



Building
our Future through
Finance

MOF
SINGAPORE

Milestones 2006

Budget 2006 – Building on our Strengths, Creating our Best Home

In the Budget Statement for Financial Year (FY) 2006, Prime Minister and Minister for Finance Lee Hsien Loong announced a range of tax and other initiatives to support the ongoing restructuring and upgrading of the economy, comprehensive measures to help low-wage workers adapt to the global economy, and a \$2.6 billion Progress Package to share budget surpluses with all adult Singaporeans. Mr Lee said that Singapore needed to press on with upgrading and restructuring the economy, and outlined strategies for Singapore to differentiate itself and move ahead of the competition. He also said that even as Singapore pressed on with restructuring, the Government will take more active and focused measures to help those most affected by globalisation.

The fiscal position remains sound. The revised FY2005 budget position is a modest surplus of around \$0.4 billion, slightly higher than the surplus of \$0.2 billion estimated at the start of the FY. Although operating revenues are expected to be \$1.4 billion lower than projected, this is more than offset by lower expenditure (\$0.8 billion) and higher Net Investment Income Contribution (\$0.8 billion).

For FY2006, the Government expects a budget deficit of \$2.9 billion (1.4% of GDP), which will be financed from the surpluses accumulated by the previous term of Government.

(I) Upgrading and Restructuring the Economy

Become a Knowledge Hub

- Set up R&D Trust Fund under the National Research Foundation. (\$500 million initially; \$5 billion over five years)
- Extend writing down allowances for acquisition of intellectual property to economic (not just legal) owners of intellectual property.
- Accelerate writing down period given for qualifying capital expenditure incurred on R&D cost-sharing arrangements from five years to one year.
- Develop a new national broadband network.

Build on our Strengths in Manufacturing and Services

Promote Manufacturing Sector

- Zero-rate GST for supply of tools used in the manufacture of goods for export.

Promote Asset and Wealth Management Industries

- Enhance Designated Unit Trust (DUT) scheme to allow more funds to qualify for DUT status.
- Grant tax exemption on locally-sourced investment income and foreign-sourced income of qualifying domestic trusts and their underlying holding companies.
- Expand the scope of settlors and beneficiaries of the trusts qualifying under the Approved Trustee Company scheme and tax exemption scheme for foreign trusts.
- Introduce new incentive scheme to exempt resident funds with foreign investors from tax.

Promote Capital and Treasury Markets

- Grant tax exemption on remittances of foreign-sourced interest and trust distributions received by REITS listed on SGX (“S-REITS”).
- Allow recovery of GST incurred by S-REITS on the setting up of special purpose companies (SPCs) and the acquisition and holding of overseas non-residential properties by SPCs.
- Enhance Qualifying Debt Securities (QDS) scheme to cover discount debt securities with tenure of more than one year.
- Enhance scope of activities qualifying for the Finance & Treasury Centre incentive to include trading and arranging of derivative products.
- Grant 5% concessionary tax rate on clearing income for qualifying clearing members of Singapore Over-the-Counter (OTC) derivatives clearing facilities for five years.

Promote Islamic Financing Activities

- Harmonise tax treatment of four *Shariah*-compliant financial products with that of conventional financing products.

Promote Insurance Industry

- Grant tax exemption for approved captive insurance companies for 10 years.

Promote Maritime and Logistics Industries

- Introduce new Maritime Finance Incentive offering tax exemption for qualifying income of ship investment vehicles and a 10% concessionary tax rate for qualifying income of ship investment managers.
- Allow shipping companies to renew their Approved International Shipping incentive for a third period of 10 years, lengthening the maximum period of incentive from 20 years to 30 years.
- Remove the need for traders under the Global Trader Programme to show that their derivative trades are incidental to the physical trades before such income can be treated as qualifying income.
- Give automatic GST suspension for goods removed from Zero GST (ZG) warehouses by all persons registered under the Major Exporter Scheme (MES) and the Approved Third Party Logistics (3PL) Company Scheme.

Promote New Services

- Include industrial design, interactive and digital media as new fields for tax concession on royalties earned by creative individuals.

Support Entrepreneurship and Enterprise

- Reduce record-keeping period in 17 statutes, generally to five years.

