

TAX CHANGES, ERS & REBATES-THE BASIC FACTS

BASIC FACTS

Changes in Tax Rates

The company and the top personal income tax rate will be reduced to 20% over the next 3 years. For a start, both company and top personal income tax rates will be cut to 22%. GST will be increased from 3% to 5%.

Need for Lower Company and Personal Income Tax Rates

We want more jobs and better jobs for Singaporeans. Cutting company and personal income tax rates will make us more competitive, and help us create more jobs.

The lower company tax rate will attract and retain companies in Singapore. Such companies will then create more and better jobs for Singaporeans.

With the lower personal income tax rates, people who are very capable will be attracted to work in Singapore and contribute to the economy. Some of them may even get their companies to move here and help to grow our economy.

Economic Restructuring Shares (ERS)

You will qualify for ERS if you are at least 21 years and contribute at least \$50 in your CPF accounts each year in 2002, 2003 and 2004.

The amount of ERS you get will depend on the annual value of your home as well as NSmen status. Virtually everyone who lives in a HDB flat will get at least \$1,200, with NSmen getting more.

Table 1: ERS per person over a 3-year Period

Category	Annual Value of Your Home	
	Up to \$10,000	Above \$10,000
Non-NSmen	\$1,200	\$600
Inactive NSmen	\$1,300	\$700
Active-NSmen	\$1,400	\$800

The ERS has a very attractive dividend rate. The dividend rate will be 3% per year plus the real GDP growth rate, with a guarantee of at least 3%. When the Singapore economy grows, your money grows too. You will earn the most if you keep your ERS for 5 years.

Healthcare and Education

Healthcare and education costs will not be affected. The Government absorbs the full GST for schools, ITEs, polytechnics and universities, as well as for subsidised wards and polyclinics. When the GST rate goes up, the Government will increase its subsidies on healthcare and education to match.

Rebates for HDB Rents and S&CC

The Government will also give rebates on HDB Rents and Service and Conservancy charges (S&CC) for 5 years, from 1 April 2003 to 31 March 2008, to help Singaporeans living in HDB flats.

Service and Conservancy Charges Rebates for 1 April 2003 - 31 March 2004		
HDB flat household type	Number of months where you need not pay S&CC	In the months that you have to pay S&CC, the Government will reduce your charges by
1-room	5 months	\$8 per month
2-room	4 months	\$7 per month
3-room	4 months	\$4 per month
4-room	3 months	--
5-room	2 months	--

RENTAL REBATES		
HDB flat household type	Number of months where you need not pay rent	In the months that you have to pay rent, the Government will reduce your rent by
1-room	4 months	\$12 per month
2-room	2 months	\$8 per month

Here are some typical families and how they will benefit from the offset package.

1) The Tan Family, living in a 2-room HDB rental flat:

The Tan family lives in a 2-room HDB rental flat. Mr Tan is 45 years old. Two months ago, Mr Tan was retrenched from his job as a labourer that paid him \$1,600 a month. Mrs Tan works as an office cleaner, earning \$1,200 a month. They have 2 children studying in secondary school.

How would the increase in GST affect the Tan family?

The family spends \$18,660 per year. An additional 2% GST will raise their expenses by at most \$373 per year.

Benefits and assistance the Tan family will receive:

- **ERS shares.** As a non-NSman, Mr Tan will receive \$1,200 worth of Economic Restructuring Shares (ERS). So will Mrs Tan. The Tan family thus receives \$2,400 ERS. With dividends on the ERS, it will be even more.
- **S&CC & rental rebates.** With the GST offset package, the family will benefit from rebates for monthly service and conservancy charges (S&CC) and rental rebates. They will receive a total of \$1,140 in S&CC and rental rebates over a 5-year period.

The Tan family receives total benefits (ERS and S&CC and rental rebates) amounting to \$3,540, which is equivalent to more than 9 years of extra GST.

2) The Ahmad Family -living in a 4-room HDB flat:

The Ahmad family lives in a 4-room HDB flat. Mr Ahmad is an active NSman and earns \$2,800 per month as a technician in the wholesale & retail trade while Mrs Ahmad earns \$1,600 per month as a clerk in the hotel & restaurants industry. They have 2 school-going children who are below 12 years old. They live with Mr Ahmad's seventy-year-old father who is a pensioner and who also suffers from high blood pressure.

How would the increase in GST affect the Ahmad family?

They spend \$34,700 per year. An additional 2% GST will raise their expenses by no more than \$694 per annum.

Benefits and assistance the Ahmad family will get:

- **ERS.** As an active NSman, Mr Ahmad will receive \$1,400 worth of ERS while Mrs Ahmad and Mr Ahmad's father will each receive \$1,200 worth of ERS. The Ahmad family thus receives \$3,800 in ERS, not including dividends on their ERS.
- **S&CC rebates.** With the GST offset package, the family will get rebates for the monthly service and conservancy charges (S&CC). They will get a total of \$480 in S&CC rebates over a 5-year period.
- **Income Tax savings.** Mr Ahmad will receive tax savings of about \$61 each year, over the next 5 years, as a result of the reduced income tax rates. Mrs Ahmad is not subject to tax.

The Ahmad family receives total benefits of \$4280 (ERS and S&CC rebates). The net increase in tax they have to pay each year is about $(\$694 - \$61) = \$633$. So the benefits they receive offset nearly 7 years of the increased tax they have to pay.

3) The Ravi Family -living in a private condominium

The Ravi family lives in a private condominium. Mr Ravi is an active NSman and earns \$7,500 per month as a manager while Mrs Ravi earns \$5,400 per month as a professional. Both work in a financial services company. They have 2 school-going children who are in primary school.

How would the increase in GST affect the Ravi family and what assistance will they get?

They spend \$84,000 per year. An additional 2% GST will raise their expenses by not more than \$1,680 per annum.

Benefits and assistance the Ravi family will get:

- **ERS shares.** As an active NSman, Mr Ravi will receive \$800 worth of ERS while Mrs Ravi will receive \$600 worth of ERS. The Ravi family thus receives \$1,400 ERS, not counting the dividends they earn on their ERS.
- **Income Tax savings.** Over 5 years, Mr Ravi will on average receive income tax savings of \$1,135 per year. Mrs Ravi will likewise receive \$350 in income tax savings each year.

The Ravi family receives a total of \$1,400 (from ERS) in the offset package. Their net tax increase is $(\$1,680 - \$1,485 = \$195)$ each year. So the benefits they receive offset 7 years of the increased tax they have to pay.