

MINISTRY OF FINANCE MEDIA RELEASE

BUDGET 2007

READY FOR THE FUTURE, READY FOR THE WORLD

1. In his Budget Statement for the Financial Year (FY) 2007, Second Minister for Finance, Mr Tharman Shanmugaratnam announced a two percentage point reduction in the corporate income tax rate to 18% to sharpen Singapore's competitive edge; a 1.5 percentage point increase in the employer CPF contribution rate to add to the financial security of Singaporeans; a new Workfare Income Supplement (WIS) Scheme to help older low-wage workers; and an increase in the GST rate from 5% to 7% from 1 Jul 2007 to provide critical additional revenues, together with a \$4 billion GST Offset Package to help Singaporeans adjust to the GST increase.

2. Mr Shanmugaratnam said that he expected the Singapore economy to grow by a healthy 4.5% to 6.5% in 2007, amidst a favourable external environment. He reported that the fiscal deficit for FY2006 was expected to be \$1.3 billion, smaller than the deficit of \$2.9 billion projected at the start of the year. For FY2007, Mr Shanmugaratnam is expecting a surplus of \$1.1 billion excluding Special Transfers and tax changes. After taking these into account, the Budget is expected to be in deficit by \$0.7 billion. Mr Shanmugaratnam assured Members of Parliament that the deficit could be fully financed by funds accumulated within the current term of Government.

Growth with Opportunity for All

3. Mr Shanmugaratnam said that Singapore's prospects for the next five to 10 years were excellent. Companies and enterprising individuals from around the world were coming to Singapore, and Singaporeans were seizing opportunities abroad. However, like other countries, Singapore was facing a widening income gap and slow wage growth at the lower end despite healthy economic growth. Mr Shanmugaratnam emphasised that the solution was *not* to go for slower economic growth because that would only make everyone worse off, especially those at the bottom. He said that Singapore's strategy had to be to focus on growth while maximising opportunities for all Singaporeans — opportunities to get a good education, to work or grow a business, to retrain and upgrade, and to own a home.

“... globalisation is working in Singapore's favour. We are also well-placed at the heart of a globalising Asia.”

Building Capabilities for the Future

4. Mr Shanmugaratnam outlined the Government's key priorities to build capabilities for the future.

5. *Investing in People.* Giving every child a first-rate education and every Singaporean the opportunity of life-long learning will remain a major focus. The Government will create Post-Secondary Education Accounts for every Singaporean aged seven to 20, which can be used at publicly-funded universities, polytechnics and Arts Institutions, and ITE, as well as UniSIM and WDA-accredited lead training providers. Beyond post-secondary education, Singapore also has to place greater priority on Continuous Education and Training. Mr Shanmugaratnam said that the Government expected to triple its expenditure on lifelong learning to around \$500 million annually over the medium to long term. He will top up the Lifelong Learning Fund with \$100 million.

6. *Investing in R&D to move the economy up the value chain.* An additional \$500 million will be injected into the R&D Trust Fund administered by the National Research Foundation (NRF).

7. *Making Singapore the best place to start, grow and globalise businesses.* Mr Shanmugaratnam said that Government will create a vibrant and supportive environment for enterprises, big and small. (see para 17)

8. *Making Singapore a centre for "high trust" services.* The Budget contained several measures to promote the growth of legal services, financial services, logistics, maritime and aviation services. Mr Shanmugaratnam announced that the Government planned to make Singapore a hub for global philanthropic organisations. The Government would remove the rule that currently required charities to spend at least 80% of their annual receipts in Singapore within two years to qualify for income tax exemption.

"We will remake our city, to create a home that is distinctive and endearing to Singaporeans."

9. *Enhancing economic infrastructure for Singapore's future.* Mr Shanmugaratnam described plans to further enhance Singapore's IT connectivity and build Singapore up as an energy hub of the future.

10. *Creating an inspiring living environment.* The Government planned to make Singapore a distinctive city of gardens and waters, rejuvenate the older public housing estates and integrate them with an expanded road and rail network. The Singapore of 2020 will be a world class city, providing a higher quality of life for its citizens.

Strengthening the Social Security System

11. Mr Shanmugaratnam announced the key changes the Government would be making to strengthen the social security system.

12. *Bolstering CPF savings.* The employer CPF contribution rate will be increased by 1.5% points to 14.5%, with effect from 1 July 2007. This increase will apply to all Singaporean workers, except those earning \$1,000 or less *and* are above 35 years old, for whom a different approach will be taken.

“The Workfare Income Supplement Scheme is a major policy change. For the first time, the state will be supplementing the market wages that low-wage workers receive.”

13. *Introducing Workfare to supplement the income and savings of older low-wage workers.* Mr Shanmugaratnam said that the Government would be taking a bold, new approach to helping those at the lower end of the workforce. This involved introducing a Workfare Income Supplement (WIS) Scheme and modifying the CPF system to complement the WIS Scheme. First, the CPF employee contribution rates for these workers will be reduced, enabling them to have a higher take-home pay. Second, the employer contribution rates of these workers will also be reduced, thereby enhancing their employability. Third, the Government will give these workers income supplements, mainly into their CPF accounts, to help them build up their savings. The principal target group of the WIS Scheme are older full-time workers above the age of 45 and who earn \$1,000 or less. A worker earning \$1,000 a month will get \$100 of WIS, which is a 10% supplement. The WIS will also be extended to those above the age of 35 who earn \$1,500 or less, but at a lower rate.

14. *Preparing for future healthcare needs.* Mr Shanmugaratnam said that the Government expected to increase spending on healthcare to reach about \$3 billion a year in 2012, compared to \$2 billion a year currently. The number of doctors, nurses and other healthcare professionals in Singapore’s public hospitals will be increased. To help needy Singaporeans foot medical bills, the Government will top-up the Medifund by \$200 million to \$1.4 billion.