Grow our Human Capital

- Introduce new applied subjects such as electronics and digital media as electives in selected secondary schools through partnerships with polytechnics.
- Allow students to gain direct admission to the polytechnics based on their talents and abilities, similar to the junior colleges and secondary schools.
- Allocate additional \$2 billion to university sector over the next five years.

Maintain a Competitive Tax Environment

- Allow foreign-sourced income that is currently disqualified from the foreign-sourced income tax exemption (FSIE) regime to enjoy tax exemption where remittances are made under specific scenarios or circumstances.
- Grant tax deductions to companies that incurred actual outlay for the employee stock options and other share-based compensations.
- Exempt from tax the gains by approved holding companies on the disposal of shares in subsidiaries.
- Provide guidance on transfer pricing issues.
- Rationalise conditions for businesses to claim Industrial Building Allowances.
- Extend tax incentives to partnerships on a scheme by scheme basis.
- Allow general insurers to claim GST on:
 - o tax fraction of cash indemnities paid to non-GST registered policyholders under contracts that are subject to GST.
 - o expenses incurred on their policyholders' passenger cars.

Other Tax Changes

- Remove Property Tax surcharge.
- Change basis of slot machine tax from 30% of deemed turnover to 12% of actual turnover

(II) Moving Forward Together: Helping Low-Wage Workers

The Government has accepted the recommendations of the Ministerial Committee on Low Wage Workers, and will take the following measures to help low-wage workers, while encouraging them to work, upgrade, and move ahead through their own efforts.

Expand Job Opportunities

- Re-create 10,000 jobs a year under the enhanced Job Re-creation Programme. (\$40m over 3 years)
- Help companies hire and re-employ more older workers through ADVANTAGE! scheme. (\$30m over 2 years)

Higher Skills for Better Jobs

- Provide workers with clear training and progression pathways through Workforce Skills Qualifications System. (\$100m over 3 years)
- Help 45,000 low-wage workers improve generic skills such as problem-solving, communication skills, English, numeracy and IT literacy skills. (\$30 million over 3 years)
- Provide training opportunities for low-wage workers in SMEs and contract or sub-contract employment arrangements. (Additional \$4 million each year)
- \$100 million top-up to Lifelong Learning Fund to ensure that workers have adequate support for retraining.

Social Support to Enable Work

- Help needy families with childcare and student care assistance so that they can go out to work, under the new Work Support Programme.
- \$100 million top-up to ComCare Fund to help needy households.

Creating Hope for the Future

- Raise income thresholds and enhance benefits for Financial Assistance Scheme to make education affordable for low-income families.
- Increase subsidies for kindergarten and childcare for the first and second child from low-income families.
- Raise income threshold for Edusave Merit Bursary from \$3,000 to \$4,000.
- Enhance vocational training programmes for youths to gain employable skills.
- Expand Home Ownership Plus Education (HOPE) scheme to encourage young, low-income families to focus resources on their children.

Rewarding Work

- Give Workfare Bonus (\$400 to \$1,200) to older, lower-income workers.
- Give additional CPF Housing Grant (\$5,000 to \$20,000) to help low-income households purchase their first homes.

Sharing in the Nation's Progress

- Give more help to lower-income Singaporeans under the Progress Package.

(III) Sharing the Fruits of Growth: Progress Package

The Government shared its budget surpluses with all adult Singaporeans, with more for those in the lower income group. The Progress Package cost the Government \$2.6 billion, and comprised the Growth Dividends, Workfare Bonus, Utilities-Save, S&CC and Rental Rebates, CPF Top-ups, Opportunity Funds and NS Bonus.

Growth Dividends for All Adult Singaporeans

All adult Singaporeans received Growth Dividends ranging from \$200 to \$800. Close to half of all adult Singaporeans received the maximum \$800.

	Annual Value of Home \$6,000 or less	Annual Value of Home more than \$6,000 and up to \$10,000	Annual Value of Home more than \$10,000
Annual Assessable Income \$24,000 or less	\$800	\$600	\$200
Annual Assessable Income more than \$24,000	\$600	\$400	

Workfare Bonus to Reward Low-Wage Workers for Work

Low-wage Singaporeans who earn \$1,500 or less per month through regular work will receive Workfare Bonuses ranging from \$150 to \$1,200 in two portions.

