

MINISTRY OF FINANCE MEDIA RELEASE

BUDGET 2008

CREATING A TOP QUALITY ECONOMY BUILDING A RESILIENT COMMUNITY

The Minister for Finance, Mr Tharman Shanmugaratnam, delivered the Budget Statement for the Financial Year (FY) 2008 on 15 February 2008. Budget 2008 centred on four key thrusts. They were:

- a. To provide a full range of education and training opportunities for people to find and stretch their potential, in school and in their post-secondary education, as well as throughout their working years;
- b. To spur the growth of innovative enterprises with significant incentives for them to create new ideas and products;
- c. To adjust tax policies so that Singapore stays competitive, support the growth of SMEs, encourage risk taking as well as strengthen Singapore's role as a financial and business hub; and
- d. To continue to build a resilient community through strengthening financial security for retirement, and helping the less well-off members in our society.

2. In his speech, Minister Tharman reported an expected fiscal surplus for FY2007 of \$6.4 billion, compared to a projected deficit of \$0.7 billion at the start of the year. The strongly improved budget outturn reflected faster than expected economic growth in 2007 and an exceptionally buoyant property market.

3. He expected the economy to grow by 4.0% to 6.0% in 2008, amidst increasing uncertainty in the global economy. The overall budget balance for FY2008 is expected to be a deficit of \$0.8 billion. There would not be a need to draw on past reserves as the deficit could be fully financed by funds accumulated since the new Government took office in May 2006.

Strategies for Dealing with Inflation in Singapore

4. Minister Tharman said that while economic fundamentals remained strong, Singapore had been affected by the recent rise in global inflation. He said that the approach to dealing with inflation was not to control prices, as such solutions would only lead to more problems for ordinary people over time. Instead, he outlined five strategies to help Singaporeans cope with inflation:

- a. Moderating imported inflation through our Singapore dollar exchange rate policy;

- b. Stepping up the diversification of food sources to minimise spikes in prices arising from disruption in supply in any one country that we import foods from;
- c. Promoting home-ownership, especially through large subsidies for lower-income Singaporeans to own a home;
- d. Providing targeted assistance directly to Singaporeans who face problems in coping with the cost of living; and
- e. Keeping our economy competitive and building up our capabilities so as to enjoy good economic growth. Minister Tharman said that this would be the most fundamental strategy for the long term, as the best offset to global inflation would be to educate and train up our people, attract new investments, create jobs and sustain good income growth for our whole population.

“We have the resources and the capacity not just to deal with our immediate problems, but to look ahead and position ourselves to deliver more years of good growth and quality jobs for our people.”

Top Quality Economy

Nurturing Every Skill and Talent

5. Minister Tharman assured Singaporeans that nurturing a first-class workforce remained a major focus for the Government, who would continue to invest more at all levels of the education system.

6. *Tertiary Education.* Minister Tharman said that our tertiary sector was stepping up to a new level of excellence, with the number of places for students being increased and range of programmes on offer expanded. To ensure that financial status presented no obstacle to pursuing studies at our publicly-funded tertiary institutions, the Government would enhance the bursary schemes and extend the reach of the Study Loan Schemes for university and polytechnic students. The Government would also further top up Post-Secondary Education Accounts (PSEAs) for all students by an additional \$150 to \$600, over and above what was announced in Budget 2007.

“...no student needs to face an excessive burden of loans at the start of his working life. Further, through a combination of bursaries and loans, students within the bottom two-thirds of the population will not need to expend cash for either their fees or living expenses during their university years.

... also introducing a new bursary scheme for polytechnic students from the bottom 50% of households...”

7. *Continuing Education and Training (CET)*. To support an expected increase in expenditure on CET, Minister Tharman announced that the Government would top up the Lifelong Learning Endowment Fund by \$800 million to bring the total fund size to \$3 billion. Minister Tharman also announced the restructuring of the Skills Development Levy (SDL): from 1st October 2008. All employers would now contribute the SDL on all workers that they employ, up to the first \$4,500 of gross remuneration. The levy rate would, however, be reduced from 1% to 0.25%. To extend subsidies beyond vocational CET, the Government would provide subsidies for part-time degree programmes at the three publicly-funded universities and UniSIM for Singaporeans who had not previously benefited from a government-subsidised undergraduate education.

“...a key focus going forward will now be continuous education for adults. This is going to be absolutely essential for us... in a world where we are competing on skills, quality and productivity, not on costs alone.”

Making Innovation Pervasive in our Economy

8. *Tax Incentives to Spur R&D*. Minister Tharman said that to develop deep capabilities in research, the Government would top up the National Research Fund by \$800 million, bringing it to a total of \$1.8 billion. Minister Tharman also aimed to make innovation pervasive. The existing tax deduction for R&D done in Singapore would be enhanced from 100% to 150%. Two new R&D incentives would be introduced: a broad-based tax allowance that could be used against additional expenditure on R&D that companies do in Singapore; and an incentive to allow research intensive start-ups to convert their losses into cash grants of up to \$20,250 per year. The three schemes cost \$250 million a year, and will significantly reduce the effective tax rate of companies undertaking R&D in Singapore.

“In this year’s Budget, we will make Singapore one of the most competitive places for companies, big and small, to do R&D.”