Revenue Structure for the Future

15. Mr Shanmugaratnam mapped out how Government revenues would be restructured to build capabilities for the future, strengthen social security, and boost Singapore’s competitiveness.

16. *Reducing direct taxes.* Mr Shanmugaratnam announced a two percentage point reduction in the corporate tax rate to 18%, with effect from YA2008¹. This will cost the Government \$800 million per year.

¹ Which will include incomes earned in CY2007

17. *Helping SMEs and start-ups.* Mr Shanmugaratnam announced a significant increase in the partial tax exemption threshold from \$100,000 to \$300,000, which would be especially helpful to SMEs. As a result, almost 80% of SMEs will pay tax at effective rates of less than 10%. Singapore would be one of the most competitive locations internationally for SMEs. He also announced cash rebates to partially offset the additional CPF costs faced by SMEs in the two years after employer CPF contribution rates go up.

18. *Rationalising indirect taxes.* Changes aimed at rationalising the indirect tax regime include the removal of the current broad-based Cess, which applies to F&B outlets, a reduction in road tax for passenger cars and motorcycles, a reduction in Foreign Domestic Worker Levy and a reduction in the second-tier Foreign Worker Levy for the manufacturing and services sectors. Other changes included an enhancement of stamp duty relief, and the taxation of beer and stout on the basis of alcoholic content rather than volume.

19. *Raising additional revenues.* To meet future expenditure needs, Mr Shanmugaratnam said that the Government would need to raise additional revenues. First, GST will be raised to 7% with effect from 1 July 2007. The Government will help businesses who wish to register for, and administer the GST.

20. Second, the Government intended to amend the Constitution to revise the rule that allocates Net Investment Income (NII) from past reserves for spending. This additional income would enable us to make further improvements in Singapore's competitiveness, make longer-term investments in infrastructure and R&D, and top up endowment funds that will bring value to Singaporeans for many years to come.

GST Offset Package

21. To help Singaporeans adjust to the higher GST, the Government will put in place a comprehensive set of measures, which will cost the Government \$4.0 billion over five years. The Government will:

- a. Give out \$1.8 billion as cash, in the form of GST credits to all adult Singaporeans, including NSmen and NSF's, over a period of up to four years. The quantum payable will depend on the individual's assessable income (AI) and the annual value (AV) of his home.
- b. Inject \$400 million worth of top-ups to the Post-Secondary Education Accounts (PSEA) of all Singapore citizen children aged from seven to 20 over the next two years.
- c. Extend \$800 million worth of Utilities-Save (U-Save), Service and Conservancy Charges (S&CC) and Rental Rebates to HDB households for five years. The U-Save and S&CC rebates will also be extended to HDB households living in executive flats.

- d. Provide \$200 million worth of property tax rebates for all owner-occupied residential properties in 2008 and 2009. The one-off rebates will be up to \$100 per year.
- e. Increase financial assistance for kindergarten and childcare to help lower-income families with young children.
- f. Increase assistance for pensioners.
- g. Commit \$10 million to a Public Transport Fund (PTF) to help lower-income households with public transport costs, over three years with effect from 1 October 2007.
- h. Top up \$10 million over five years the Citizens' Consultative Committees (CCC) ComCare Fund, Self-Help Groups and Voluntary Welfare Organisations (VWOs) to support flexible assistance schemes to households that may face additional difficulties despite the GST offset package.
- i. Absorb the additional GST payable on subsidised healthcare services, school fees, and S&CC.

Mr Shanmugaratnam highlighted that the GST package was a substantial one that would help the majority of Singaporeans offset their increased GST costs for several years. Low-income households, in particular, will be well provided for through both the GST Offset Package and Workfare. Even after the GST offsets have been distributed, Workfare will provide significant support for low-income workers on a continuing basis. They will be better off in the long term — better off compared to before the GST increase and introduction of Workfare. The middle- and higher-income groups will also benefit from the Offset Package as well as higher employer contributions to their CPF.

“Workfare will provide significant support for low-income workers on a continuing basis. This is why the GST, which we are combining with Workfare, is not regressive”

22. GST Credits will be paid out annually, starting this year on 1 July, for four years. Singaporeans will receive a letter from the CPF Board in mid-May 2007 informing them of their GST Credits. To receive their GST Credits on 1 July 2007, they need to simply sign up through ATMs or www.gstoffset.gov.sg by 25 June 2007 or hard copy forms by 15 June 2007.

A Strong Foundation for the Future

23. Mr Shanmugaratnam concluded that this Budget would lay the foundation for a strong and sustainable fiscal position for Singapore. The GST increase would provide critical additional revenues of \$1.5 billion each year to fund various initiatives: Workfare

(\$400 million a year), increased health expenditures (\$300 million on average over the next five years, and more beyond that), expanding continuing education opportunities for all Singaporeans (at least \$300 million extra each year in the long term), and the corporate tax cut (\$800 million per year). The Government would also need to use more of the investment income from the reserves.

“The additional income from our reserves, together with the increased GST revenues, will give us the resources to strengthen Singapore’s social security system, build new capabilities for the future, further sharpen its competitiveness, and meet the challenges of the future from a position of strength.”

24. Mr Shanmugaratnam said that Singapore had every reason to be confident about its future. Globalisation is playing to Singapore’s strengths —its openness to the world and its reputation for trust. The Government is strengthening Singapore’s social security system and taking a major step forward to help those at the lower end of the workforce. Mr Shanmugaratnam emphasised, however, that the values of self-reliance and enterprise should continue to underpin society.

25. For more details, please refer to the official Budget 2007 website: <http://www.singaporebudget.gov.sg>

**MINISTRY OF FINANCE
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