Average Monthly Income	Bonus to be paid on 1st May, 2006 and 2007*
\$400 and below	1.5 months salary, or \$75, whichever is higher
Above \$400 to \$900	\$600
Above \$900 to \$1,200	\$400
Above \$1,200 to \$1,500	\$200

* Bonus paid in 2006 for working at least 6 months in 2005 and to be paid in 2007 for working at least 6 months in 2006.

Rebates to Help Lower-Income Households

Lower-income households will get Utilities-Save (U-Save) rebates ranging from \$60 to \$200. They will also continue to get rebates of up to 4 months of Service & Conservancy Charges (S&CC) and up to 3 months of rent.

HDB Flat Type	U-Save Rebates	S&CC Rebates	Rental Rebates
1-room	\$200	4 months	3 months
2-room	\$200	3 months	1.5 months
3-room	\$100	2 months	–
4-room	\$80	1.5 months	–
5-room	\$60	0.5 months	–

CPF Top-ups to Help the Elderly meet Retirement and Healthcare Needs

Singaporeans aged 50 and above received CPF top-ups ranging from \$100 to \$800 depending on the Annual Value of their homes. Half of the amount went into the CPF Special/Retirement Account and the other half into the CPF Medisave Account.

Age	Annual Value of Home \$6,000 or less	Annual Value of Home more than \$6,000 and up to \$10,000	Annual Value of Home more than \$10,000
50 - 59	\$600	\$400	\$100
60 & above	\$800	\$600	\$200

The Government also topped up the Eldercare Fund and Medifund by \$100 million each.

Opportunity Funds for Students

The Government set aside \$50 million for Opportunity Funds in all schools and community self-help groups, namely CDAC, MENDAKI, SINDA and the Eurasian Association, to provide students from lower-income families with more enrichment and learning opportunities, such as the purchase of computers and overseas study trips.

NS Bonus to Recognise the Contributions of NSmen

Singaporeans who are serving or who have served National Service (NS) received the 40th Anniversary NS Bonus.

NS status	Amount
<ul style="list-style-type: none">• Full-time national servicemen (NSFs)• Operationally ready NSmen who have not completed their operationally ready national service (ORNS) training cycle	\$100
<ul style="list-style-type: none">• NSmen who have completed their ORNS training cycle• NSmen who are above statutory age (i.e. 40 years old for non-officers and 50 years old for officers)	\$400

In addition to this one-off NS Bonus:

- NSmen who complete their ORNS training cycle in future will receive the ORNS Completion Award of \$300.
- NS key appointment holders received an additional \$2,000 tax relief over and above what they normally receive as NSmen.

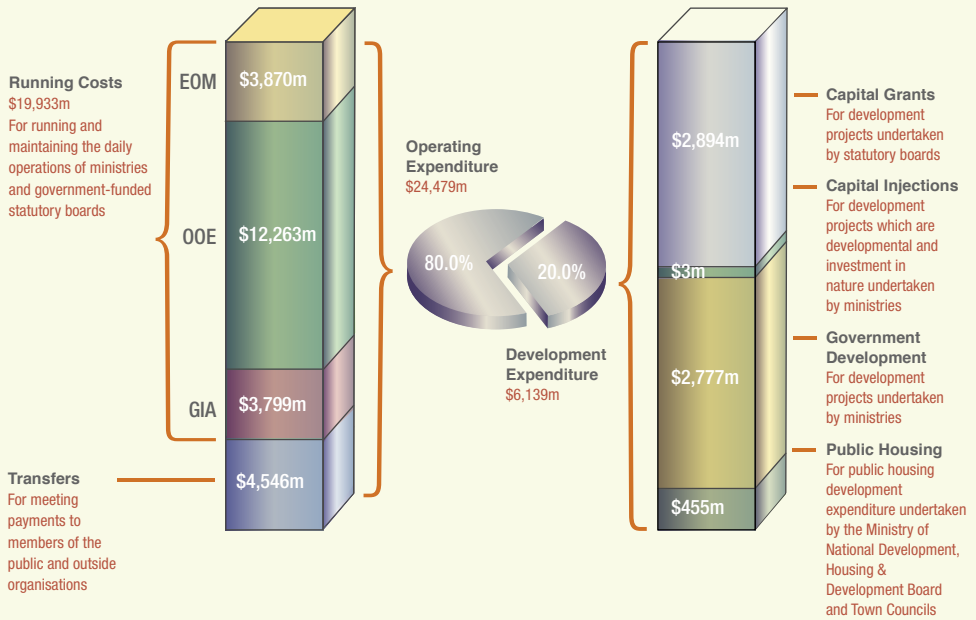
REPUBLIC OF SINGAPORE
THE BUDGET
 FOR THE FINANCIAL YEAR
 1 APRIL 2006 TO 31 MARCH 2007

