

MINISTRY OF FINANCE MEDIA RELEASE

BUDGET 2005

CREATING OPPORTUNITY, BUILDING COMMUNITY

1. Prime Minister and Minister for Finance Lee Hsien Loong unveiled the Budget for Financial Year (FY) 2005 based on the theme "Creating Opportunity, Building Community". The Budget will provide \$1.3 billion worth of help to Singaporeans, and save taxpayers over \$150 million in Year of Assessment (YA) 2006 and \$310 million in YA2007. The Government expects to run a modest overall budget surplus of \$210 million in FY2005, after taking into account all the tax changes, projected income from investment of reserves, and special transfers announced in the Budget Statement.

2. The Singapore economy rebounded strongly in 2004, growing by 8.4%. The economy is expected to grow at a more moderate pace of 3-5% in 2005. To ensure that Government spending remains prudent, PM Lee announced a further permanent 3% cut in the budget ceilings for all ministries, except the Ministry of Defence. PM Lee assured the House that the quality of public services will not be compromised.

Creating a Dynamic and Entrepreneurial Economy

3. The 2005 Budget included a comprehensive package of measures to create an environment conducive to businesses, foster the growth of the services sectors, help small and medium enterprises, and prepare workers for the new economy.

A Competitive Tax Regime

4. The Government will lower the top personal income tax rate over two years, from the current 22% to 21% in YA2006 and 20% in YA2007. Marginal tax rates for all other income brackets will be correspondingly reduced. These cuts will save taxpayers \$150 million in YA2006 and \$310 million in YA2007, and help Singapore attract internationally mobile talent. The schedule of the reductions in personal income tax is shown at Table 1 of the Annex.

Help for small businesses

5. PM Lee announced further measures to help small businesses. To provide more timely relief for small companies, a one-year loss carry-back for corporate taxes, subject to a cap of \$100,000 in losses, will be introduced with effect from YA2006.

6. And from 1 April 2005, all Government suppliers will be given one free Government e-procurement account with GeBIZ. This will be of particular benefit to smaller businesses that supply to Government.

Growing the Financial Services Sector

7. PM Lee outlined measures to position Singapore as the premier wealth management centre in Asia. Start-up fund managers will be given a 12 month grace period to meet the requirement that 80% of share capital must come from foreign investors under the tax

incentive scheme. Foreign charitable trusts will be given tax exemption on foreign income earned, without restrictions on expenditure levels or where the funds are spent.

8. The Government has also made special provisions to support Islamic banking. It will remove the double imposition of stamp duties for real estate mortgage financing structured in accordance with Islamic practices, and extend concessionary tax treatment to payouts from “Islamic” bonds.

9. To deepen and broaden capital markets, the Government will confer a 10% income tax rate on approved companies in securities borrowing and lending, including intermediaries. The Commodity Derivative Trading incentive will also be enhanced, with a concessionary tax rate of 5% on qualifying income from trading exchange-traded commodity derivatives.

10. To attract more Real Estate Investment Trust (REIT) listings, stamp duty on the instruments of transfer of Singapore properties into REITs to be listed, or already listed on the SGX, will be waived for a five-year period. Most of the qualifying preconditions for tax transparency will also be removed. To attract foreign non-individual investors to the REIT market, the withholding tax on REIT distributions will be lowered from 20% to 10% for a five-year period.

Strengthening Singapore’s Position as a Logistic Hub

11. The Bonded Warehouse scheme will be expanded by lifting the 80% export requirement and allowing greater flexibility for qualifying operators from 1 January 2006. The scope of the Approved International Shipping Enterprise (AIS) incentive will be extended to ship leasing companies. From YA2006, the Global Trade Programme (GTP) will also be widened to allow companies to use the Singapore dollar as the transacting currency.

Rejuvenating the Tourism and Retail Sectors

12. The Singapore Tourism Board (STB) will invest \$40 million over three years to enhance Orchard Road’s landscape and upgrade its infrastructure. To encourage the development of new, innovative offerings, the Investment Allowance incentive will be extended to flagship concept projects in retail, food & beverage, and entertainment approved between 1 April 2005 and 31 March 2010. Event companies will be also granted a concessionary tax rate of 10% for qualifying tourism events approved in the same period.

Ensuring a Capable and Skilled Workforce

13. The Government will bring the Lifelong Learning Fund to \$2 billion, by injecting \$500 million to support initiatives by the Workforce Development Agency (WDA) to help workers re-skill and upgrade.

14. Foreign worker policies will be fine-tuned. With the recovery of the economy, the foreign worker levy for skilled workers will be raised from the current \$50 to \$80 from 1 July 2005 and to \$100 from 1 January 2006. At the same time, companies will be given the flexibility to employ foreign workers above their dependency ceilings, subject to a higher levy of \$500 for each additional foreign worker.

Fostering a Caring and Inclusive Society

15. PM Lee reaffirmed the Government's commitment to help Singaporeans cope with restructuring. He reiterated Singapore's distinctive social compact based on personal responsibility, with the family and community being keys pillars of support.

