We last enhanced the Workfare scheme in 2010, and will review it again comprehensively in two years' time.

Reduction of Personal Income Taxes

D.19. Our personal income tax rates are already low by international standards. Further, only 44% of our resident workforce pay income taxes. However, I will **reduce taxes significantly for middle- and upper middle-income taxpayers**, by introducing a more progressive personal income tax schedule. Marginal tax rates will be reduced for the first $120,000 of chargeable income.

D.20. **All taxpayers** benefit when marginal tax rates are reduced at the bottom of the scale. But middle-income earners will enjoy the largest percentage reduction in taxes. Those with chargeable income of

$60,000 will now pay 25% less tax; they will save $650 a year. Those with chargeable income of $160,000 save a smaller percentage of about 10%; but as they currently pay higher taxes, they will in fact save about $1,600 (see Table 1). Those with chargeable income of above $330,000 will save less than 1%, and get a modest $350.

Table 1: Changes to Personal Income Tax (Effective YA 2012)

Chargeable Income	Tax Payable under New Schedule	Tax Savings
		(%) $
$40,000	$550	39% ($350)
$60,000	$1,950	25% ($650)
$120,000	$7,950	20% ($1,950)
$160,000	$13,950	10% ($1,550)
$240,000	$27,950	4% ($1,150)
More than $330,000	More than $44,350	Less than 0.8% ($350)

D.21. These personal income tax changes will take effect from YA 2012. They will cost the Government about $590 million per year.

Personal Income Tax Rebate

D.22. We will continue to review our top personal income tax rate. While it is higher than in Hong Kong, there is no pressing competitive need for us to reduce it at this point.

D.23. I will however give something back to all taxpayers this year, in view of our stronger than expected revenues in 2010. I will **provide a personal income tax rebate of 20% for individual resident taxpayers for YA 2011**. The rebate will be capped at $2,000. Having this cap allows us to provide the greatest benefits to those with chargeable income of less than $120,000, which covers about 90% of our taxpayers. The income tax rebate will cost the Government $580 million.

Removing Radio and Television Licence Fees

D.24. I will **remove radio and television licence fees permanently**. The licence fees are losing their relevance. First, ownership of TVs is no longer limited to the middle- and higher-income groups. Today, most households – including 99% of lower-income households – own TVs. Second, with increasing media convergence, Singaporeans can now receive broadcast content over the Internet and mobile devices, which do not attract a licence fee.

D.25. I will thus do away with the $110 annual licence fee for televisions, with effect from January 2011. The $27 annual fee for vehicle radios will also be removed. Therefore, those who have yet to pay this year's radio and television licence fees will not have to make the payment, while a refund will be given to those who have already paid. The revenue forgone from the removal of these licence fees will be approximately $120 million per year.

SUPPORTING FAMILIES WITH CHILDREN

D.26. Let me now move on to what we are going to do to help families with children.

Support for Early Years

Child Development Credit

D.27. First, I will **introduce a new Child Development Credit scheme** for all Singaporean children aged six and below[4]. The Credits will be provided from time to time, when we have surpluses to share with Singaporeans. This is similar to the way we provide top-ups to Edusave accounts for school-going children, and to Post-Secondary Education Accounts (PSEA) for students to use when they go on to tertiary education.

D.28. The Child Development Credit can be used to pay for their children's preschool, childcare, and medical expenses. 80% of families with young children will receive **$400** per child, which is in fact more than one month's worth of NTUC childcare fees, after including the universal childcare subsidy. The remaining 20% who are better-off will receive **$300**.

D.29. The Child Development Credit will cost about $90 million and benefit over **220,000 children aged six and below**. The Child Development Credit will be paid into the Children Development Accounts (CDAs), which most children already have. For those who do not currently have CDAs, they will be able to open accounts to receive their Credits[5] (see Annex B-1 for details).

Enhancements to KiFAS and CFAC

D.30. We will also **give additional support to lower-income families by enhancing subsidies for preschool education and childcare fees**. The Kindergarten Financial Assistance Scheme (KiFAS) and the

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[4] Including all children born in 2011.

[5] The usage and withdrawal of the Child Development Credit will be subject to the current approved usage and withdrawal under the Children Development Co-Savings Act. Children who are not currently eligible for CDAs will continue not to receive matching government contribution.

Centre-based Financial Assistance Scheme for Childcare (CFAC) currently provide subsidies for children from low-income families.

D.31. We will enhance and extend subsidies to a larger group of families, including those with up to $3,500 in gross monthly household income (the 40th percentile). Let me give an example of a family earning $2,500 a month (the 30th percentile). The amount they have to co-pay for childcare fees will be reduced from $300[6] to about $90 a month. If instead their child is in an eligible kindergarten, they will now co-pay $33 a month. Low-income families will continue to pay far less – less than $10 a month for childcare.

D.32. These enhancements will double the number of children who benefit from KiFAS and CFAC, to a total of 24,000. The Minister for Community Development, Youth and Sports will provide more details in the COS.

Support for School and Tertiary Students

Edusave Top Ups and Grants

D.33. We are **topping up each primary and secondary school student's Edusave account by $130**, as has been earlier announced by the Minister for Education. We have also committed an additional $100 million in Edusave grants to schools.

Top Ups to SAC/SMC Funds

D.34. School Advisory Committees and School Management Committees also raise money to complement government assistance for these and other needy students. To provide more support for the good work by these Committees, I will provide **a one-off top-up of $4.7 million to**

[6] They will now also qualify for CFAC, and receive an additional subsidy of $210 a month. They also currently receive the universal childcare subsidy of $300 a month for each child, which is roughly half the average childcare fee of $588 in NTUC childcare centres.

the funds of School Advisory Committees and School Management Committees to help needy Singaporean students. Each school will receive between $10,000 and $15,000, enough to cover about half of what they spend each year to help these students.

Financial Assistance to Special Education Schools

D.35. I will also **provide a top-up to the Boards of our Special Education (SPED) schools which are run by VWOs**. Each school will receive an average of $15,000.

D.36. In addition, we will **extend the MOE Financial Assistance Scheme to pupils from lower-income families in the SPED schools**. It will mean that SPED students from these families will be fully subsidised for their school fees, uniforms, and textbooks, and receive a 75% subsidy on their exam fees.

Enhanced Bursaries for Polytechnic and University Students

D.37. We will also **do more to keep higher education affordable**. We have already enhanced our CDC and CCC bursaries for ITE students from low-income families this year. We will also increase our **undergraduate and diploma bursaries significantly**, to ensure that no student is discouraged from taking his education as far he can.

D.38. We will raise bursaries for undergraduates at our universities, and diploma students at our polytechnics, and NAFA and LASALLE. We will provide bursaries for **students from both lower- and middle-income families**, up to the 66th percentile of household incomes[7]. University students who get the first tier of bursaries, who are those from the bottom one-third of households, will benefit from an 80% increase in

[7] The existing polytechnic bursary scheme only extends to the 50th percentile. The university bursary scheme was extended to the 66th percentile in 2008.

bursaries, from $1,600 a year currently to $2,900 a year. These subsidies will cover **40% of their fees**, and the students can finance the rest of the cost with a subsidised loan.

D.39. For diploma students, those from the bottom third of households will receive bursaries that are enough to cover **80% of their fees**.

D.40. In total, the measures will cost us an additional $120 million per year. The Minister for Education will elaborate on the details of these measures in the COS.

D.41. When you add up all the grants and bursaries that the Government is providing in education for students from low-income families (the bottom 20%), the support is significant. Currently, a child from a low-income family who starts off in childcare and proceeds through to a polytechnic diploma, already pays only **3% of the cost of his education**. With the enhancements we are making today, **he will pay just 1% of the cost of his education.**

PROVIDING THE BEST CARE FOR OUR SENIORS

Transforming Long-Term Care

D.42. Singaporeans are living longer. A larger proportion of our people are going to be elderly – by 2030, one in five residents will be aged 65 and above. We want to provide our seniors with the best possible care and help them stay healthy and active in their retirement years.

D.43. We are continuing to make significant investments with new acute care hospitals - Khoo Teck Puat Hospital has opened last year in the north, and Jurong General Hospital will open in 2014.

D.44. Our next big priority is to build up our long-term care sector. We will develop a high quality and comprehensive system, to provide the best possible care for the elderly and the disabled, not just in our hospitals but also in the community and in their own homes. We will provide **enhanced government support so that we can develop the VWO sector for long-term care** – good people and institutions that bring passion, expertise, and resources to help the elderly and disabled.

D.45. Today, we already have several good long-term care providers amongst our VWOs. For example, St Luke's ElderCare provides day care services; Metta Welfare Association helps the disabled to stay active; the Home Nursing Foundation does good work to help the elderly in the community. We need more of them, and must raise the quality across the whole spectrum of providers – including community hospitals; day rehabilitation centres and home-based care so that the elderly can be close to family and friends; and institutionalised care in nursing homes and hospices.

D.46. We will take two important steps to develop this care sector.

Top up to ElderCare Fund

D.47. First, we will strengthen existing **government funding** for long-term care. Today, the Government provides significant subventions to providers in the sector through the ElderCare Fund. I will top up the fund by $700 million to reach its previous target size of $2.5 billion. With this top-up, we will be able to provide a 40% increase in funding to support VWOs in the sector. We will also raise the target size of the ElderCare Fund to $3 billion.

Matching Grants for Long-Term Care

D.48. Second, the Government will provide support to **catalyse a higher level of philanthropic and community support** for the long-term care sector. Our VWOs in the sector face many challenges, such as attracting and training good people, and developing new capabilities and services, for which they need more support from the community.

D.49. I will introduce a scheme of matching government grants for donations to the long-term care sector, similar to what we have done for our universities. I will put **$1 billion** into a new **Community Silver Trust**, to provide one-to-one matching for donations to VWOs that provide long-term care to Singaporeans. This commitment of $1 billion should hopefully spur a much higher level of private funding over the next 10 years.

D.50. Let me give an example of the type of quality care that this additional support can make possible. St Luke's Hospital developed a glove-like device to help its elderly stroke patients regain functionality in their hands. During its trial phase, the "Neuro Hand" programme helped patients recover faster. It will be used for stroke patients in St Luke's Hospital from April this year.

D.51. I encourage our philanthropists and others in the community to come forward, participate, and help develop new and better care services together with our VWOs.

Support for Programmes to Help the Elderly Immobile

D.52. We will provide additional financial support for low-income elderly people to help improve their mobility and independence, such as obtaining assistive devices like wheelchairs and walking-frames. The Government will set aside $10 million this year, for community organisations to tap on for this purpose. The Minister for Health will outline the details of this initiative in the COS.

Helping with Medical Expenses

Topping up our Medisave Accounts

D.53. As part of the surplus sharing that this year's Budget allows, I will **provide a top-up this year to the CPF Medisave Accounts of Singaporeans aged 45 and above**. Those aged 45 to 49 will receive up to $300, while those aged 50 to 59 will get a top-up of up to $400. Older Singaporeans will receive more, with those 80 and above getting up to $700 (see Table 2). The Medisave top-ups will benefit approximately 1.3 million Singaporeans, and will cost the Government $500 million.

Table 2: CPF Medisave Top-Ups

<table>
<tr><th rowspan="2">Assessable Income for Year of Assessment 2010</th><th colspan="2">Annual Value of Residence (as at 31 December 2010)</th></tr>
<tr><th>Up to $7,000</th><th>More than $7,000</th></tr>
<tr><td>Up to $30,000</td><td>Aged 45-49:
$300
Aged 50-59:
$400
Aged 60-69:
$500
Aged 70-79:
$600
Aged 80+:
$700</td><td rowspan="2">Aged 45-49:
$200
Aged 50-59:
$300
Aged 60-69:
$400
Aged 70-79:
$500
Aged 80+:
$600</td></tr>
<tr><td>$30,001 to $100,000</td><td></td></tr>
</table>

Building up Medifund

D.54. I will augment our Medifund endowment, which is money well spent in helping needy Singaporeans who are unable to pay for their medical expenses even after using their Medisave and Medishield. The Medifund endowment currently stands at $1.9 billion. I will top it up by another **$500 million** from this year's Budget. In addition, the Government will raise the target size of the **Medifund endowment from $2 billion to $3 billion.**

HELPING THE NEEDY

Enhancing ComCare

D.55. The ComCare Fund has proved to be a major benefit to needy citizens, enabling them to tide over difficult times. The Fund now stands at $800 million. I will inject a further **$500 million into the ComCare Fund this year**. The Government will also **raise the target size for the ComCare Fund from $1 billion to $1.5 billion**. The income from this larger fund will ensure that there is no lack of support for needy Singaporeans, even in years when our economy is down.