	<i>Revised FY2005 \$billion</i>	<i>Estimated FY2006 \$billion</i>	<i>Change over Revised FY2005 \$billion %</i>	
OPERATING REVENUE	27.48	28.96	1.48	5.4
Corporate Income Tax	7.10	7.68	0.58	8.1
Personal Income Tax	4.30	4.60	0.30	7.0
Statutory Boards' Contribution	1.25	1.18	(0.07)	(5.5)
Assets Taxes	1.86	1.89	0.02	1.1
Customs and Excise Taxes	2.02	2.01	(0.01)	(0.6)
Goods and Services Tax	3.60	3.75	0.15	4.2
Motor Vehicle Taxes	1.47	1.78	0.30	20.4
Vehicle Quota Premiums	0.51	0.62	0.11	21.6
Betting Taxes	1.49	1.50	0.01	0.3
Other Taxes	1.94	2.06	0.11	5.9
Other Fees and Charges	1.79	1.75	(0.04)	(2.5)
Others	0.13	0.16	0.02	15.6
Less:				
TOTAL EXPENDITURE	28.85	30.62	1.77	6.1
Operating Expenditure	21.59	24.48	2.89	13.4
Development Expenditure	7.25	6.14	(1.12)	(15.4)
PRIMARY SURPLUS/(DEFICIT)¹	(1.37)	(1.66)		
Less:				
SPECIAL TRANSFERS	0.87	3.59	2.71	310.2
Growth Dividends	–	1.43		
National Research Foundation	–	0.50		
Top-up to CPF Accounts	0.43	0.50		
Workfare Bonus Scheme Fund	–	0.40		
40th Anniversary NS Bonus	–	0.20		
Utilities-Save Scheme	0.06	0.06		
Opportunity Funds	–	0.05		
S&CC and Rental Rebates ²	0.06	0.05		
Top-up to Community Care Fund	0.25	0.10		
Top-up to Medifund	–	0.10		
Top-up to Eldercare Fund	–	0.10		
Top-up to Lifelong Learning Fund	–	0.10		
Top-up to Edusave Accounts	0.05	–		
Economic Restructuring Shares	0.02	–		
Add:				
NET INVESTMENT				
INCOME CONTRIBUTION	2.67	2.39	(0.28)	(10.6)
OVERALL BUDGET SURPLUS/(DEFICIT)	0.43	(2.86)		

¹ Surplus/(Deficit) before Special Transfers and Net Investment Income Contribution.

² Reclassified from Operating Expenditure wef FY2005; committed in FY2002 to offset increases in GST burden.

TOTAL EXPENDITURE – A FUNCTIONAL CLASSIFICATION



EOM - Expenditure on Manpower
 OOE - Other Operating Expenditure
 GIA - Grants-in-Aid

Summary of Major Policies Introduced in 2005

Major Initiatives Introduced	Description
CitizenConnect Centres	<p>MOF launched the CitizenConnect programme as a pilot project in October 2005 to help members of the public who have no internet access of their own, to transact online with the government. Besides offering free access to government online services, these centres have officers who are trained to help the public perform e-transactions and locate government information. As of December 2005, MOF and the People's Association have jointly set up five CitizenConnect Centres, at the Serangoon CC, Pasir Ris East CC, Toa Payoh Central CC, Gek Poh Ville CC and Zheng Hua CC. To extend the reach of e-services to citizens who have no Internet access or who require help in transacting online, CitizenConnect Centres at Community Clubs will be expanded from the current five to a network of 25 CitizenConnect Centres.</p>
Limited Liability Partnership	<p>As part of Government's commitment to maintain a business regulatory environment that keeps pace with changing business needs, a new business vehicle called the Limited Liability Partnership (LLP) was introduced in April 2005. An LLP gives businesses the option of being a limited liability entity with the internal flexibility of a partnership. The LLP is a separate legal entity from its partners. It can enter into contracts, hold property and continue despite changes in its partners. The Legal Professions Act and Accountants Act have also been amended to provide lawyers and accountants with the option to set up as LLPs.</p>
Reduce Personal Income Tax	<p>Top personal income tax rate goes down from 22% to 21% in YA2006, and to 20% in YA2007. Marginal tax rates of all other tax brackets have also been reduced.</p>
Help Small Businesses	<p>To provide more timely relief for small companies, the Government allowed a one-year loss carry-back for corporate taxes, subject to a cap of \$100,000 in losses. The losses can be carried back for one year, and any losses that exceed this limit can still be carried forward. This will take effect from YA2006. Also, all suppliers will have one account free when they subscribe to GeBIZ, with effect from 1 April 05. This will benefit all GeBIZ suppliers, especially the 88% who only have one account, practically all of whom are SMEs.</p>