Help for Singaporeans

16. First, the Government will make a special, one-off contribution of \$100 to the Edusave Account of each primary and secondary school student, over and above the annual Edusave distributions. This top-up will cost the Government \$50 million.

17. Second, the Government will top up the Medisave Accounts of all adult Singaporeans to help them cope with higher MediShield premiums. The top-ups, which range from \$50 to \$350, will vary according to the age of the recipient. These top-ups will cost the Government \$320 million. The schedule of the Medisave top-ups by age is shown at Table 2 of the Annex.

18. Third, the Government will bring Medifund to \$1.1 billion by injecting an additional \$100 million to help lower-income and older Singaporeans meet their healthcare needs.

19. Fourth, the Government will top up the CPF Special or Retirement Accounts of Singaporeans aged 50 and above by \$100 in recognition of their contributions to the economy in the past, when wages were lower. These older Singaporeans tend to have low balances in their Special and Retirement Accounts and have experienced deeper cuts in their CPF contribution rates. This CPF top-up will cost the Government \$80 million.

20. Fifth, one- to five-room HDB households will enjoy rebates in their utilities bills through the Utilities-Save (U-Save) scheme. The rebates will range from \$60 to \$200 depending on the size of the flats. This will cost the Government \$62 million. The amount of U-Save rebates by housing type is shown at Table 3 of the Annex.

21. And finally, the Government will create a \$500 million ComCare Fund by adding \$254 million to the \$246 million currently in the Community Assistance Fund. With a target size of \$1 billion, the ComCare Fund will deliver assistance programmes to support needy families, children from disadvantaged backgrounds, and senior citizens and disabled persons who may need longer term assistance.

Supporting Individuals and Families

22. The Government will enhance the Baby Bonus scheme to give parents more flexibility. There is currently an annual ceiling on the co-saving contributions. The Government will now allow parents to save up to the co-savings limit at any time within the six year period. The range of uses for the Baby Bonus will also be expanded to include health insurance and early intervention programmes for children with special needs.

23. PM Lee announced that the foreign domestic worker levy will be lowered by \$50 so that families will be better able to employ higher quality maids.

24. To encourage savings for retirement, the CPF voluntary contribution cap will be increased to the CPF Mandatory Contribution Cap of 17 months, with contribution rates aligned with the actual contribution rate of 33%. To encourage the self-employed to save for

their retirement, the tax relief cap on voluntary CPF contributions by the self-employed will be aligned with that for employees with effect from YA2006. The threshold for CPF Minimum Sum top-ups to the Retirement Accounts of parents and non-working spouses will also be relaxed so that individuals would now only require net balances (including amounts withdrawn for investment) 1.5 times the prevailing Minimum Sum to make the top-ups. The Government will also simplify the Supplementary Retirement Scheme (SRS) so that there is now a common absolute contribution cap of 17 months for both employees and the self-employed.

Promoting Community Involvement

25. PM Lee outlined measures which encourage volunteerism and philanthropy. Double tax deduction will be granted for all donations which carry naming opportunities, made to Institutions of a Public Character (IPCs) on or after 1 Jan 2005. The definition of “charitable purposes” by which organisations may qualify to be charities will be expanded to explicitly include existing charitable purposes such as the advancement of health, citizenship, the arts, heritage or science, environmental protection, and animal welfare, as well as a new purpose – the advancement of sport.

Other Tax Changes

26. PM Lee also announced various other tax changes. These include greater relief from stamp duties for aborted transactions, and a new relief in estate duty for successive deaths within a short time-span. He also increased duties on tobacco products – from \$293 per 1,000 sticks to \$352 per 1,000 sticks – with immediate effect. And to help the Singapore Turf Club compete more effectively against illegal operators, the horse betting duty will be changed from 12% of gross stakes to 25% of gross profits.

27. For more details, please refer to the official Budget 2005 website: www.budget2005.gov.sg.

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Table 1: Schedule of Personal Income Tax rates

Chargeable Income band	Current marginal tax rates	Marginal tax rates for YA2006	Marginal tax rates for YA2007
\$0 – \$20,000	0.00%	0.00%	0.00%
\$20,001 - \$30,000	4.00%	3.75%	3.50%
\$30,001 - \$40,000	6.00%	5.75%	5.50%
\$40,001 - \$80,000	9.00%	8.75%	8.50%
\$80,001 - \$160,000	15.00%	14.50%	14.00%
\$160,001 - \$320,000	19.00%	18.00%	17.00%
> \$320,000	22.00%	21.00%	20.00%

Table 2: Schedule of Medisave Top-Ups

	Age as at 1 Jan 2005			
	21-39	40-49	50-59	60 and above
Top-Up Quantum	\$50	\$100	\$250	\$350

Table 3: Utilities-Save Scheme Rebates

HDB Flat Type	Rebate in Jul 2005	Rebate in Jan 2006	Total rebate quantum
1-room	\$100	\$100	\$200
2-room	\$100	\$100	\$200
3-room	\$50	50	\$100
4-room	\$40	\$40	\$80
5-room	\$30	\$30	\$60