Increase in Public Assistance and Singapore Allowance

D.56. We will also **revise the Public Assistance (PA) scheme**, which provides financial aid to those who are permanently unable to work. The adjustments will ensure the basic needs of PA recipients are adequately met, taking into account recent increases in their household costs, and to provide a buffer for possible spikes that we may see this year, for example in food prices. For a single-person household, we will raise PA rates from $360 to $400 a month. Corresponding adjustments will be made for larger households and for the children. The Minister for

Community Development, Youth and Sports will provide more details of these increases in the COS.

D.57. We will also make adjustments to help lower-income government pensioners. The Government **will increase the Singapore Allowance** by $20 per month to $260. This will raise the monthly pension ceiling to $1,190 and benefit about 10,000 pensioners.

Additional funding to VWOs and Self-Help Groups

D.58. Our Self-Help Groups and VWOs such as family service centres have been expanding their roles. They are reaching out proactively to more needy families, to ensure that they remain integrated in the mainstream, and to help their children progress in school. To help them do more, I will set aside **an additional $20 million to help with the professional development of social workers**, so that they can serve better in the VWO sector in the future. I will also **provide Self-Help Groups with an additional $10 million over the next two years**.

Supporting Community Giving

D.59. I spoke earlier about our unique approach of co-funding charitable contributions for the purpose of developing the long-term care sector. We will do more to crowd in the community across the charitable sector. I will **extend for another five years the 250% tax deduction for contributions to Institutions of Public Character (IPC)** that I introduced in 2009. The enhanced scheme has had encouraging results, with sustained giving even during the 2009 recession. I hope that with the strong recovery in both corporate and higher-end individual incomes, we will see many more coming forward to help us make Singapore a truly caring society.

ENHANCING HOMES AND OUR QUALITY OF LIFE

D.60. We are making major investments to make Singapore a top quality home for our citizens. We also want more Singaporeans, including those in the lower-income groups, to have a home of their own which they can take pride in, which can appreciate in value over time, and will allow them to share in our prosperity together with other Singaporeans.

Helping Lower-Income Families Own Their Homes

Special CPF Housing Grant

D.61. We currently provide the Additional CPF Housing Grant (AHG) to help the bottom 50% of our households to own their homes. The low-income group in particular gets an AHG of $40,000. In this Budget, we will introduce further significant assistance to help low-income families purchase their flats.

D.62. The Government will **introduce a Special CPF Housing Grant (SHG) to help low-income families** making a first-time purchase of a Build-to-Order flat, on top of the existing Additional CPF Housing Grant. The SHG will be provided to families who earn up to $2,250 per month.

D.63. The SHG, **together with our other subsidies, will allow more low-income families to own their own homes**. In total, the Government will provide about $175 million in grants each year, for these families to pay for the flat which they will own. This is in addition to providing them with a subsidised loan to pay for their share. Details of this new Grant will be provided by the Minister for National Development in the COS.

Rejuvenating our Heartland

D.64. We will spend **$10 billion to upgrade homes and rejuvenate estates over the next 10 years**. This is a major effort to preserve the value of our HDB flats. Under the Home Improvement Programme (HIP), Neighbourhood Renewal Programme (NRP) and Lift Upgrading Programme (LUP), we will **invest up to $55,000 per flat**. In 2011 alone, around 50,000 flat owners will benefit from these schemes. In the following five years, from 2012 through 2016, another 300,000 will benefit from these upgrading programmes. An estimated 700,000 residents in Jurong Lake, East Coast, and Hougang will also enjoy the new batch of improvements under the Remaking our Heartland (ROH) initiative, some of whom will be beneficiaries of NRP and HIP as well. These rejuvenation and upgrading projects will take place in phases across the island.

Building a Vibrant Arts and Culture Environment

D.65. We will **bring arts and culture within reach of more Singaporeans, and add depth and vibrancy to the arts scene**.

D.66. Interest in arts and culture is in fact growing. Singapore's arts scene is also now being noticed internationally. 'CNNGo' recently highlighted the top reason to visit Singapore this year as being that "Art is Alive", citing a whole range of events taking place, including the Huayi Festival and Art Stage Singapore which were recently held, and upcoming events such as the Singapore Biennale and the Mosaic Music Festival.

D.67. We will build on the positive momentum we have achieved in recent years. The main thrust of what we want to do is to reach out to everyone, and to move beyond the arts and civic district into the heartlands. We will also provide enhanced support for arts institutions and practitioners, so as to encourage groundbreaking new work and to enable more Singaporeans to fulfil their aspirations for careers in the arts. The Minister for Information, Communications and the Arts will speak about these plans during the COS.

D.68. We will therefore significantly increase government spending on arts and culture. Over the next five years, our average annual programme spending will be about $365 million, an increase of more than 50% over the current level.

'GROW & SHARE' PACKAGE

D.69. We have introduced several **long-term measures** to help lower- and middle-income Singaporeans in this Budget.

D.70. I am complementing these long-term measures with a package of **one-off** measures to share our surplus and provide benefits to Singaporeans this year. This is our **'Grow & Share'** Package, which will total **$3.2 billion**. I have already described some of the measures in this package, including rebates on personal income tax, the Workfare Special Bonus, top-ups to CPF Medisave accounts, the new Child Development Credit, top-ups to SAC/SMC and SPED school funds, and additional support for self-help groups and VWOs. Let me now announce further measures in the 'Grow & Share' Package that this year's good Budget makes possible.

Additional Measures in the 'Grow & Share' Package

Growth Dividends

D.71. First, to share the fruits of last year's exceptional economic growth, I will give Growth Dividends to all adult Singaporeans.

D.72. As in the past, the amount each Singaporean will receive will depend on his income and the value of his home. Both factors are relevant. We should give more to Singaporeans who are low-income regardless of where they live. However, there is also a difference in the level of affluence between those who stay in smaller HDB flats and those who live in high-value properties, even if they may not be drawing much income, for example, spouses who are not working.

D.73. The majority of Singaporeans – 80% – will get $600 to $800 each. Those with low incomes and who live in 3-room or smaller HDB flats will get a Growth Dividend of $800. Those in the middle-income group and who live in HDB flats and low-value private homes will receive a Growth Dividend of $600. I will also give $300 to those who live in more expensive homes but who do not have high incomes (see Table 3).

Table 3: Growth Dividends 2011

<table>
<tr><th rowspan="2">Assessable Income for Year of Assessment 2010</th><th colspan="3">Annual Value of Residence (as at December 2010)</th></tr>
<tr><th>Up to $7,000</th><th>$7,001 to $13,000</th><th>More than $13,000</th></tr>
<tr><td>Up to $30,000</td><td>$800</td><td rowspan="2">$600</td><td rowspan="2">$300</td></tr>
<tr><td>$30,001 to $100,000</td><td></td></tr>
<tr><td>More than $100k</td><td colspan="3">$100</td></tr>
<tr><td>NSFs/NSmen</td><td colspan="3">+$100</td></tr>
</table>

D.74. To recognise their contributions to the nation, I will also give NSmen and NSFs, including those below 21 years of age, an additional $100 of Growth Dividends. This is on top of the National Service Recognition Award (NSRA) payments that eligible servicemen will be receiving, starting February 2011.

D.75. **The Growth Dividends will benefit about 2.5 million Singaporeans and cost the Government $1.5 billion this year.**

D.76. Singaporeans can look forward to receiving their Growth Dividends and CPF top-ups by 1st May 2011.

Help with Household Expenses

D.77. Besides the Growth Dividends, we will **provide households with more direct help to cope with rising expenses**. Utility costs are going up because of the sharp rise in global oil prices. To help households cope with rising costs, I will **provide additional Utilities-Save (U-Save) and Service and Conservancy Charges (S&CC) rebates** this year.

D.78. Singaporeans in HDB flats are still receiving U-Save, S&CC and rental rebates as part of the GST Offset Package introduced in 2007. I will top up the U-Save rebates this year. 1- and 2-room households will get an additional $170, giving them a total of $360 in U-Save rebates this year. This is equivalent to about five months of their utility bills. Those in 3- and 4-room flats will get between $320 and $340, and a little less for 5-room and executive flats.

D.79. I will also provide additional S&CC rebates. 1- to 4-room HDB households will get an extra month of rebate. This will add up to three months of S&CC rebates this year for 1- to 2-room households, two months for 3- and 4-room households, and at least one month for the larger flats (see Table 4).

Table 4: Total Household Rebates in 2011

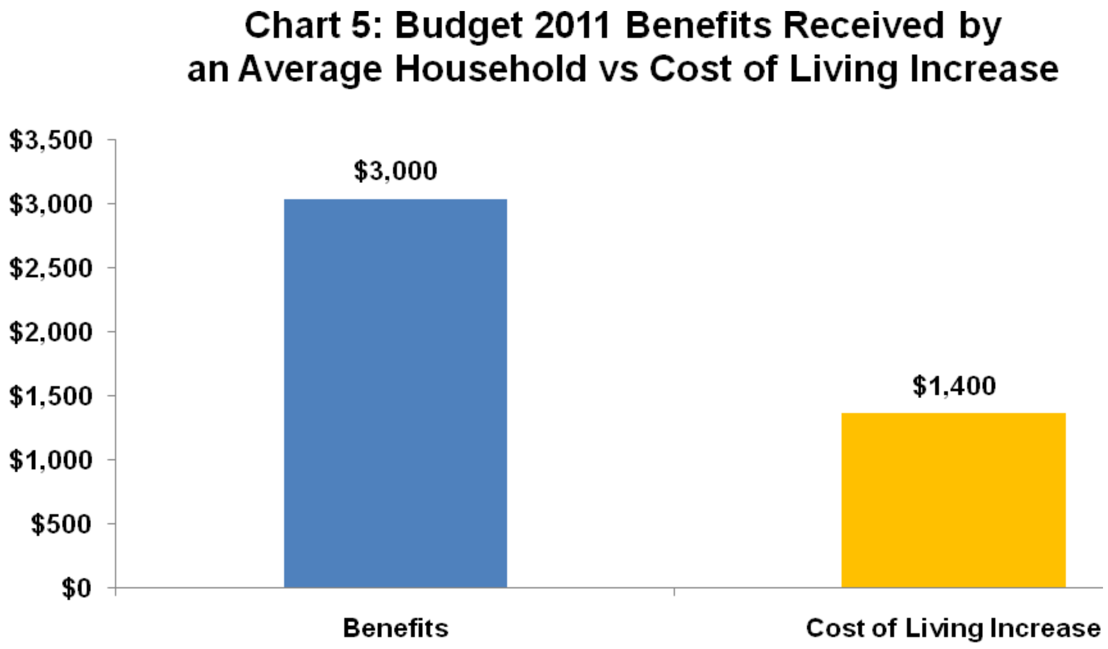
HDB flat type	U-Save rebate ($)	S&CC rebate (No. of months)
1-room	$360	3.0 months
2-room	$360	3.0 months
3-room	$340	2.0 months
4-room	$320	2.0 months
5-room	$270	1.5 months
Executive	$235	1.0 month

D.80. These rebates will benefit 800,000 households and cost the Government about $200 million, on top of the amounts committed as part of the GST Offset Package.

How the Household Benefits Add Up

D.81. These measures will provide significant benefits for Singaporeans this year, and further benefits in the future. The average Singaporean household will receive about **$3,000** from this year's Budget. This will be equal to about 5% of their annual household incomes. It will also be **more than double the increase they could see in their household expenses this year**[8] (see Chart 5 below and Annex B-2 for examples). Further, these Government benefits are **on top of wage increases** that they can expect to receive this year, which will also help to offset inflation.

[8] Based on 2007/08 Household Expenditure Survey data. The increase in cost of living in 2011 is based on projection of 3% to 4% increase in household expenses based on the CPI; this excludes the imputed rental value of Owner-Occupied accommodation, which does not imply any cash outlay. It also excludes the cost of purchasing new cars, which only a small proportion of Singaporeans would encounter this year.



Source: MOF Estimates

D.82. Lower-income households will get more, especially in comparison to their household expenses. I will illustrate with the case of a 4-person family, with parents earning a combined monthly income of $2,000. They have two young children, one in primary school and the other in childcare.

D.83. The couple will receive Growth Dividends of $1,700 and Workfare Special Bonus of $780 in total. In addition, they will benefit from a Child Development Credit of $400, and a further $260 from this year's enhanced U-Save and S&CC rebates. In total, they will receive about $3,100 from the 'Grow & Share' Package.

D.84. Including other measures that we have introduced this year such as the removal of Radio and TV licence fees, and the enhanced CFAC Scheme for lower-income children in childcare, **the family will receive about $3,500 this year**. This is equivalent to about 15% of their incomes. The benefits that they receive will also be **more than four**

times the expected increase in their household expenses this year – without taking into account any wage increases.

D.85. This is also before counting the benefits which they will receive this year, which had already been **committed in previous Budgets**. On top of the $3,500 from this year's Budget, if we add just four elements – the regular Workfare payments they will receive, their existing CFAC fee subsidies, and the pre-committed U-Save and S&CC rebates – the family will receive total benefits from Government amounting to a substantial **$8,500** (see Annex B-2).