Major Initiatives Introduced	Description
<p>Enhance our Status as an International Financial Centre</p>	<p>(1) Develop Singapore as a Premier Wealth Management Centre</p> <p>Start-up fund managers were given a 12-month grace period to meet the requirement that 80% of the value of their funds must come from foreign investors. Foreign charitable trusts were given tax exemption on foreign income earned, without being subject to expenditure and fund usage requirements.</p> <p>(2) Deepen and Broaden Capital Markets</p> <p>A 10% tax rate was conferred on the income earned by approved companies, including intermediaries, in securities borrowing and lending arrangements. This 10% tax rate will also apply to income from borrowing and lending local securities.</p> <p>Double stamp duties for real estate mortgage financing structured in accordance with Islamic practices were removed, and concessionary tax treatment extended to payouts from “Islamic” bonds.</p> <p>Payouts from <i>sukuks</i> were accorded the same concessionary treatment as provided for interest income from debt securities under the Qualifying Debt Securities scheme.</p> <p>To enhance the Commodity Derivative Trading incentive, a 5% concessionary tax rate was conferred on qualifying income from exchange-traded commodity derivatives.</p> <p>(3) Encourage Real Estate Investment Trusts (REITs) to List in Singapore</p> <p>Stamp duty for transfer of Singapore properties into listed REITs or REITs to be listed were waived for five years.</p> <p>Withholding tax on trust distributions to non-resident non-individuals were reduced from 20% to 10% for five years.</p>

Year		2003	2004	2005	2006
Overall Ranking of Singapore in the IMD World Competitiveness Yearbook		4 th	2 nd	3 rd	3 rd
Competitiveness factor ¹	Government Efficiency	3 rd	1 st	2 nd	2 nd
Sub-factors ²	Public Finance	4 th	25 th	28 th	12 th
	Fiscal Policy	2 nd	4 th	12 th	3 rd
	Institutional Framework	2 nd	1 st	1 st	2 nd
	Business Legislation	5 th	1 st	1 st	2 nd
	Societal Framework	9 th	18 th	18 th	22 nd

Source: *The IMD³ World Competitiveness Yearbook 2006*

¹ The World Competitiveness Yearbook analyses and ranks the ability of the nations to create and maintain an environment that sustains the competitiveness of enterprise. It analyses the nations based on a set of criteria, grouped into four competitiveness factors. The four competitiveness factors are *Economic Performance, Government Efficiency, Business Efficiency* and *Infrastructure*.

² The competitive factor, Government Efficiency, comprises five sub-factors. They are *Public Finance, Fiscal Policy, Institutional Framework, Business Legislation* and *Societal Framework*.

³ IMD refers to the Institute for Management Development.

United Nations (UN) Global E-Government Readiness Report 2005 Results

This study examines two aspects of E-Government:

1. E-Government readiness capability of the government – The capacity of the public sector to deploy ICT for improving knowledge and information in the service of the citizen; and
2. E-Participation – The willingness, on part of the government, to provide information and knowledge for the empowerment of the citizen.