Enhancing Business Competitiveness

9. *Keeping Business Costs Competitive*. Minister Tharman said that the Government was seeking to ease the short-term tightness in office space which was leading to higher rental costs for businesses. Several government agencies would be relocated out of the Central Area to free up office space for use by the private sector. The Government would also defer an additional \$1 billion of public sector construction projects, on top of the \$2 billion deferment of Government projects announced previously.

10. *Tax Competitiveness*. Minister Tharman announced the tax refinements to give a further boost to entrepreneurial companies and SMEs. He introduced a new tax incentive to grant special allowance for fixtures and fittings which would especially benefit SMEs

in the services sector. Further measures included liberalising the Start-Up Tax Exemption Scheme, and enhancing tax incentives for equity based remuneration.

11. Minister Tharman also announced a series of tax incentives related to new growth niches in the finance industry such as Islamic finance, as well as to Singapore's maritime hub.

Personal Income Tax and Estate Duty

12. *Removal of Estate Duty.* Minister Tharman announced the removal of Estate Duty from Singapore's tax regime, a move that he said would enhance Singapore's attractiveness as a place for wealth to be invested and built up. He urged individuals who had accumulated wealth to contribute to society, and take advantage of the enhanced philanthropy incentives introduced last year.

“If we make Singapore an attractive place for wealth to be invested and built up, whether by Singaporeans or foreigners who bring their assets here, it will benefit our whole economy and society, not just the individuals who build up their wealth. It is not a zero sum game.”

13. *Personal Income Tax Rebate.* Minister Tharman said that a personal income tax rebate of 20%, up to a cap of \$2,000, would be given to all resident taxpayers for the Year of Assessment 2008.

Building a Resilient Community

14. Minister Tharman introduced further measures to help Singaporeans save more for their retirement and prepare for healthcare needs that come with aging.

15. *Enhancing Financial Security in Retirement.* To encourage Singaporeans to voluntarily put aside more savings whenever they can, he announced the liberalisation of rules for the topping up of CPF members' Minimum Sum as well as the enhancement of tax reliefs associated with such top-ups. Employers would now be allowed to make top-ups to their employees' Retirement or Special Accounts, and enjoy full tax deduction for doing so.

16. *LIFE Bonus (L-Bonus).* Minister Tharman said that the Government would give LIFE Bonus to the first five cohorts of CPF members who join the CPF LIFE scheme - those aged 46 to 50 this year. The L-Bonus is targeted at lower and middle-income CPF members and would extend to 80% of the cohort aged 50 today. The Government had also agreed to the suggestion of the National Lifelong Income Committee to provide a one-off incentive to encourage CPF members who would not be automatically included in CPF LIFE to opt in to the scheme. The L-Bonus would be given to members who have less than \$40,000 in their Minimum Sum but would like to participate in CPF LIFE. It would also be extended to older CPF members above the age of 50 who opted in.

17. *Helping Singaporeans Meet Healthcare Needs.* As MediShield premiums would need to rise in tandem with the enhanced coverage provided by MediShield, Minister Tharman announced that the Government would top up the Medisave accounts of those aged 51 and above by \$150 to \$450 this year. The Government would also top up the ElderCare Fund by \$400 million and the Medifund by \$200 million this year, bringing the fund sizes of the ElderCare Fund and Medifund to \$1.5 billion and \$1.6 billion respectively.

18. *Taking Care of the Vulnerable.* The Government would increase the monthly Public Assistance rate for a single-person household from \$290 to \$330, and top up the ComCare Fund by \$200 million this year.

Surplus Sharing

19. In view of good economic growth over the past year and the strong fiscal position, the Government would be sharing the nation's surpluses with Singaporeans. The Government would:

- a. Give out \$865 million in the form of Growth Dividends to all adult Singaporeans. The quantum payable will depend on the individual's AI and the AV of his home. The Growth Dividends would be paid out in two instalments in April and October 2008;
- b. Increase assistance for pensioners; and
- c. Top up another \$10 million to the Citizens' Consultative Committees (CCC) ComCare Fund, Self-Help Groups (CDAC, Yayasan MENDAKI, SINDA and the Eurasian Association) and Voluntary Welfare Organisations (VWOs) to support flexible assistance schemes to households that may need additional assistance.

“We have ... focused on the needs of the lower-income group especially, when we are able to distribute surpluses. Last year's GST Offset Package which Singaporeans will continue to receive this year and over the next two years, plus this Budget's surplus sharing package, provides a significant boost to their incomes. Both these exercises also give the middle-income group support at a time when they too face higher costs of living.”

20. In total, the Surplus Sharing package, including the top-ups to the PSEA and Medisave accounts as well as the PIT rebate, will cost the Government \$1.8 billion.

Conclusion

21. Minister Tharman concluded that this Budget was about developing the capabilities of our people and enterprises, so that Singapore can continue to grow and stay in the top league of global cities. The Budget is also about strengthening our

resilience – holding together as a community, and providing assurance for Singaporeans as they get older.

22. He added that while there would be increasing uncertainty in the global economy, Singapore would be able to weather any short term difficulties. With strong fundamentals, Singapore continues to attract new and better investments, and employment is expected to remain high. Minister Tharman emphasised, however, that for Singapore to stay ahead, it must continue to be a place where Singaporeans can aspire, where there are opportunities to develop every skill and talent, and where everyone does his utmost to do better and surprise with his abilities.

23. For more details, please refer to the official Budget 2008 website: <http://www.singaporebudget.gov.sg>

MINISTRY OF FINANCE
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