E. BUDGET POSITION

FY2011 Estimated Budget Position

E.1. Mr Speaker, Sir, let me now summarise the FY2011 budget position.

E.2. After factoring in the various tax measures and significant special transfers in this year's Budget, we expect a basic deficit of $2.2 billion for FY2011, or about 0.7% of GDP. This is slightly smaller than the FY2010 basic deficit of 0.8% of GDP.

E.3. **The Overall Budget Balance for FY2011 is projected to be a slight surplus of $0.1 billion.** This is after taking into account, firstly, Net Investment Returns Contribution (NIRC) **of $7.8 billion; and secondly, the amounts we are setting aside for Endowment and Trust Funds that serve both our economic and social objectives**[9]. The injections into Endowment and Trust funds will alleviate pressure on future Government Budgets to fund our long-term needs.

[9] Transfers to Endowment and Trust Funds total $5.5 billion. This includes $3.4 billion to support our longer-term social objectives in healthcare, continuing education, and help-schemes for the needy. It also includes $2.1 billion in investments for productivity and innovation, and measures to help the corporate sector.

F. CONCLUSION

F.1. Mr Speaker, Sir, this Budget seeks to strengthen both Singapore's economy and society for the future. We are taking major steps to enable Singapore to be a first-rate developed society a decade from now.

F.2. We can deal with the immediate problems. The rising cost of living is a concern. We are providing lower- and middle-income Singaporeans with benefits in this Budget that for many households will more than offset their increase in household expenses – even before taking into account any wage increases.

F.3. Our core agenda however is focused on the longer term. We want to grow Singaporeans' incomes significantly, by transforming productivity. It cannot be achieved overnight, but we are investing substantial resources towards doing so – by helping our businesses invest and restructure, and by developing skills and mastery in every job. Through continuous improvements as well as breakthroughs, we must succeed in raising productivity in every sector, so that we achieve a 30% improvement in real median incomes over the next decade.

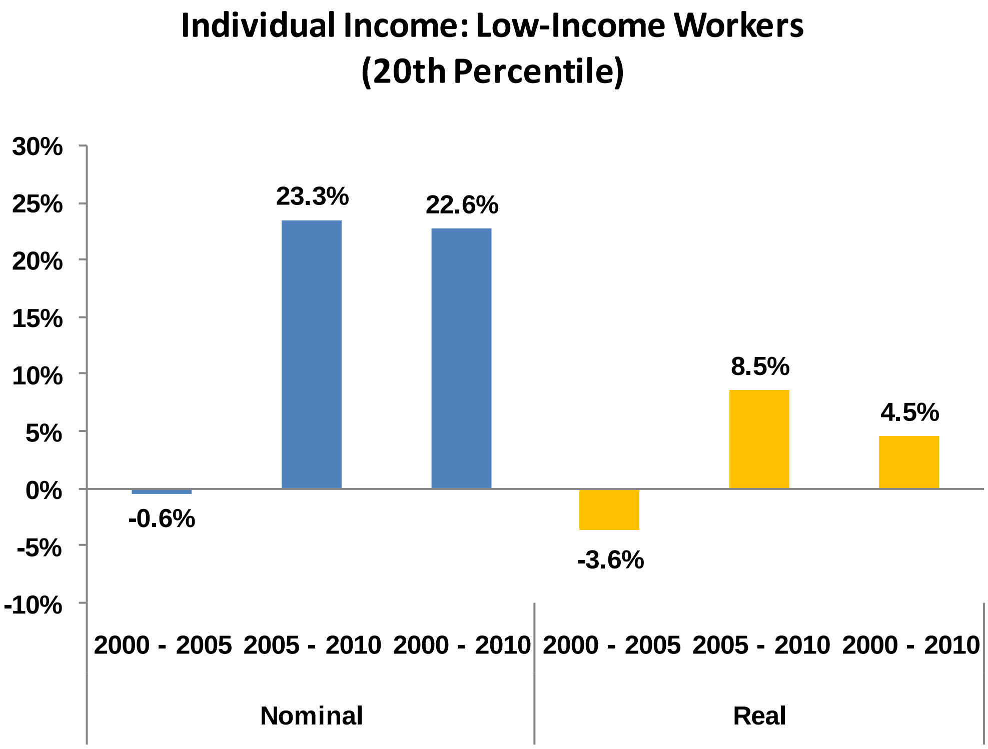
F.4. We must also ensure an inclusive society, where everyone, including the lower-income group, can contribute to and share in Singapore's progress. We must sustain growth if we are to achieve this, but growth on its own will not be sufficient. That is why the Government has been intervening actively to support those lower down the income ladder. We are doing more in this Budget. We are significantly expanding support for children from lower-income families. We are also helping lower-income workers to get more from work, and to own their homes.

F.5. Social mobility will become more challenging as our society matures. But we will find every effective way to help those who start off lower down to discover their strengths, and provide them many routes to achieve their aspirations. We will also keep the progressivity of our fiscal system, which gives us the resources to help those most in need to uplift themselves.

F.6. But whichever way the Government intervenes, we will only succeed if we preserve and strengthen the things that Singaporeans value most – family; everyone aspiring for a better life and feeling they can get there by working hard; and a sense of community. These are the values that will keep our society dynamic, and will allow us to achieve our next transformation as a nation.

F.7. Mr Speaker Sir, I beg to move.

ANNEX A-1: INDIVIDUAL INCOME



Source: Labour Force Survey (LFS)

Notes:

1. Based on Singaporean citizens employed full-time.
2. Income was deflated by overall CPI.
3. As income levels for 2000 and 2005 are not available from the LFS, income levels in 2000 are taken to be the average of income levels in 1999 and 2001, while income levels in 2005 are taken to be the average of income levels in 2004 and 2006.

ANNEX A-2: TAX CHANGES FOR BUSINESSES

GENERAL TAX CHANGES FOR BUSINESSES

S/N	Name of Tax Change	Current Treatment	New Treatment
HELP COMPANIES COPE WITH RISING COSTS			
1a 1b	One-off Corporate Income Tax Rebate OR SME Cash Grant	No rebate was granted in Year of Assessment ("YA") 2010.	A corporate income tax ("CIT") rebate will be granted for YA 2011. The rebate is 20% of YA 2011 corporate income tax payable, capped at $10,000. OR As many small companies may not benefit fully from the CIT rebate as they pay very little taxes, a one-off SME Cash Grant will be provided. The grant will be based on 5% of the company's revenue for YA 2011, subject to a cap of $5,000. To enjoy the SME Cash Grant, companies must have made CPF contributions in YA 2011. Companies will automatically receive the higher of the tax rebate or the grant when IRAS assesses their YA 2011 corporate income tax returns.
2	Removal of radio and television (TV) licence fees with effect from 1	Non-residential premises, apart from hospitals and some hotels, pay $110 for each TV set on the premises. Hospitals pay $55 and hotels with TV sets in at least 90% of the rooms pay $82.50	All radio and TV licence fees will be permanently removed from 1 January 2011.

	January 2011.	for each TV set. The non-residential TV licence is valid for one year from the date of application. Dealers that engage in the import or sale of radio and TV sets pay a licence fee of $330 annually. Commercial vehicle owners pay an annual licence fee of $27 for their vehicle radio set, valid for one year from the date of application.	Fees paid for 2011 will be refunded, while no payment is needed for fees that have not been paid for 2011. Public Service Broadcasting will now be funded from general tax revenue instead of the fee collection. The Media Development Authority will release more details on its website.
BOOSTING PRODUCTIVITY			
3	Enhancement of the Productivity and Innovation Credit ("PIC") Scheme	The PIC scheme confers 250% tax deduction or allowance for the first $300,000 of qualifying expenses incurred on <u>each</u> of the six qualifying activities along the innovation value chain: a) <u>R&D Expenditures:</u> 250% tax deduction for the first $300,000 of qualifying expenses incurred on R&D done in Singapore per Year of Assessment ("YA"); 150% tax deduction for the balance qualifying expenses incurred on R&D done in Singapore, and 100% tax deduction for the balance of all other R&D expenses, including expenses	To further encourage pervasive innovation and raise productivity efforts, the PIC scheme is simplified and enhanced in 4 main areas: a) The quantum of tax deduction or allowance is increased to 400% of expenditure (up from 250% currently), for the first $400,000 spent on <u>each</u> qualifying activity (up from $300,000 currently); b) PIC benefits will be made available to R&D done abroad, not just R&D done in Singapore as is currently the case; c) Businesses will be allowed to combine the $400,000 expenditure cap per year for YA 2013

		incurred on R&D done overseas. b) <u>Investments in Design:</u> 250% tax deduction for the first $300,000 of qualifying expenses incurred on eligible design activities done in Singapore per YA; 100% tax deduction for the balance expenses. This tax incentive is administered by the DesignSingapore Council. c) <u>Acquisition of Intellectual Property ("IP"):</u> 250% allowance for the first $300,000 of qualifying expenses incurred per YA; 100% allowance for the balance expenses. The taxpayer is required to own the legal and economic rights of the IP. d) <u>Registration of IP:</u> 250% tax deduction for the first $300,000 of qualifying expenses incurred on the registration of patents, trademarks, designs and plant varieties per YA; 100% tax deduction for the balance expenses. e) <u>Investments in Automation:</u> 250%	to YA 2015 into a new ceiling of $1,200,000 over the three years. Businesses will therefore be able to claim a 400% deduction for the first $1,200,000 of expenditure on <u>each</u> activity that they incur for YA 2013, YA 2014 and YA 2015 combined. This will give businesses more flexibility to plan their investments. Currently, businesses are already allowed to combine their caps for YA 2011 and YA 2012; and d) A simpler and enhanced cash conversion option where taxpayers can opt to receive, in lieu of tax deduction benefits, a cash payout of 30% of the first $100,000 of qualifying expenditure, up to $30,000. Details of the above-mentioned enhancements are as follows: a) The PIC scheme confers 400% tax deduction or allowance for the first $400,000 of qualifying expenses incurred on each of the six qualifying activities along the innovation value chain: (i) <u>R&D Expenditures:</u> 400% tax deduction for the first $400,000 of qualifying expenses incurred on R&D **done in Singapore or**

		allowance or tax deduction for the first $300,000 of expenses incurred on qualifying investments in automation per YA; 100% allowance or tax deduction for the balance expenses. Qualifying investments in automation is based on the list of automation equipment as prescribed in the Regulations "Income Tax (Automation Equipment) Rules 2010", hereinafter referred to as the prescribed list. f) <u>Training:</u> 250% tax deduction for the first $300,000 of qualifying training expenses incurred on all external training courses and in-house training courses accredited by WDA and ITE incurred per YA; 100% tax deduction for the balance expenses. ➢ Effective from YA 2011 to YA 2015 <u>Combined expenditure cap of $600,000</u> for each of the qualifying activity for YA 2011 and YA 2012.	**overseas** per YA; 150% tax deduction for the balance qualifying expenses for R&D done in Singapore and 100% tax deduction for the balance of all other R&D expenses, including expenses for R&D done overseas. (ii) <u>Investments in Design:</u> 400% tax deduction for the first $400,000 of qualifying expenses incurred on eligible design activities which are done primarily in Singapore per YA; 100% tax deduction for the balance expenses. This tax incentive is administered by the DesignSingapore Council. More details will be released by the DesignSingapore Council by end March 2011. (iii) <u>Acquisition of IP:</u> 400% allowance for the first $400,000 of qualifying expenses incurred per YA; 100% allowance for the balance expenses. The current condition for the taxpayer to own the legal and economic rights of the IP will remain. (iv) <u>Registration of IP:</u> 400% tax deduction for the first $400,000 of qualifying costs incurred on the registration of patents, trademarks,

		Cash Conversion Option: ➢ Businesses can elect to convert up to $300,000 qualifying tax deductions or allowances into cash payout of up to $21,000 for each YA. ➢ Available from YA 2011 to YA 2013.	designs and plant varieties per YA; 100% tax deduction for the balance expenses. (v) Investments in Automation: 400% allowance or tax deduction for the first $400,000 of expenses incurred on the equipment that are in the prescribed list of automation equipment per YA; 100% allowance for the balance expenses. (vi) Training: 400% tax deduction for the first $400,000 of qualifying training expenses incurred on all external training courses and in-house training courses accredited by WDA and ITE incurred per YA; 100% tax deduction for the balance expenses. ➢ Effective immediately from **YA 2011** to YA 2015 b) Combined expenditure cap of ➢ $800,000 for YA 2011 and YA 2012; ➢ $1,200,000 for YA 2013 to YA 2015 for each qualifying activity.