E-Government Readiness (Top 10 countries)

Ranking	Country	Index
1	United States	0.9062
2	Denmark	0.9058
3	Sweden	0.8983
4	United Kingdom	0.8777
5	Republic of Korea	0.8727
6	Australia	0.8679
7	Singapore	0.8503
8	Canada	0.8425
9	Finland	0.8231
10	Norway	0.8228

E-Government Participation (Top 10 countries)

Ranking	Country	Index
1	United Kingdom	1.0000
2	Singapore	0.9841
3	United States	0.9048
4	Canada	0.8730
4	Republic of Korea	0.8730
5	New Zealand	0.7937
6	Denmark	0.7619
6	Mexico	0.7619
7	Australia	0.7143
8	Netherlands	0.6984

World Economic Forum Global IT Report 2005 – 2006

This Report uses the **Networked Readiness Index (NRI)** to measure the degree of preparation of a nation or community to participate in and benefit from ICT developments. Singapore ranked second out of a total of 115 economies in 2005-2006.

The Networked Readiness Index (NRI) Rankings 2005

Rank	Country	Score	Rank	Country	Score	Rank	Country	Score
1	United States	2.02	39	Qatar	0.25	77	Morocco	-0.51
2	Singapore	1.89	40	India	0.23	78	Namibia	-0.53
3	Denmark	1.80	41	Slovak Republic	0.19	79	Uganda	-0.60
4	Iceland	1.78	42	Italy	0.16	80	Serbia and Montenegro	-0.63
5	Finland	1.72	43	Greece	0.08	81	Venezuela	-0.65
6	Canada	1.54	44	Lithuania	0.08	82	Macedonia, FYR	-0.67
7	Taiwan	1.51	45	Maritius	0.07	83	Sri Lanka	-0.68
8	Sweden	1.49	46	Kuwait	0.06	84	Tanzania	-0.69
9	Switzerland	1.48	47	Jordan	0.03	85	Peru	-0.70
10	United Kingdom	1.44	48	Turkey	0.00	86	Armenia	-0.72
11	Hong Kong SAR	1.44	49	Bahrain	0.00	87	Algeria	-0.72
12	Netherland	1.39	50	China	-0.01	88	Gambia	-0.72
13	Norway	1.33	51	Latvia	-0.03	89	Dominican Republic	-0.73
14	Korea, Rep.	1.31	52	Brazil	-0.04	90	Nigeria	-0.74
15	Australia	1.28	53	Poland	-0.09	91	Kenya	-0.75
16	Japan	1.24	54	Jamaica	-0.11	92	Mongolia	-0.76
17	Germany	1.18	55	Mexico	-0.14	93	Tajikistan	-0.77
18	Austria	1.18	56	Botswana	-0.16	94	Moldova	-0.78
19	Israel	1.16	57	Croatia	-0.23	95	Mali	-0.78
20	Ireland	1.15	58	Romania	-0.23	96	Georgia	-0.82
21	New Zealand	1.14	59	El Salvador	-0.24	97	Bosnia and Herzegovina	-0.87
22	France	1.11	60	Kazakhstan	-0.24	98	Guatemala	-0.88
23	Estonia	0.96	61	Ghana	-0.25	99	Cameroon	-0.88
24	Malaysia	0.93	62	Colombia	-0.27	100	Honduras	-0.89
25	Belgium	0.87	63	Egypt	-0.29	101	Mozambique	-0.94
26	Luxembourg	0.80	64	Bulgaria	-0.31	102	Madagascar	-0.99
27	Portugal	0.56	65	Uruguay	-0.31	103	Kyrgyz Republic	-1.01
28	United Arab Emirates	0.54	66	Panama	-0.33	104	Cambodia	-1.03
29	Chile	0.52	67	Pakistan	-0.34	105	Zimbabwe	-1.04
30	Malta	0.51	68	Indonesia	-0.36	106	Albania	-1.04
31	Spain	0.47	69	Costa Rica	-0.37	107	Ecuador	-1.07
32	Czech Republic	0.36	70	Philippines	-0.37	108	Benin	-1.07
33	Cyprus	0.36	71	Argentina	-0.38	109	Bolivia	-1.10
34	Thailand	0.35	72	Russian Federation	-0.39	110	Bangladesh	-1.11
35	Slovenia	0.34	73	Azerbaijan	-0.40	111	Guyana	-1.11
36	Tunisia	0.33	74	Trinidad and Tobago	-0.42	112	Nicaragua	-1.14
37	South Africa	0.30	75	Vietnam	-0.47	113	Paraguay	-1.23
38	Hungary	0.27	76	Ukraine	-0.49	114	Chad	-1.36
						115	Ethiopia	-1.39

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