

MINISTRY OF FINANCE MEDIA RELEASE

- SEIZING OPPORTUNITY IN UNCERTAINTY -

GOVERNMENT ACCEPTS ERC RECOMMENDATIONS TO PROMOTE ENTERPRISE, LOWER COSTS, AND GENERATE JOBS

1. Deputy Prime Minister and Minister for Finance Lee Hsien Loong announced the Government's acceptance of the Economic Review Committee's (ERC) recommendations on Friday together with the Budget for Financial Year 2003/04.

2. The Government responded to the ERC report with immediate initiatives to put the economic recovery on a sound footing, as well as measures supporting strategies to give Singapore a competitive edge over the longer term. Immediate measures included a two year freeze on further CPF restoration, other CPF changes, and assistance for property taxes, rentals, petrol duties, service and conservancy (S&C) charges and utilities. Longer term measures included tax exemptions for foreign income and domestic interest income; the appointment of a Minister of State to promote entrepreneurship, the setting up of a Ministerial committee on services; measures to encourage portable medical benefits, and the setting up of a new statutory board to promote continuing education and training for workers. Changes were also made to liquor and cigarette taxes.

3. DPM Lee announced that the Government ran a \$90 million budget deficit for FY 2002 and projected another \$900 million deficit for FY 2003. While the budget deficit will act as a stabiliser to steer the economy towards the path of recovery, DPM Lee re-emphasised the Government's commitment to maintaining a balanced budget, and accumulating a modest budget surplus over the business cycle.

4. Acknowledging that there were many unknown factors in the business environment, DPM Lee expected GDP to grow by 2-5% for 2003, and accepted the ERC's estimate of 3-5% growth in the medium term as realistic but challenging. Noting that the restructuring process will not be effortless, he encouraged Singaporeans to be flexible and adapt quickly to changes around them in order to seize the valuable opportunities in this uncertain environment.

Immediate Help for Businesses and Singaporeans

5. At the core of the Budget are measures to stimulate the economy in the near term. All the ERC recommendations relating to the CPF were adopted, in order to lighten employers' wage bills and preserve jobs, especially for older workers. In particular, restoration of the employers' CPF contribution rate to 20% from the current 16% will be deferred for two years. The \$6,000 salary ceiling for private sector CPF contributions will be reduced to \$5,000 in two steps. DPM Lee also announced the reduction of the employee CPF contributions for workers aged 50-55 from 20% to 16% by January 2005. In line with CPF's basic role to accumulate sufficient savings for retirement and healthcare, the contributions to the Special and Medisave Accounts will be increased over three years, beginning in January 2004. This will boost retirement and medical savings for all Singaporeans.

6. DPM Lee reiterated that the Government will continue to keep other business costs such as land, utilities and infrastructure services competitively priced. There will be a new property tax rebate for commercial and industrial properties for the second half of the year, to replace the current rebates expiring in June. Rental rebates for JTC, HDB, ENV and SLA tenants, and the reduction in diesel tax for taxis, will be extended until the end of 2003. Petrol excise duties will be changed to a specific duty instead of an ad valorem rate. This will be set at the present reduced floor rate. The manufacturing sector will be assured of a supply of foreign workers to keep them viable. The foreign worker levies will remain at present levels till the end of 2003.

7. The Government will extend the Utilities Save rebates by one year to help households, especially lower-income ones, cope with their utilities charges. HDB households will be granted an additional one month rebate on their Town Council S&C charges for this year, on top of the two to five months of rebates announced last year.

Restructuring for the Medium Term

8. DPM Lee also announced key strategies for future growth, including enhancing Singapore's competitiveness and flexibility; encouraging entrepreneurship and the growth of Singapore companies; promoting manufacturing and services as twin engines of growth; and investing in the development of human capital.

Enhancing Competitiveness and Flexibility

9. To enhance Singapore's competitiveness and flexibility, the Government will implement the ERC's recommendations to exempt from tax all foreign income remitted into Singapore in the form of dividends, branch profits and services income. This simplified tax treatment will replace the cumbersome system of tax credits and help our companies globalise.

10. To retain funds in Singapore, the interest paid to individuals into domestic savings, current and fixed deposits will be exempt from tax. This will be implemented in two phases.

11. As workers get older and change jobs more frequently, they will increasingly feel the need for medical coverage when they are in between jobs. As recommended by the ERC, the Government will encourage companies to provide the Portable Medical Benefits Scheme or the Transferable Medical Insurance Scheme for employees. The annual tax exemption limit for additional Medisave contributions paid by employers will be raised to \$1,500 per employee. Emphasising the importance of moving towards financially sustainable and adequate healthcare provision for workers, DPM Lee announced that employers who choose not to implement either of these two schemes would have a lower tax deductibility limit for medical expenses of 1% of their total payroll, instead of 2%.

Fostering Entrepreneurship

12. Minister of State Raymond Lim will take charge of the Government's efforts to encourage entrepreneurship in Singapore. Two new limited liability business vehicles will be introduced, and requirements for company secretaries and audited accounts will be relaxed from this year. The public sector will also do its part by removing unnecessary licenses, introducing market-testing for non-core government services and divesting non-strategic

companies under its statutory boards. Among the companies to be divested are Ascendas, PSB Corp and Hdbay.

Promoting Manufacturing and Services

13. The Government also accepted ERC recommendations to strengthen the manufacturing sector and spur the services sector. These include tax incentives to make it more attractive to create and hold intellectual property in Singapore, such as automatic grants of writing-down allowances for expenditure incurred in acquiring intellectual property. Several incentives focused on trustee and custodian services were announced to promote the private wealth management industry. All foreign trusts will now be exempted from income tax, while all trust administration services provided to foreign trusts will be zero-rated for GST purposes. The Integrated Industrial Capital Allowance scheme will allow Singapore companies to claim capital allowances on equipment used by their subsidiaries outside Singapore. To coordinate policies related to developing the service industries, DPM Lee will chair a Ministerial Committee on Services.

Enhancing Human Capital

14. The Government will set up a new statutory board under the Ministry of Manpower to promote continuing education and training (CET). To encourage Singaporeans to upgrade their skills in preparation for career switches, the tax relief for course fees will be increased from \$2,500 to \$3,500 and extended to courses that eventually result in a career switch.

15. For details, please refer to the official Budget 2003 website: www.budget2003.gov.sg.

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