

MINISTRY OF FINANCE MEDIA RELEASE

BUDGET 2004

BUILDING A FUTURE OF OPPORTUNITY

Economy to grow 3.5-5.5% in 2004

1. Deputy Prime Minister and Minister for Finance Lee Hsien Loong reaffirmed the Government's commitment to maintain Singapore's competitiveness and create jobs when he presented the Budget for Financial Year 2004/05. He also spelt out the principles and key considerations behind Singapore's procreation policy.

2. The Government ran a \$1.8 billion deficit in FY 2003 and expects a budget deficit of \$1.35 billion in FY 2004, after taking into account the \$826 million of tax savings for businesses and individuals in this Budget. However, DPM Lee reaffirmed the Government's commitment to fiscal prudence and announced a target to balance the budget by FY 2005. In view of the tight fiscal position, he announced a permanent 2% cut in the budget allocations for all ministries, except the Ministry of Defence, for FY 2004.

Boost for Businesses

3. The 2004 Budget includes a comprehensive package of measures to create a "best for business" environment that supports creativity and enterprise, and attracts talent and investments to Singapore.

A Competitive Tax Regime

4. The Government will lower the corporate tax rate to 20% from Year of Assessment (YA) 2005. It has deferred lowering personal income taxes, but remains committed to reducing the top personal tax rate to 20% as soon as budgetary conditions permit.

5. To boost private wealth management activities, all foreign-sourced income remitted by resident individuals will be exempt from tax. Singapore-sourced investment income derived by individuals from financial instruments will also be exempt from tax from YA 2005.

6. To continue to attract and root new activities in Singapore, the maximum duration for the pioneer incentive will be extended from 10 to 15 years, while the regional HQ incentive will be extended from 3 to 5 years.

Encouraging Entrepreneurship

7. To encourage entrepreneurship, the first \$100,000 of normal chargeable income for new companies will be exempt from tax in each of their first three years of assessment between YA 2005 and YA 2009. The current Technopreneur Investment Incentive will be expanded in scope and renamed the Enterprise Investment Incentive (EII). Investors in start-ups awarded the EII will enjoy tax deductions for any losses they incur in these start-ups. To help SMEs make greater use of intellectual property, the withholding tax on royalty payments will be reduced from 15% to 10%.

Labour Market Reforms

8. A new category of work pass will be introduced to help businesses get the skilled workers they need. The 'S' pass will replace the current 'Q2' category. This will help employers bring in middle-tier skilled workers, who are in short supply in the healthcare, IT, aerospace and pharmaceutical industries. The 'S' pass will be subject to a levy, set initially at \$50. The Government will also raise the skilled foreign worker levy from \$30 to \$50, come 1 July 2004.

9. To support increasing emphasis on workforce training, the Skills Development Levy salary ceiling will be raised from the current \$1,500 to \$1,800 from 1 July 2004.

Enhancing Competition

10. DPM Lee also set out the Government's approach to competition. He said that the Government generally strongly favoured competition, and would be enacting a Competition Act this year. However, the small domestic market means that in certain industries limited competition or even a single operator may be the most efficient market structure. Citing the container port business as an example, DPM Lee explained that competition in this industry was not domestic, but took place on a regional and global stage. PSA aims to strengthen its position as a strong international player, and is building five more berths at Pasir Panjang Terminal to support its growth in container traffic. Jurong Port will continue to operate at its existing facilities in Jurong, where it can handle one million containers a year. Given the intense regional competition, Jurong Port will not for now expand its container capacity by building additional berths at Pasir Panjang, but will review this decision when conditions change.

Targeting Subsidies at the Needy

11. Emphasising the importance of strong families and resilient communities, DPM Lee said that the new economic environment required Singaporeans to be more self-reliant, and that social safety nets had to be carefully targeted at those who most need them.

Achieving Excellence in Higher Education

12. DPM Lee said that the Ministry of Education and the universities will review the basis for setting university fees. He explained that as most of the benefits of a university education accrue to the student himself, it was only fair for undergraduates to bear a larger share of the costs. Fees will not be adjusted this year, but MOE is reviewing the current cost-sharing formula where the Government funds all infrastructure costs plus 75% of operating costs. However, DPM Lee promised that no deserving student will miss out on a university education. As fees are increased in future, scholarships will be extended to outstanding undergraduates, bursaries provided to those from low-income homes, and student loans made readily available to all who need them.

Keeping Healthcare Affordable

13. DPM Lee also outlined the growing demands on Singapore's healthcare system as the population ages. He said there was a need to ensure that the self-employed are covered, by enforcing compulsory Medisave contributions. The Ministry of Health will also study how the MediShield coverage can be enhanced, and how to make more use of health insurance to help Singaporeans meet large healthcare expenses. At the same time, MOH is looking into extending means-testing to general hospitals.

More Help for Families and Individuals

14. The Government will top up the Medisave Accounts of Singaporeans aged 50 and above. The top-up, which ranges from \$50 to \$200, will vary according to the age of the recipient and his existing Medisave balances. An additional \$100 million will also be injected into Medifund to help needy patients.

15. The Government will raise the tax relief ceiling for individuals making cash top-ups to their own CPF accounts and that of their parents and grandparents. This tax relief will also be extended to cash top-ups to non-working spouses.

Building the Next Generation

16. DPM Lee acknowledged that existing measures to support parenthood have not stopped the decline in birth rates. Minister in the Prime Minister's Office Mr Lim Hng Kiang will oversee an inter-ministry working committee to come up with specific proposals to improve the existing measures by National Day. The measures will be targeted at encouraging births of Singapore citizen babies. They will cover all families, but must be effective for the better qualified women who have fewer children. As it will be very difficult to raise fertility back to replacement level, we will need to attract immigrants who can contribute to Singapore and integrate into our society. The Government also needs to create incentives for permanent residents to take on the privileges and responsibilities of citizenship.

Other Tax Changes

17. DPM Lee also announced other tax changes that would benefit individuals. These include the lowering of the Additional Registration Fee (ARF) for new cars from 130% to 110% of Open Market Value (OMV) and the streamlining of the estate duty process. He also rationalised the duties on liquor and increased them on tobacco products.

18. For details, please refer to the official Budget 2004 website: www.budget2004.gov.sg.

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