			c) <u>Cash Conversion Option:</u> ➢ Businesses can elect to convert 30% of up to $100,000 of qualifying expenditure into a non-taxable cash payout, per YA. The maximum cash payout is $30,000 for each YA. ➢ Available from YA 2011 to YA 2013. ➢ YA 2011 to YA 2012 combined: up to $60,000 cash payout; YA 2013: up to $30,000 cash payout. All other existing conditions of the current concession apply. Please refer to Appendix 1 for more information on the PIC scheme. IRAS will release further details by end June 2011.
SUPPORT INTERNATIONALISING COMPANIES			
4	Foreign Tax Credit Pooling system	Foreign income ("FI") is taxable upon remittance to Singapore, but tax credit can be given for foreign taxes paid on such income so as to avoid double taxation. The amount of foreign tax credit ("FTC") is	We will introduce FTC pooling to give businesses greater flexibility in their claim of FTCs, reduce their Singapore taxes payable on remitted FI, as well as to simplify tax compliance. Under the FTC pooling system, FTC is computed on

		computed on a source-by-source and country-by-country basis, for each particular stream of FI remitted into Singapore. The FTC granted is capped at the lower of the foreign tax paid and the Singapore tax payable on the particular stream of remitted FI. Any excess of foreign tax paid over the Singapore tax payable for the specific stream of income cannot be used to reduce the Singapore tax payable on other streams of remitted income.	a pooled basis, rather than on a source-by-source and country-by-country basis for each particular stream of income. The amount of FTC to be granted will be based on the lower of the pooled foreign taxes paid on the FI and the pooled Singapore tax payable on such FI. Resident taxpayers can elect for the FTC pooling system if the following conditions are fulfilled: a) Foreign income tax is paid on the FI in the foreign jurisdiction from which the FI is remitted; b) The headline tax rate of the foreign jurisdiction from which the FI is remitted is at least 15% at the time the FI is received in Singapore; and c) There is Singapore tax payable on the FI and the taxpayer is entitled to claim for FTC under Section 50, 50A or 50B of the Income Tax Act on that FI. This will take effect from Year of Assessment 2012. Please refer to Appendix 2 for an illustrative example on the new FTC pooling system. IRAS will release

			further details by end June 2011.
5	Streamlining of the section 14B and section 14K Tax Deduction Schemes	Currently, sections 14B and 14K of the Income Tax Act allow approved firms double or further tax deductions on eligible expenses incurred for qualifying market development activities and qualifying investment development activities respectively. This incentive is administered by International Enterprise (“IE”) Singapore and the Singapore Tourism Board (“STB”). The tax deduction schemes currently do not have a sunset clause.	The sections 14B and 14K tax deduction schemes will be merged into a single scheme given their common objective of assisting businesses to internationalise and expand overseas. The merged scheme will also be simplified to allow more businesses to benefit from the scheme. For instance, businesses can now submit their applications up to the day of their overseas marketing trip, instead of seven days before the trip. A sunset clause will be introduced for this scheme – 31 March 2016. The sunset clause allows us to review schemes on a regular basis and ensure that they continue to be useful to the industry. These changes will apply to applications submitted and approved on or after 1 April 2011. IE Singapore will release further details by end March 2011.
PROMOTE ENTREPRENEURSHIP, HELP BUSINESSES RETAIN TALENT			
6	Enhancement of the concession for enterprise	Generally, deductions are allowed for expenses that are incurred wholly and exclusively in	To facilitate the starting up of businesses, we will allow businesses to claim pre-commencement

	development – enhancing the claim of pre-commencement expenses	producing the business' taxable income when the business has commenced its operation. The date of commencement of the business is based on the facts of each case. Expenses incurred prior to the date on which a business commences operation are not allowable for tax purposes. Nonetheless, for ease of compliance and to provide certainty, the first day of the accounting year in which a business earns its first dollar of trade receipts is deemed as the date on which the business commences operations.	revenue expenses incurred in the accounting year immediately preceding the accounting year in which they earn the first dollar of trade receipts. The change is effective from Year of Assessment ("YA") 2012. Thus, businesses can claim pre-commencement revenue expenses incurred from accounting year 2010 (YA 2011) if the first dollar of trade receipts is earned in or after accounting year 2011 (YA 2012). <u>Example of a company incorporated on 1 Jun 2010 with accounting year end 31 Dec</u> The accounting periods for the relevant YAs are as follows: a) YA 2011: 1 Jun 2010 to 31 Dec 2010 (7 months) b) YA 2012: 1 Jan 2011 to 31 Dec 2011 (12 months) Suppose the company earns its first dollar of trade revenue on 15 Feb 2011 (i.e. in FY 2011, or YA 2012). With the enhanced concession, the company can claim in YA 2012 expenses incurred during both the periods 1 Jun 2010 to 31 Dec 2010, and 1 Jan 2011 to

			31 Dec 2011. Previously, it would have been able to claim only the expenses incurred from 1 Jan to 31 Dec 2011 in YA 2012. All other existing conditions of the current concession apply. IRAS will release further details by end June 2011.
7	Facilitate Employee Equity-Based Remuneration ("EEBR") schemes by extending tax deduction to cover cost of parent company's shares acquired through a Special Purpose Vehicle ("SPV") set up to administer EEBR scheme	Currently, a company can enjoy tax deduction on the cost it incurred on the shares for fulfilling its obligations under its EEBR scheme, if it buys back its own shares from the market or buys its parent company's shares from the parent company. The shares have to be "treasury shares" for the purpose of enjoying the tax deduction under the Income Tax Act. However, no tax deduction is allowed on the costs recharged to a company by its parent company, in respect of its parent company's newly issued shares to fulfil the company's EEBR obligations.	In recognition that a company may set up SPVs to act as trustees to acquire its parent company's shares for its EEBR scheme, we will grant a company tax deduction for the cost incurred to acquire its parent company's shares through a SPV for the fulfilment of its EEBR obligations where: a) The SPV is set up, as a company or a trust, solely to administer the EEBR scheme(s) for companies within the group; and b) The SPV acquires the parent company's shares from the parent company or the market and holds them in trust for the employees of the companies within the group for the EEBR scheme(s). The tax deduction is based on the lower of:

			a) The amount paid by the company to the SPV for the parent company's shares; and b) The cost incurred by the SPV to acquire the parent company's shares, less any amount recovered from the company's employees for the parent company's shares. This will take effect from the Year of Assessment 2012, which relates to the basis period in which the company is eligible to claim a tax deduction in respect of the shares and: a) applies the parent company's shares for the benefit of its employees under its EEBR scheme through a SPV; or b) is liable to pay the SPV for the shares transferred, whichever is later. As is currently the case, no deduction will be allowed in respect of the costs incurred by the company in the purchase of its parent company's newly issued shares through the SPV.

			IRAS will release further details by end June 2011.
FACILITATE BUSINESS RESTRUCTURING			
8	Grant stamp duty relief for a company converting into a Limited Liability Partnership ("LLP")	Stamp duty relief is given for the transfer of assets upon conversion of an existing firm (ordinary partnership) to a Limited Liability Partnership ("LLP"). To qualify for this relief, the following conditions have to be met: a) The partners of the LLP are those of the original firm, as at the date of conversion; b) The assets of the LLP are those of the original firm, as at the date of conversion; and c) The capital contributed by each of the partner of the LLP remains the same as in the original firm, as at the date of conversion	To provide businesses with the flexibility in organisational restructuring, stamp duty relief will be extended to cover the conversion of an existing company to a LLP. To qualify for this relief, the following conditions have to be met: a) The shareholders of the existing company remain as the partners ("original partners") of the new LLP as at the date of conversion; b) The assets of the new LLP are those of the existing company as at the date of conversion; c) The percentage of partnership interests of each of the partners in the new LLP have to remain the same as the shareholding percentages of each of the shareholders in the existing company as at the date of conversion; and d) At least 75% of the composition of the partnership interest in the LLP should remain

			the same for two years from the date of conversion. The relief will be disallowed should the following events occur: a) The original partners of the new LLP dispose of more than 25% of their partnership interests (whether individually or collectively) within two years from the date of conversion except where the partnership interest of the original partners is disposed of to a 100%-associated[1] entity[2]. b) The LLP disposes to its partners any of its chargeable assets it has acquired from the existing company at conversion. In line with the new relief mentioned above, a fourth condition will be imposed for the stamp duty relief for conversion of an existing firm (ordinary partnership) to a LLP, as follows: 75% of the

[1] Two entities are 100% associated if one directly or indirectly holds 100% of the beneficial ownership of the other, or a third entity directly or indirectly holds 100% of the beneficial ownership of the two first-mentioned entities.

[2] Under the Stamp Duties Act (SDA), an ‘entity’ is defined as a company, Registered Business Trust, statutory body or LLP.

			composition of the partnership interest in the LLP should remain the same for two years from the date of conversion (new condition). The relief will be disallowed if the original partners of the new LLP disposed of more than 25% of their partnership interests (whether individually or collectively) within two years from the date of conversion except where the partnership interest of the original partners is disposed of to a 100%-associated entity. All other existing conditions of granting stamp duty relief for conversion of a partnership to a LLP apply. These reliefs will take effect for a company or firm converting to a LLP on or after 19 February 2011. IRAS will release an e-tax guide on 18 February 2011.
EASE STAMP DUTY COMPLIANCE BURDEN			
9	Extension of stamp duty remission in excess of $50 to cover aborted lease contracts or agreements	Currently, stamp duties paid in excess of $50 (to cover administrative costs) are remitted for aborted Sale and Purchase (S&P) agreements that do not qualify for refund of stamp duty under	The stamp duty remission will be extended to similar aborted lease contracts or agreements. Stamp duty in excess of $50 will be remitted for aborted leases, subject to qualifying conditions as follows:

		Section 22(6) of the Stamp Duties Act. The remission is provided for under the Stamp Duties (Aborted Sale and Purchase Agreements)(Remission) Rules 2005 and applies to Sales and Purchase Agreements rescinded on or after 18 February 2005. The refund is not applicable to Sales and Purchase Agreements rescinded or annulled with a view to facilitate transfer of property by the seller to another person.	a) The lease contract or agreement is rescinded or annulled on or after 19 February 2011; b) The lessee has not rescinded or aborted the lease contract or agreement with a view to facilitate the lease of the property by the lessor to another person; c) The executed lease instrument has not been made used for any purpose; d) The lease period of the property has not commenced; e) The application for remission is made within 6 months from the date of annulment or rescission of the lease contract or agreement. The Commissioner of Stamp Duties will be given the discretion to extend the application for remission beyond six months; and f) The original lease contract or agreement is surrendered to the Commissioner of Stamp Duties for cancellation. IRAS will release an e-tax guide on 18 February 2011.

			The new remission will apply with effect from 19 February 2011.
10	Removal of most nominal/fixed stamp duties	Currently, prescribed documents not liable for ad valorem stamp duty are liable for nominal/fixed duties of $2-$10. These documents could be documents for a transaction on which an ad valorem duty had already been paid, documents for transactions that effectively do not confer a change in beneficial ownership interest in the underlying properties or documents relating to transactions on which stamp duty remission in excess of $10 had been granted.	To reduce the compliance costs for taxpayers, the fixed or nominal duties on the following documents executed on or after 19 February 2011 will be removed: Fixed duty documents:- a) Lease not otherwise specially charged with ad valorem duty b) Transfer of property to / from trustees where beneficial owner remains the same c) Other transfer instrument not otherwise specially charged with duty d) Documents effecting a partition of immovable property where each owner does not receive any excess benefit e) Surrender of lease where no consideration is paid Nominal duty documents:-

			a) Duplicates and Counterparts b) Lease executed in pursuance of an agreement duly stamped for ad valorem duty c) A conveyance or transfer document for a transaction on which the assignment, contract or agreement has been duly stamped for ad valorem duty d) Any subsequent contract or agreement for sale executed for the same transaction and where ad valorem duty has been paid on one such earlier contract or agreement for sale e) Transfer of property following a foreclosure order which is duly stamped for ad valorem duty f) Mortgage executed in pursuance of an agreement duly stamped for ad valorem duty g) Subsequent instrument executed in conjunction with a security which is duly stamped with ad valorem duty h) Settlement executed in pursuance of an agreement duly stamped with ad valorem

			duty i) Transfer of registered stock or marketable security intended as a security following an instrument executed under hand In addition, the $10 duty pursuant to remission given under Stamp Duties (Transfer of HDB Flat Within Family) (Remission) Rules 2007) will be removed for any instrument executed on or after 19 February 2011 relating to a transfer of HDB flat within a family. Documents relating to transactions which confer a change in beneficial ownership interests in the underlying properties will continue to be liable for ad valorem duty. The fixed duty of $10 on Declarations of Trust, where beneficial ownership does not pass, will also be retained. IRAS will release an e-tax guide on 18 February 2011.

SECTOR-SPECIFIC TAX CHANGES FOR BUSINESSES

S/N	Name of Tax Change	Current Treatment	New Treatment
STRENGTHEN SINGAPORE'S POSITION AS THE LEADING FINANCIAL CENTRE			

1	Liberalisation of the Withholding Tax Exemption Regime for Banks	Banks licensed under the Banking Act or approved under the MAS Act and gazetted as "Approved Banks" under the Income Tax Act ("ITA") can enjoy withholding tax ("WHT") exemption on interest and other qualifying payments made to their branches or other banks outside Singapore under an existing remission for inter-bank/ inter-branch payments granted under Section 92(2) of the ITA. Banks can also enjoy various WHT class exemptions on payments made to non-bank non-residents relating to specific transactions, subject to conditions (e.g. payments made relating to OTC financial derivatives, structured products, securities lending etc.).	To facilitate access to a wider range of funding sources for their lending business and strengthen our position as a regional funding centre, the following enhancements will be made to the WHT exemption regime for banks with effect from 1 April 2011: a) WHT exemption will be granted on interest and other qualifying payments[3] made to all non-resident persons (excluding Permanent Establishments in Singapore) if the payments are made for the purpose of their trade or business; and b) Entities covered under the exemption will be expanded to include banks licensed under the Banking Act or approved under the MAS Act, finance companies licensed under the Finance Companies Act, and approved financial institutions licensed under the Securities and Futures Act that engage in lending as part of their regulated activity of dealing in securities in Singapore (such as investment banks). The WHT exemption covered by the enhancements

[3] The WHT exemption will cover all payments falling within the ambit of Section 12(6) of the Income Tax Act.

			will be applicable for: a) Payments liable to be made during the period from 1 April 2011 to 31 March 2021 (both dates inclusive) on contracts which take effect before 1 April 2011; and b) Payments liable to be made on contracts which take effect on or after 1 April 2011 to 31 March 2021 (both dates inclusive). A sunset clause will be introduced, but only for the enhanced scope of WHT exemption – 31 March 2021. The sunset clause allows us to review schemes on a regular basis and ensure that they continue to be useful to the industry. MAS will release further details of the changes by end March 2011.
2	Extension of Captive Insurance Tax Incentive Scheme	Insurers on this scheme can enjoy tax exemption on qualifying income derived from the carrying on of offshore insurance business for a period of 10 years. The sunset clause for this scheme was 16 February 2011.	The scheme will be extended until 31 March 2018. An award renewal framework will also be introduced for incentive recipients with effect from 19 February 2011. MAS will release further details of the changes by end April 2011.

3	Extension of Marine Hull and Liability Insurance Tax Incentive Scheme	Insurers on this scheme can enjoy tax exemption on qualifying income derived from the carrying on of marine hull and liability insurance business for up to 10 years.	The following changes will be made to the scheme: a) A sunset clause will be introduced for the scheme – 31 March 2016. The sunset clause allows us to review schemes on a regular basis and ensure that they continue to be useful to the industry; and b) An award renewal framework will be introduced for incentive recipients with effect from 19 February 2011. MAS will release further details of the changes by end April 2011.
4	Extension and Enhancement of Specialised Insurance Tax Incentive Scheme	Insurers on this scheme can enjoy tax exemption on qualifying income derived from the carrying on of qualifying offshore specialised insurance business for a period of five years. The specialised insurance business lines under this scheme are Terrorism, Political, Energy and Aviation and Aerospace risks. The sunset clause for this scheme is 31 August 2011.	The scheme will be extended till 31 August 2016. In addition, the following enhancements will be made to the scheme with effect from 19 February 2011: a) Agriculture insurance will be included as a new qualifying specialised insurance business line; and b) An award renewal framework will be introduced for incentive recipients.

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			MAS will release further details of the changes by end April 2011.
5	Extension of Tax Incentive Schemes for Project Finance	The package of tax incentive schemes for Project Finance include: a) Exemption of qualifying income from qualifying project debt securities ("QPDS"); b) Exemption of foreign-sourced interest income from offshore qualifying infrastructure projects/ assets received by approved entities listed on the Singapore Exchange ("SGX"); c) Remission of stamp duty payable on the instrument of transfer relating to qualifying infrastructure projects/assets to qualifying entities listed or to be listed on the SGX; d) Concessionary tax rate of 5% on qualifying income derived by a Financial Sector Incentive-Project Finance ("FSI-PF") company from: (i) arranging, underwriting or distributing any QPDS;	With the exception of the FSI-PF, the existing package of tax incentive schemes for Project Finance will be extended till 31 March 2017. The FSI-PF scheme will lapse on its expiry date of 31 December 2011. Financial institutions can enjoy similar tax benefits of the FSI-PF under the FSI-Credit Facilities Syndication and FSI-Bond Market tax incentive schemes. MAS will release further details of the changes by end April 2011.

		(ii) arranging or underwriting any qualifying project loan; and (iii) providing project finance advisory services relating to a qualifying infrastructure project; and e) Concessionary tax rate of 10% on qualifying income derived by an approved[4] Trustee Manager / Fund Manager from managing qualifying SGX-listed Business Trusts / Infrastructure funds in relation to qualifying offshore infrastructure projects/assets. The sunset clause for these incentive schemes is 31 December 2011.	
6	Enhancement to the Tax Incentive Scheme for Trustee Company	Trustee companies approved on the scheme can enjoy a concessionary tax rate of 10% on income derived from the provision of qualifying trustee and custodian services, trust management and administration services.	To streamline the scheme and align the administration of the incentive with other tax incentive schemes, the following changes will be made to the scheme: a) A sunset clause will be introduced for the scheme – 31 March 2016. The sunset clause allows us to review schemes on a regular basis and ensure that they continue to be useful to the

[4] "Approved" means approved by the Minister or such person as he may appoint.

			industry; b) Award recipients approved on or after 1 April 2011 will be offered a 10-year award tenure; c) All existing award recipients will automatically transit to the new framework on 1 April 2011. They will enjoy the scheme for a period of 10-year ending 31 March 2021; and d) The list of qualifying activities will be expanded to include the provision of trustee and custodian services in respect of the issue of units of foreign Collective Investment Schemes and foreign Business Trusts with effect from 1 April 2011. MAS will release further details of the changes by end April 2011.
7	Renewal of Tax Exemption Scheme for Income Derived from Structured Products	Income derived by non-resident non-individuals from any structured product offered by a financial institution in Singapore is exempt from tax, subject to conditions. This is applicable to payments made on structured products where the contracts take effect, are renewed or extended during the period from 1 January 2007 to 31	The existing tax exemption scheme for income derived from structured products will be extended to 31 March 2017. The current tax exemption for individuals on income from structured products will remain. All other existing conditions of the current scheme

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<tr><td></td><td></td><td>December 2011.

In addition, income derived by individuals from any structured product offered by a financial institution in Singapore is exempt from tax, subject to conditions.</td><td>will apply.</td></tr>
<tr><td>8</td><td>Withdrawal of withholding tax exemption scheme for Financial Guaranty Insurers</td><td>Currently, financial guaranty insurers can enjoy withholding tax exemption on claim payments made under financial guaranty insurance policies to qualifying non-residents.</td><td>This scheme will be discontinued from 19 February 2011. The objective of the scheme has been assessed to be no longer relevant to merit a tax incentive.</td></tr>
<tr><td colspan="4">ESTABLISH SINGAPORE AS THE LEADING INTERNATIONAL MARITIME CENTRE</td></tr>
<tr><td>9</td><td>Maritime Sector Incentive (“MSI”)</td><td>Singapore currently has a suite of tax incentives targeted at ship operators, maritime lessors and providers of certain supporting shipping services. These incentives have different incentive tenures and application windows (if any). The table below summarises the current tax incentives and their benefits:

<table><tr><th>S/N</th><th>INCENTIVE</th><th>TAX BENEFIT</th></tr><tr><td>1.</td><td>Section 13A of the Income Tax Act</td><td>Tax exemption on qualifying income derived from operating Singapore-</td></tr></table></td><td>All existing tax incentives for the maritime sector will be streamlined and consolidated under the new Maritime Sector Incentive (“MSI”) with effect from 1 June 2011. New enhancements will also be introduced under the MSI. Existing incentive recipients will transit automatically to the MSI from 1 June 2011. These changes aim to simplify and enhance tax incentives for the maritime sector, and to promote Singapore as an International Maritime Centre.

There are three broad categories under the MSI:
a) International Shipping Operations,
b) Maritime (Ship or Container) Leasing, and</td></tr>
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				flagged and foreign-flagged[5] ships.	c) Supporting Shipping Services. *International Shipping Operations* This category aims to attract ship operators to base their operations in Singapore and encourage the registration of ships with the Singapore Registry of Ships. Existing entities enjoying tax benefits under Section 13A of the Income Tax Act and AIS scheme will transit to this category of the MSI. ***(new)*** Entities under the International Shipping Operations category of MSI will, subject to conditions, enjoy automatic withholding tax ("WHT") exemption on qualifying payments made in respect of qualifying foreign loans taken to finance the purchase or construction of both Singapore-flagged and foreign-flagged[6] ships, without having to apply for such exemption on a case-by-case basis. ***(new)*** A new award will be introduced for qualifying entry players. Entities approved under this award will be granted similar tax benefits as the current AIS scheme but for a non-renewable tenure of 5 years. The sunset clause for this new award will be 31 May
		2.	Approved International Shipping Enterprise ("AIS") scheme	Tax exemption on qualifying income derived from operating foreign-flagged ships	
		3.	Maritime Finance Incentive ("MFI")	Tax exemption or concessionary tax rate (5% or 10% depending on type of activities) on qualifying income derived from leasing ships or containers and managing an approved shipping or container investment enterprise.	
		4.	Approved Shipping and Logistics	10% concessionary tax rate on	

[5] Section 13A also covers income derived from the uplift of freight (excluding transhipment) from Singapore by foreign-flagged ships.
[6] Automatic WHT exemption in respect of foreign-flagged ships will apply only to approved ship operators under the MSI.

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<tr><td></td><td>(“ASL”) scheme</td><td>incremental qualifying income derived by approved ship agencies, ship management companies, freight forwarders and logistics operators</td></tr>
<tr><td>5.</td><td>Ship broking and Forward Freight Agreement (“FFA”) trading incentive</td><td>10% concessionary tax rate on incremental qualifying income derived by approved ship brokers and approved FFA traders</td></tr>
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In addition, withholding tax exemption is granted on a case-by-case basis on qualifying payments made in respect of qualifying foreign loans taken to finance the construction or purchase of ships, subject to conditions.
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2016.
<u>Maritime (Ship or Container) Leasing</u>
This category of the MSI aims to promote the growth and development of ship and container financing in Singapore. Existing entities enjoying benefits under the current MFI scheme will transit to this category of the MSI and enjoy the same tax benefits. The sunset clause for this category is 31 May 2016.
(new) Approved ship lessors will, subject to conditions, enjoy automatic WHT exemption on qualifying payments made in respect of qualifying foreign loans taken to finance the purchase or construction of both Singapore-flagged and foreign-flagged ships, without having to apply for such approval on a case-by-case basis.
<u>Supporting Shipping Services</u>
This category of the MSI aims to encourage supporting shipping service providers to base their operations in Singapore, and to encourage more shipping conglomerates to conduct their ancillary activities here. Under this category, a new 5-year award will offer 10% concessionary tax rate on
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			incremental qualifying income derived from the provision of qualifying supporting shipping services. Qualifying supporting shipping services include: a) Ship management, ship agency, and shipping freight/logistic services (currently covered under the ASL scheme); b) Ship broking and FFA trading (currently covered under the ship broking and FFA trading incentive); and c) ***(new)*** Qualifying corporate services. The sunset clause for this category of MSI award will be 31 May 2016. The Maritime and Port Authority of Singapore ("MPA") will release further details by end May 2011.
10	GST measures for the Marine Industry (Phase 2)	Currently, the sale and rental of goods (including stores and merchandise) for use or installation on a 'ship' (as defined in the GST Act) can be zero-rated under certain scenarios, provided that the supplier maintains the requisite documentary proof.	A new GST scheme will be introduced to allow 'approved marine customers' to buy or rent goods without having to pay GST, as long as they are for use or installation on a commercial ship that is wholly for international travel. This means that the supplier may zero-rate the supply of such goods to an

		In addition, repair and maintenance services performed on ship and ship parts or components may qualify for zero-rating if: a) The repair or maintenance is carried out on board the ship; b) Any part or component of the ship is removed for repair and reinstalled on the ship; c) Any part or component of the ship is removed for repair and returned to the ship as a spare; or d) Any part or component of the ship is removed and replaced by an identical part or component.	'approved marine customer' without having to maintain the requisite documentary proof. Zero-rating of repair and maintenance services will also be extended to include the following scenarios: a) repair or maintenance services performed on ship parts or components which are delivered to: (i) Shipyards in Singapore; or (ii) Approved Marine Customers; and b) In addition, where the supplier provides a reconditioned ship part or component in exchange for the faulty part (e.g. 1-for-1 exchange) to his customer, such arrangements will be treated as a single supply of repair services. The following changes will also be introduced to ease GST compliance for ships which are in Singapore only for a temporary period of time and intend to leave Singapore as soon as possible: a) Remove documentary requirements (for GST relief) for a qualifying ship engaged in

			pleasure, recreation, sports or other similar events; and b) Grant import GST relief (and waive documentary requirement) on goods shipped and remained on board a qualifying ship. These changes are effective from 1 October 2011. IRAS and Singapore Customs will publish circulars to explain the changes and operational details by 1 September 2011.
PROMOTE THE BIOMEDICAL SECTOR			
11	GST measures for the Biomedical Industry	Local intermediaries who import clinical trial materials on behalf of overseas persons into Singapore for local testing are not able to recover the GST payable. For clinical trial materials imported for re-export or disposal, there are various means where the importing intermediary may either claim back the GST paid or be relieved of import GST, but this entails GST compliance cost for the local intermediary. The Approved Contract Manufacturer and Trader ("ACMT") scheme allows an approved contract manufacturer to disregard his supply of value-	To encourage clinical research activities to take root in Singapore, GST relief will be granted upfront on all clinical trial materials imported into Singapore, irrespective of whether the clinical trial materials are for local testing, re-export or for disposal in Singapore. This measure will support the growth of local clinical trials as well as ease the GST compliance burden for such businesses engaged in clinical trial. To relieve irrecoverable GST cost incurred by their overseas client, the ACMT scheme will be extended to qualifying biomedical contract manufacturers. In

		added services to his overseas client, subject to certain qualifying conditions. Currently, the scheme is available only to the semiconductor and printing industries.	addition, further enhancements will be made to the ACMT scheme and can be enjoyed by all industries approved under ACMT, as follows: a) Disregard services rendered by local contract manufacturer on failed or excess production under the ACMT scheme; and b) Allow local contract manufacturers to recover GST on local purchases of goods made by the overseas client for use in the contract manufacturing process. These changes are effective from 1 October 2011. IRAS and Singapore Customs will publish circulars to explain the changes and operational details by 1 September 2011.
PROMOTE THE LOGISTICS SECTOR			
12	Zero-rating scheme for specialised storage and other value-added services supplied to overseas persons on prescribed goods to be exported	Currently, services performed on goods stored in a warehouse in Singapore are standard-rated unless they are supplied to overseas persons <u>and</u> the goods are exported. Where goods are stored for an extended period of time, businesses face difficulty in establishing that the goods will be exported when they bill their overseas customer.	Specialised warehouses store high-value goods such as art and antiques. These goods mostly belong to overseas persons, and are held in the warehouses for eventual shipment abroad. To promote the use of such specialised storage facilities and other supporting services such as valuation and conservation, we will allow zero-rating for <u>specified</u>

	eventually	The provision of space for the warehouse operator's business of storing goods is also standard-rated.	services supplied to overseas persons, if they are performed on certain goods kept in approved warehouses in Singapore. To qualify for the zero-rating scheme, amongst other conditions, the specialised warehouse must have mostly overseas customers (at least 90%) and the majority of goods (at least 90%) removed from the warehouse are exported. Approval for the warehouses will be administered under a new scheme. The new scheme is effective from 1 October 2011. IRAS will publish a circular to explain details of the scheme by 1 September 2011.
STRENGTHEN THE TRADING SECTOR			
13	Enhancement of the Global Trader Programme ("GTP")	Currently, an approved GTP company is granted a concessionary rate of 5% or 10% on its income from qualifying trades in the following qualifying derivative instruments: a) exchange-traded and over-the-counter ("OTC") commodity derivatives in a commodity which is in the approved GTP company's list of approved commodities; and b) exchange-traded and OTC freight	To facilitate better risk management amongst GTP companies, the existing list of qualifying derivative instruments under the GTP will be expanded to include all derivative instruments. This enhancement will apply to income from qualifying trades in the new qualifying derivative instruments, derived by a GTP company from Year of Assessment 2012. This enhancement will strengthen our commodity markets and generate spin-offs for our financial sector. A sunset clause will be introduced for the GTP

		derivatives. Derivative instruments such as interest-rate swaps and forex derivatives are not covered under the GTP. Currently, the GTP scheme does not have a sunset clause. The various enhancements to the GTP scheme have sunset clauses[7] ending at different times. As part of their incentive award, GTP companies can enjoy the following: a) GTP concessionary rate of 5% or 10% on qualifying income derived between 27 February 2009 and 31 December 2013 from commodity futures trading on any exchange; b) GTP concessionary rate of 5% or 10% on qualifying income derived between 27 February 2009 and 31 December 2013 from trading in exchange-traded freight derivatives on any exchange; and c) Concessionary rate of 5% for qualifying income derived by GTP companies between 24 May 2007 and 23 May 2017 from	scheme – 31 March 2021. The sunset clause allows us to review schemes on a regular basis and ensure that they continue to be useful to the industry. The existing sunset clauses for the GTP enhancements will be aligned to a common sunset clause at the scheme level (i.e. 31 March 2021). Companies can be approved as a GTP company or GTP (Structured Commodity Finance) company on or before 31 March 2021. The GTP company can enjoy the benefits under the various enhancements during their award tenure of up to five years. IE Singapore will release further details by end April 2011.

[7] The end dates listed in the sunset clauses under enhancements (a) to (c) refer to the dates after which the qualifying income will no longer enjoy the tax incentive.

		qualifying transactions in LNG. A GTP (SCF) company approved during the period 21 May 2010 to 20 May 2015 can enjoy a concessionary rate of 5% or 10% on qualifying income derived from carrying out structured commodity financing activities.	
OTHER TAX CHANGE			
14	Enhancement of the Finance and Treasury Centre Incentive	The Finance and Treasury Centre Incentive ("FTC") confers a concessionary tax rate of 10% on income derived from undertaking qualifying activities and providing qualifying services to approved network companies. To include associated companies located in Singapore as approved network companies of a FTC (such companies hereinafter known as local network companies or "**LNCs**"), the total annual revenue of these LNCs must not exceed 10% of the Group's annual total revenue globally (hereinafter known as "revenue ratio"). The EDB determines this revenue ratio at the time of application and will review it subsequently at the mid-term of the FTC award tenure.	The revenue ratio used to determine the inclusion of LNCs will exclude related party transactions. This is consistent with the global revenue presented in the consolidated financial statements of the ultimate parent company where intercompany transactions are excluded. The alignment will result in a more accurate and meaningful indicator of the LNCs' contribution towards the group revenue. A sunset clause will be introduced for the FTC Incentive – 31 March 2016. The sunset clause allows us to review schemes on a regular basis so as to ensure that they continue to be useful to the industry. All other existing conditions of the current concession apply.

MISCELLANEOUS TAX INITIATIVES

S/N	Name of Tax Change	Current Treatment	New Treatment
1	Extension of Green Vehicle Rebate (“GVR”) Scheme	Green vehicles currently qualify for a rebate on the Additional Registration Fee (“ARF”). This is to encourage the purchase of green vehicles, which are more environmentally friendly than their conventional equivalents.	The GVR scheme will be extended for one year till 31 December 2012 as follows: a) For hybrid and electric passenger vehicles: 40% of the Open Market Value (“OMV”) of the vehicle at registration b) For hybrid and electric buses and commercial vehicles: 5% of OMV at registration c) For electric motorcycles: 10% of OMV at registration A comprehensive review on the measures to boost the adoption of green vehicles will be undertaken.
2	Tax Benefits for Voluntary CPF Medisave Contributions by Eligible Companies to Self-employed Persons (“SEPs”)	Voluntary contributions made by Companies to SEPs’ CPF Medisave Accounts are not tax deductible for Companies, and are not exempt from tax in the hands of the SEPs.	Eligible companies that make voluntary contributions to SEPs’ CPF Medisave Accounts from 1 January 2011 will be given tax deduction. The qualifying conditions for the tax benefits include the following: a) There must be a valid contract between the

			eligible company and the SEP, which is in force when the contributions are made, and which provides for: (i) the rental or loan of assets by that company to the SEP, for the SEP to carry on his trade, profession, business or vocation; or (ii) the provision of services by the SEP to that company, where the SEP and that company are in the same trade, profession, business or vocation. b) For any calendar year, tax benefits will be given for contributions not exceeding $1,500 per SEP, and within the CPF Annual Limit and Medisave Contribution Ceiling. Such contributions will be tax-exempt in the hands of SEPs. For a SEP who is concurrently an employee, he can enjoy tax exemption on voluntary Medisave contributions up to a maximum of $1,500 per calendar year made by his employer through the Additional Medisave Contribution Scheme, as well as by the eligible companies.

ANNEX A-2: EXCISE DUTIES FOR TOBACCO PRODUCTS

In recent years, the consumption of non-cigarette tobacco products has increased. To discourage individuals, especially the young, from picking up or continuing to use such tobacco products, excise duties on the following two classes of tobacco products will be raised:

i. Beedies, ang hoon, and smokeless tobacco, from $181/kg to $199/kg (+10%)
ii. Unmanufactured tobacco, cut tobacco, and tobacco refuse from $300/kg to $315/kg (+5%)

These tax changes will take effect from the time of announcement on February 18, 2011.

HS Code	Product description	Current Duty Rate ($ per kg)	New Duty Rate ($ per kg)
24022010	Beedies	181	199
24039950	Other smokeless tobacco	181	199
24039960	Ang Hoon	181	199
24011010	Not stemmed/ stripped, Virginia type, flue-cured	300	315
24011020	Not stemmed/ stripped, Virginia type, not flue-cured	300	315
24011030	Not stemmed/ stripped, others, flue-cured	300	315
24011090	Not stemmed/ stripped, others, not flue-cured	300	315
24012010	Wholly stemmed/ stripped, Virginia type, not flue-cured	300	315
24012020	Wholly stemmed/ stripped, Virginia type, not flue-cured	300	315

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24012030	Wholly stemmed/ stripped, Oriental type	300	315
24012040	Wholly stemmed/ stripped, Burley type	300	315
24012050	Wholly stemmed/ stripped, flue-cured	300	315
24012090	Wholly stemmed/ stripped, others, not flue-cured	300	315
24013010	Tobacco stems	300	315
24013090	Other tobacco refuse	300	315
24031021	Blended tobacco, for cigarettes	300	315
24031029	Not blended, for cigarettes	300	315

For information only: Tobacco products for which excise duties will not be changed

24021000	Cigars, cheroots	352	352
24029010	Cigars, cheroots of tobacco substitutes	352	352
24031011	Pipe/ blended tobacco	352	352
24031019	Other pipe/ blended tobacco	352	352
24031090	Other tobacco cut	352	352
24039100	Tobacco extracts and essences	352	352
24039930	Manufacturing tobacco substitute	352	352
24039940	Snuff	352	352
24039990	Other manufacturing tobacco	352	352
24022090	Cigarettes	352 per 1000 sticks	352 per 1000 sticks
24029020	Cigarettes of tobacco substitutes	352 per 1000 sticks	352 per 1000 sticks

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Appendix 1

Productivity and Innovation Credit (PIC) Scheme

Turn Your EXPENSES Into SAVINGS

What is PIC?

A scheme to encourage all businesses to invest in **productivity** and **innovation**

How can my business benefit from PIC?

Claim 400% tax deduction on qualifying expenditure up to $400,000

For Year of Assessment ("YA") 2011 to YA 2015, you can enjoy tax savings on your investment in any of these six qualifying activities:

1) Research and Development
2) Approved Design
3) Acquisition of Intellectual Property
4) Registration of Intellectual Property
5) Purchase/Lease of Prescribed Automation Equipment
6) Training of Employees

Up to $400,000 of your spending on each activity qualifies for a maximum tax deduction of $1,600,000 ($400,000 x 400% tax deduction) per activity.

For YA 2011 and YA 2012, you have a combined cap of $800,000 expenditure per activity to qualify for the 400% deduction. For YA 2013 to YA 2015, a combined cap of $1,200,000 expenditure per activity qualifies for the 400% tax deduction.

You can use the tax deductions to reduce your tax for the current year, or carry the excess tax deductions forward to reduce your taxes in future years.

Cash Conversion Option (available for YA 2011 – YA 2013)

Instead of claiming a 400% tax deduction, you can apply to IRAS to convert up to $100,000 of your qualifying expenditure into cash at the rate of 30%. This translates to a maximum cash payout of $30,000 for each YA. The qualifying expenditure (up to maximum of $100,000) which was converted into cash would reduce, dollar for dollar, the $400,000 expenditure cap for the 400% tax deduction.

Maximum cash payout for:
YA 2011 and YA 2012 combined: $60,000
YA 2013: $30,000

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Example: How your company benefits from the PIC tax deduction and cash payout

You spent $400,000 on automation equipment and $100,000 to train your staff.

Current PIC scheme
Claim a tax deduction of $1,100,000*
→ Tax savings^ = $187,000

OR

Convert $300,000 tax deduction into cash of $21,000 + claim remaining tax deduction of $800,000
→ PIC cash + tax savings# = $157,000

*$850,000 ($300,000 × 250% + $100,000 x 100%) for automation equipment + $250,000 ($100,000 × 250%) for staff training
^$1,100,000 x 17% = $187,000
$800,000 x 17% = $136,000

New PIC scheme
Claim a tax deduction of $2,000,000*
→ Tax savings^ = $340,000

OR

Convert $100,000 training expenditure into cash of $30,000 + claim remaining tax deduction of $1,600,000
→ PIC cash + tax savings# = $302,000

*$1,600,000 ($400,000 × 400%) for automation equipment + $400,000 ($100,000 × 400%) for staff training
^$2,000,000 x 17% = $340,000
#$1,600,000 x 17% = $272,000.

Example: How your company can reduce your corporate taxes with PIC

Your accounting profits = $200,000. You invested $40,000 in automation equipment.

		Without PIC ($)	With PIC ($)
Net profit per account (A)		200,000	200,000
Add:	Cost of automation equipment	40,000	40,000
		240,000	240,000
Less:	Normal / enhanced capital allowance	(40,000)	(160,000)
	Chargeable income	200,000	80,000
Less:	Partial tax exemption*	(102,500)	(42,500)
	Chargeable income after tax exemption	97,500	37,500
	Tax payable @ 17%** (B)	16,575	6,375
	Tax payable as a % of net profit (B)/ (A)	**8.3%**	**3.2%**

*75% of the first $10,000 and 50% of the next $290,000 of a company's chargeable income is exempt from tax.
**Based on corporate tax rate of 17%. If the business is a sole-proprietorship or a partnership, the tax savings will be based on the tax rate applicable to the sole-proprietor or partner.

Where can I obtain more details about PIC?

Website: http://www.iras.gov.sg *(Business > Productivity and Innovation Credit)*

Companies: **1800-356-8622**
Sole-proprietorships / Partnerships: **(65) 6351 3534**

Email: **picredit@iras.gov.sg**

Appendix 2: An Example On How Foreign Tax Credit ("FTC") Pooling Works

A Singapore Company X received dividend income from Foreign Country A and royalty income from Foreign Country B in June 2011. Both these incomes would be considered foreign income ("FI"). Company X incurred foreign income taxes on these foreign incomes in Countries A and B respectively where the headline tax rate of Countries A and B in the year 2011 is at least 15%. Company X is entitled to claim for FTC on these FI under the Income Tax Act.

Foreign income taxes paid on the FI

	Foreign Country A **S$**	**Foreign Country B** **S$**	**Total** **S$**
FI remitted	10,000	20,000	30,000
Foreign income taxes paid	500	5,000	5,500

Comparison of the existing FTC system and the new FTC pooling system

	Existing FTC System			**New FTC pooling System**
	Foreign Country A **S$**	**Foreign Country B** **S$**	**Total** **S$**	**Total** **S$**
1) Foreign income taxes paid	500	5,000	5,500	5,500
2) Singapore tax payable on the FI (based on prevailing corporate tax rate of 17% for illustrative purposes)	17% x 10,000 = 1,700	17% x 20,000 = 3,400	1,700 + 3,400 = 5,100	1,700 + 3,400 = 5,100
3) FTC available (capped at the lower of 1) foreign income taxes paid and 2) Singapore tax payable)	500	3,400	**(3,900)**	**(5,100)**
4) Net Singapore taxes payable on the FI after offsetting FTC [2) minus 3)]			**1,200**	**0**

MINISTRY OF FINANCE

Benefits to Company X with the new FTC pooling system

Decrease in net Singapore tax payable on the FI as a result of S$1,200 increase in FTC with the new FTC pooling system	S$1,200

Before the introduction of the FTC pooling system, Company X is only able to claim FTC of S$3,900, based on the lower of the foreign taxes paid and Singapore tax payable on each particular stream of the remitted FI.

With a FTC of S$3,900, the company will have to pay S$1,200 Singapore tax on the S$30,000 remitted FI from Countries A and B.

With the new FTC pooling system, for the example above, the company will now be able to enjoy a higher FTC of S$5,100 and pay S$1,200 less Singapore tax on the remitted FI from Countries A and B. This is because the FTC is computed on a pooled basis, based on the lower of the pooled foreign taxes paid on all qualifying remitted FI and total Singapore tax payable on such income.

IRAS will release details on the FTC pooling system by June 2011.

Notes: The above example is for illustrative purposes only. The actual tax computation will vary according to the circumstances of each taxpayer. The current rules for computing the Singapore tax payable on the FI will still remain with the FTC pooling system.

MINISTRY OF FINANCE

ANNEX B-1: CHILD DEVELOPMENT CREDIT

The Government will give a Child Development Credit to all Singaporean children aged six and below in 2011, to help families with children to meet their expenses. The Child Development Credit will be paid into the Children Development Accounts (CDAs).

The details for receiving the Child Development Credit are:

- All Singaporean children born between 1st January 2005 and 31st December 2011 are eligible.
- Parents must have a CDA for each child in order to receive the Child Development Credit. If your child:
  - Already has a CDA – you do not have to take any action.
  - Does not have a CDA – you must open a CDA for him/her.
  - Was not eligible to open a CDA – you will now be able to open an account (contributions to the account will not be eligible for matching government contributions).
- Parents need not make any contributions to the CDA in order to receive the Credit.
- The payout for the Child Development Credit will start in July 2011.
- MCYS will send letters to parents of eligible children to notify them by June 2011.

Usage of the Child Development Credit is subject to the prevailing rules and restrictions of the CDA. The Child Development Credit can be used to pay for the child's or his/her siblings':

1) Fees at Approved Institutions (AIs) which have registered with MCYS under the Baby Bonus Scheme:
    a. Childcare Centres;
    b. Kindergartens and special education schools registered with the Ministry of Education (MOE) or the Council for Private Education (CPE);
    c. Early intervention programmes registered with the National Council of Social Service (NCSS) or the Centre for Enabled Living (CEL); and
    d. Healthcare institutions licensed under the Private Hospitals and Medical Clinics (PHMC) Act.
2) MediShield or Medisave-approved private integrated plans.

Quanta of Child Development Credit:

	Annual Value of Home in 2010*	
	Up to $13,000	**More than $13,000**
Child Development Credit	$400	$300

**As at 31 Dec 2010. HDB flats and some private residences have annual values of less than $13,000.*

ANNEX B2: BENEFITS FOR HOUSEHOLDS: ILLUSTRATIONS

(A) Benefits received in 2011 by an average Singaporean household (earning the median household income per capita)

(A1) 5-person Family

Husband is 51 years old and earning $6,000 a month. Wife aged 48 is a homemaker. They live in a 5-room HDB flat with two children, one in primary school and the other in a polytechnic, and a 78-year-old grandmother.

Budget 2011 Benefits		
'Grow & Share' Package		
Growth Dividends	$1,900	
PIT Rebate	$160	
CPF Medisave Top-up	$1,000	
U-Save Rebate	$200	
S&CC Rebate*	$31	
Total 'Grow & Share' Benefits	**$3,291**	*(4.6% of annual household income)*
Others		
Removal of RTV Licence Fee	$110	
Additional Edusave Top-up	$130	
Enhanced Polytechnic Bursaries	$550	
Total Other Benefits	**$790**	
Total Budget 2011 Benefits	**$4,081**	*(5.7% of annual household income)*
Pre-Committed Means-tested Benefits		
Pre-committed U-Save Rebate	$70	
Pre-committed S&CC Rebate*	$62	
Polytechnic Bursaries	$800	
Total Pre-Committed Means-tested Benefits	**$932**	
Overall Household Benefits	**$5,013**	*(7.0% of annual household income)*

*Computed based on average S&CC rates for the flat type.

The total Budget 2011 benefits of **$4,081** more than offsets the estimated increase in their cost of living of **$1,750**.[1]

[1] Based on 2007/08 Household Expenditure Survey data. The increase in cost of living in 2011 is estimated based on a projected 3% to 4% increase in household expenses based on the CPI. It excludes the imputed rental value of Owner-Occupied accommodation, which does not imply any cash outlay. It also excludes the cost of purchasing new cars, which only a small proportion of Singaporeans would encounter this year.

(A2) 4-person Family

Husband is 35 years old and earning $4,500 a month. Wife aged 35 works part-time and earns $800 a month, and is on the Workfare Income Supplement (WIS) scheme. They live in a 4-room HDB flat with two young children in childcare.

Budget 2011 Benefits		
'Grow & Share' Package		
Growth Dividends	$1,300	
Workfare Special Bonus (WSB)	$495	
PIT Rebate	$100	
Child Development Credits	$800	
U-Save Rebate	$210	
S&CC Rebate*	$50	
Total 'Grow & Share' Benefits	**$2,955**	*(4.6% of annual household income)*
Others		
Removal of RTV Licence Fee	$110	
Total Other Benefits	**$110**	
Total Budget 2011 Benefits	**$3,065**	(*4.8% of annual household income*)
Pre-Committed Means-tested Benefits		
Pre-committed U-Save Rebate	$110	
Pre-committed S&CC Rebate*	$50	
Workfare Income Supplement (WIS)	$990	
Total Pre-Committed Means-tested Benefits	**$1,150**	
Overall Household Benefits	**$4,215**	*(6.6% of annual household income)*

*Computed based on average S&CC rates for the flat type.

The total Budget 2011 benefits of **$3,065** more than offsets the estimated increase in their cost of living of **$1,400**.[2]

[2] Based on 2007/08 Household Expenditure Survey data. The increase in cost of living in 2011 is estimated based on a projected 3% to 4% increase in household expenses based on the CPI. It excludes the imputed rental value of Owner-Occupied accommodation, which does not imply any cash outlay. It also excludes the cost of purchasing new cars, which only a small proportion of Singaporeans would encounter this year.

(B) Benefits received in 2011 by a lower-income family

<u>4-Person Family</u>

Husband is 39 years old and earning $1,300 a month. Wife aged 36 works part-time and earns $700 a month. They live in a 3-room HDB flat with two children, one in childcare and the other in primary school.

Budget 2011 Benefits		
'Grow & Share' Package		
Growth Dividends	$1,700	
Workfare Special Bonus (WSB)	$780	
Child Development Credit	$400	
U-Save Rebate	$220	
S&CC Rebate*	$38	
Total 'Grow & Share' Benefits	**$3,138**	*(13.1% of annual household income)*
Others		
Removal of RTV Licence Fee	$110	
Enhanced Centre-based Financial Assistance Scheme for Childcare (CFAC)^	$135	
Additional Edusave Top-up	$130	
Total Other Benefits	**$375**	
Total Budget 2011 Benefits	**$3,513**	*(14.6% of annual household income)*
Pre-Committed Means-tested Benefits		
Pre-committed U-Save Rebate	$120	
Pre-committed S&CC Rebate*	$38	
Workfare Income Supplement (WIS)	$1,560	
CFAC^	$3,240	
Total Pre-Committed Means-tested Benefits	**$4,958**	
Overall Household Benefits	**$8,471**	(*35.3% of annual household income*)

*Computed based on average S&CC rates for the flat type.
^ Computed based on average fees ($600) for childcare centres in HDB neighbourhoods.

The total Budget 2011 benefits of **$3,513** more than offsets the estimated increase in their cost of living of **$750**. [3]

[3] Based on 2007/08 Household Expenditure Survey data. The increase in cost of living in 2011 is estimated based on a projected 3% to 4% increase in household expenses based on the CPI. It excludes the imputed rental value of Owner-Occupied accommodation, which does not imply any cash outlay. It also excludes the cost of purchasing new cars, which only a small proportion of Singaporeans would encounter this year.

ANNEX B-3: TAX CHANGES FOR INDIVIDUALS

<table>
<tr><th>S/N</th><th>Name of Tax Change</th><th>Current Treatment</th><th>New Treatment</th></tr>
<tr><td colspan="4">SHARE BUDGET SURPLUS</td></tr>
<tr><td>1</td><td>One-off Personal Income Tax Rebate for resident individual taxpayers</td><td>No rebate was granted for Year of Assessment (“YA”) 2010.</td><td>A one-off personal income tax rebate of 20% will be granted to all resident-individual taxpayers for YA 2011. The rebate will be capped at $2,000 per taxpayer.</td></tr>
<tr><td colspan="4">REWARD WORK, REDUCE TAXES FOR MIDDLE-INCOME EARNERS</td></tr>
<tr><td>2</td><td>Changes to Personal Income Tax Rate Structure for resident individual taxpayers</td><td>The current personal income tax rate structure for resident individual taxpayers is shown below.
<table>
<tr><th colspan="4">Current Tax Structure</th></tr>
<tr><th></th><th>Chargeable Income* ($)</th><th>Tax Rate (%)</th><th>Gross Tax Payable ($)</th></tr>
<tr><td>On the first</td><td>20,000</td><td>0</td><td>0</td></tr>
<tr><td>On the next</td><td>10,000</td><td>3.5</td><td>350</td></tr>
<tr><td>On the first</td><td>30,000</td><td>-</td><td>350</td></tr>
<tr><td>On the next</td><td>10,000</td><td>5.5</td><td>550</td></tr>
<tr><td>On the first</td><td>40,000</td><td>-</td><td>900</td></tr>
<tr><td>On the next</td><td>40,000</td><td>8.5</td><td>3,400</td></tr>
<tr><td>On the first</td><td>80,000</td><td>-</td><td>4,300</td></tr>
<tr><td>On the next</td><td>80,000</td><td>14</td><td>11,200</td></tr>
</table></td><td>The new tax rate structure for resident individual taxpayers effective from Year of Assessment (“YA”) 2012 is shown below.
<table>
<tr><th colspan="4">Tax Structure with effect from YA 2012</th></tr>
<tr><th></th><th>Chargeable Income* ($)</th><th>Tax Rate (%)</th><th>Gross Tax Payable ($)</th></tr>
<tr><td>On the first</td><td>20,000</td><td>0</td><td>0</td></tr>
<tr><td>On the next</td><td>10,000</td><td>2</td><td>200</td></tr>
<tr><td>On the first</td><td>30,000</td><td>-</td><td>200</td></tr>
<tr><td>On the next</td><td>10,000</td><td>3.5</td><td>350</td></tr>
<tr><td>On the first</td><td>40,000</td><td>-</td><td>550</td></tr>
<tr><td>On the next</td><td>40,000</td><td>7</td><td>2,800</td></tr>
<tr><td>On the first</td><td>80,000</td><td>-</td><td>3,350</td></tr>
</table></td></tr>
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<table>
<tr><td>On the first</td><td>160,000</td><td>-</td><td>15,500</td></tr>
<tr><td>On the next</td><td>160,000</td><td>17</td><td>27,200</td></tr>
<tr><td>On the first</td><td>320,000</td><td>-</td><td>42,700</td></tr>
<tr><td>In excess of</td><td>320,000</td><td>20</td><td></td></tr>
</table>
*Chargeable income = Income after tax reliefs
</td>
<td>
<table>
<tr><td>On the next</td><td>40,000</td><td>11.5</td><td>4,600</td></tr>
<tr><td>On the next</td><td>40,000</td><td>15</td><td>6,000</td></tr>
<tr><td>On the first</td><td>160,000</td><td>-</td><td>13,950</td></tr>
<tr><td>On the next</td><td>40,000</td><td>17</td><td>6,800</td></tr>
<tr><td>On the next</td><td>120,000</td><td>18</td><td>21,600</td></tr>
<tr><td>On the first</td><td>320,000</td><td>-</td><td>42,350</td></tr>
<tr><td>In excess of</td><td>320,000</td><td>20</td><td></td></tr>
</table>
* Chargeable income = Income after tax reliefs

The new tax structure lowers the personal income tax burden and makes the personal income tax regime more progressive. <u>All taxpayers will pay less personal income tax on the same income under the new structure,</u> but middle-income earners will enjoy the largest percentage reduction in taxes.

For instance, those with chargeable income of $40,000 will now pay 39% less tax on the same income. Taxpayers with chargeable income of $120,000 save about 20%, while those with chargeable income of $240,000 save about 4%.

Please refer to Appendix 1 for comparison of the current and new tax structure.
</td>
</tr>
<tr>
<td>3</td>
<td>Removal of Radio and Television (TV) licence fees with effect from 1</td>
<td>Currently, households that own at least one TV set have to pay a licence fee of $110 each year.

Vehicle owners pay an annual licence fee of $27</td>
<td>All radio and TV licence fees will be permanently removed from 1 January 2011.

Fees paid for 2011 will be refunded, while no</td>
</tr>
</table>

	January 2011.	for their vehicle radio set, valid for one year from the date of application.	payment is needed for fees that have not been paid for 2011. Public Service Broadcasting will now be funded from general tax revenue instead of the fee collection. The Media Development Authority will release more details on its website.
SUPPORTING COMMUNITY GIVING			
4	Enhancement to deductions on donations	Under the current treatment, all donations to Institutions of Public Character (IPCs), Government[1] and other approved recipients, namely, approved museums and prescribed educational/ research institutions, qualify for double tax deduction. For donations made during the period from 1 Jan 2009 to 31 Dec 2010, the tax deduction was enhanced to 250%.	The tax deduction of 250% will be extended for another five years for donations made during 1 Jan 2011 to 31 Dec 2015. All existing criteria to qualify for tax deduction remain unchanged.
RATIONALISE TAX TREATMENT FOR ALIMONY PAYMENTS AND SPOUSE RELIEFS			
5	Exemption of alimony and maintenance payments, and exclusion of ex-	Currently, taxpayers are liable to tax on the receipt of alimony and maintenance payments from their former spouses or spouses, if these	Taxpayers will be exempted from tax on alimony and maintenance payments they receive under Court Order or Deed of Separation. With this exemption,

[1] Government bodies refer to ministries, organs of state and statutory boards.

	spouses from claiming spouse relief and handicapped spouse relief	payments are payable under a Court Order or Deed of Separation. Taxpayers can claim the spouse relief or handicapped spouse relief for maintaining their former spouses, when they make the alimony payments under a Court Order.	taxpayers will not be taxed on their alimony and maintenance payments, whether paid voluntarily or under a Court Order or Deed of Separation by their former spouses or spouses. The spouse relief and handicapped spouse relief is intended as recognition for taxpayers who support their spouses. Spouse relief and handicapped spouse relief will no longer be granted to taxpayers for maintaining their former spouses. These changes are effective from YA 2012.

MISCELLANEOUS TAX INITIATIVES

S/N	Name of Tax Change	Current Treatment	New Treatment
1	Extension of Green Vehicle Rebate ("GVR") Scheme	Green vehicles currently qualify for a rebate on the Additional Registration Fee ("ARF"). This is to encourage the purchase of green vehicles, which are more environmentally friendly than their conventional equivalents.	The GVR scheme will be extended for one year till 31 December 2012 as follows: (a) For hybrid and electric passenger vehicles: 40% of the Open Market Value ("OMV") of the vehicle at registration. (b) For hybrid and electric buses and commercial vehicles: 5% of OMV at registration. (c) For electric motorcycles: 10% of OMV at registration. A comprehensive review of the measures to boost the adoption of green vehicles will be undertaken.

Appendix 1: Tax Savings for Various Chargeable Income

Current Tax Structure				Tax Structure with effect from YA 2012			
	Chargeable Income* ($)	**Tax Rate (%)**	**Gross Tax Payable ($)**		**Chargeable Income* ($)**	**Tax Rate (%)**	**Gross Tax Payable ($)**
On the first	20,000	0	0	On the first	20,000	0	0
On the next	10,000	3.5	350	On the next	10,000	2	200
On the first	30,000	-	350	On the first	30,000	-	200
On the next	10,000	5.5	550	On the next	10,000	3.5	350
On the first	40,000	-	900	On the first	40,000	-	550
On the next	40,000	8.5	3,400	On the next	40,000	7	2,800
On the first	80,000	-	4,300	On the first	80,000	-	3,350
On the next	80,000	14	11,200	On the next	40,000	11.5	4,600
				On the next	40,000	15	6,000
On the first	160,000	-	15,500	On the first	160,000	-	13,950
On the next	160,000	17	27,200	On the next	40,000	17	6,800
				On the next	120,000	18	21,600
On the first	320,000	-	42,700	On the first	320,000	-	42,350
In excess of	320,000	20		In excess of	320,000	20	

* Chargeable income = Income after tax reliefs

Chargeable Income	Tax Payable under New Schedule	Tax Savings
$40,000	$550	39% ($350)
$60,000	$1,950	25% ($650)
$120,000	$7,950	20% ($1,950)
$160,000	$13,950	10% ($1,550)
$240,000	$27,950	4% ($1,150)
More than $330,000	More than $44,350	Less than 0.8% ($350)

* Chargeable income = Income after tax reliefs

ANNEX C: BUDGET POSITION

	Revised FY2010	Estimated FY2011	Change over Revised FY2010	
	$billion	$billion	$billion	% change
OPERATING REVENUE	**45.46**	**48.12**	**2.66**	**5.9**
Corporate Income Tax	10.50	11.01	0.51	4.9
Personal Income Tax	6.50	7.00	0.50	7.7
Withholding Tax	0.90	1.16	0.26	28.7
Statutory Boards' Contributions	0.57	0.44	(0.13)	(22.5)
Assets Taxes	2.99	3.58	0.59	19.6
Customs and Excise Tax	2.06	2.09	0.03	1.3
Goods and Services Tax	7.90	8.44	0.54	6.9
Motor Vehicle Related Taxes	1.73	1.72	(0.01)	(0.8)
Vehicle Quota Premiums	1.72	2.01	0.29	17.0
Betting Taxes	2.29	2.41	0.12	5.3
Stamp Duty	2.84	2.14	(0.70)	(24.6)
Other Taxes	2.94	3.45	0.50	17.2
Other Fees and Charges	2.39	2.51	0.12	5.0
Others	0.13	0.18	0.05	37.0
Less:				
TOTAL EXPENDITURE	**46.39**	**47.10**	**0.71**	**1.5**
Operating Expenditure	34.13	35.90	1.77	5.2
Development Expenditure	12.26	11.20	(1.06)	(8.7)
PRIMARY SURPLUS / (DEFICIT)[1]	**(0.93)**	**1.02**		
Less:				
SPECIAL TRANSFERS[2]	**7.18**	**8.73**	**1.55**	**21.6**
Special Transfers Excluding Top-ups to Endowment and Trust Funds	**1.59**	**3.24**		
Growth Dividends	0.00	1.55		
GST Credits	0.47	0.00		
Utilities-Save Rebates/Service and Conservancy Charges Rebates/Rental	0.14	0.30		
Workfare[3]	0.02	0.26		
CPF Top-ups[4]	0.35	0.50		
Transfers to Young Singaporeans[5]	0.23	0.09		
Transfers to Seniors and the Needy[6]	0.14	0.04		
Transfers to Businesses[7]	0.26	0.48		
BASIC SURPLUS / (DEFICIT)[8]	**(2.52)**	**(2.21)**		
Top-ups to Endowment and Trust Funds	**5.59**	**5.49**		
Top-ups to Endowment Funds[9]	0.40	2.20		
National Productivity Fund	1.00	1.00		
National Research Fund	1.50	1.00		
Community Silver Trust	-	1.00		
Trust Fund for Workfare Special Bonus and Special Employment Credit	-	0.29		
Singapore Universities Trust Fund	2.00	-		
CPF Deferment and Voluntary Deferment Bonus	0.44	-		
LIFE Bonus	0.25	-		
Add:				
NET INVESTMENT RETURNS CONTRIBUTION	**7.83**	**7.78**	**(0.05)**	**(0.7)**
OVERALL BUDGET SURPLUS / (DEFICIT)	**(0.28)**	**0.08**		

Note: Due to rounding, figures may not add up.

[1] Surplus / (Deficit) before Special Transfers and Net Investment Returns Contribution.
[2] Special Transfers include Top-ups to Endowment Funds and Trust Funds.
[3] Consist of Workfare Bonus Scheme, Workfare Income Supplement Scheme (Special Payment), Workfare Special Bonus, and Special Employment Credit. The Workfare Special Bonus and Special Employment Credit will be paid over three years from FY2011 to FY2013. FY2012 and FY2013 payments totaling $291 million will be placed in a trust fund.
[4] Consist of CPF Ordinary Account, Pre-Medisave, Medisave and CPF Share Ownership Top-up Schemes.
[5] Consist of Child Development Credit, Top-ups to Edusave Accounts and Post-Secondary Education Accounts.
[6] Consist of Senior Pensioners Grant Scheme, Senior Citizens' Bonus, public transport vouchers and assistance through Citizens' Consultative Committees, funds set aside for Self-Help Groups and Voluntary Welfare Organisations, top-up to School Advisory Committee/School Management Committee and Special Education.
[7] Consist of Jobs Credit, Productivity and Innovation Credit, Special Risk-Sharing Initiative, R&D Incentive for Start-Up Enterprises, Assistance to SMEs and SME Cash Grant.
[8] Surplus / (Deficit) before Top-ups to Endowment and Trust Funds and Net Investment Returns Contribution.
[9] Consist of Community Care Endowment Fund, Medical Endowment Fund, ElderCare Fund and Lifelong Learning Endowment Fund.