Building our Future through Finance

MOF
SINGAPORE

Milestones 2005

Budget 2005
– Creating Opportunity, Building Community

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". Mr Lee announced 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. He also reaffirmed the Government's commitment to help Singaporeans cope with restructuring as well as reiterated Singapore's distinctive social compact based on personal responsibility, with the family and community being key pillars of support.

Key Budget Initiatives

For Individuals

Personal income tax reductions [$150 million in YA2006 and $310 million in YA2007]

- Top personal income tax rate lowered from 22% to 21% with effect from YA2006, and further reduced to 20% in YA2007. Marginal tax rates of all other brackets also reduced.

Edusave top-ups [$50 million]

- Edusave top-ups of $100 for all primary and secondary school students.

Medisave top-ups [$320 million]

- Medisave top-ups ranging from $50 to $350, depending on age.

Medifund top-up [$100 million]

CPF top-ups for older Singaporeans [$80 million]

- $100 top-up to the CPF Special or Retirement Accounts of Singaporeans aged 50 and above.

Baby Bonus Scheme enhancements

- Co-saving contributions up to the co-savings limit allowed any time within the six year period.
- Expansion of range of uses of co-savings to include health insurance, and early intervention programmes for children with special needs.

Foreign maid levy reduction [$90 million]

- Foreign maid levy reduced by $50 per month.

Lifelong Learning Fund top-up [$500 million]

ComCare Fund top-up [$254 million]

Encouraging savings for retirement [$8 million]

- CPF voluntary contribution cap increased and aligned to the mandatory contribution cap.
- Tax relief cap for the self-employed to contribute to CPF increased to the tax relief cap for CPF contributions by employees.
- Criteria for CPF members to top up the Retirement Accounts of their parents and non-working spouses liberalised.
- Common contribution cap for the Supplementary Retirement Scheme (SRS), set at 17 months of the CPF salary ceiling.

Help households meet utilities cost [$62 million]

- Utilities-Save scheme for HDB households, with more for smaller house-types.

Discourage smoking

- Increase in excise duty on cigarettes from $293 to $352 per 1,000 sticks.

Reduce illegal horse-betting activities

- Horse betting duty changed from 12% of gross stakes to 25% of gross profits.

Give relief from stamp duties

- Remission of stamp duties paid on aborted transactions.

Encourage Philanthropy and Community Involvement [$23 million]

- Recognise the advancement of sport as a charitable purpose.
- Double tax deduction granted for donations with naming opportunities.
- Computer Donation Scheme extended to include computer hardware and software donated to Institutions of a Public Character (IPCs).

For Companies

Develop Singapore as a premier wealth management centre

- Start-up fund managers 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 given tax exemption on foreign income earned, without restrictions on expenditure levels or where funds may be spent.

Deepen and broaden capital markets

- 10% tax rate for income earned by approved companies in securities borowing and lending, including intermediaries.
- Removal of double stamp duties for real estate mortgage financing structured in accordance with Islamic practices and concessionary tax treatment extended to payouts from "Islamic" bonds.
- New Commodity Derivatives Trading incentive offering concessionary tax rate on qualifying income from trading exchange-traded commodity derivatives.

Encourage Real Estate Investment Trusts (REITs) to list in Singapore

- Stamp duty for transfer of Singapore properties into listed REITs or REITs to be listed, will be waived for five years.
- Withholding tax on trust distributions reduced from 20% to 10% for five years.

Strengthen Singapore as logistics hub

- Bonded Warehouse Scheme expanded by lifting the 80% export requirement for qualifying operators.
- Approved International Shipping Enterprise (AIS) incentive extended to ship leasing companies.
- Global Trader Programme (GTP) widened to allow companies to use the Singapore dollar as their transacting currency.

Rejuvenate tourism and retail sectors

- $40 million invested over three years by Singapore Tourism Board (STB) to enhance Orchard Road.
- Investment Allowance incentive extended to flagship concept projects in retail, F&B and entertainment.
- Concessionary tax rate of 10% extended to event companies which bring in approved tourism events.

Help small businesses

- One-year loss carry-back for corporate taxes, subject to cap of $100,000 in losses carried back.
- All Government suppliers to be given one free Government e-procurement account.

Fine-tune foreign worker policies

- Skilled Foreign Worker Levy to be raised from $50 to $80 from 1 July 2005 and to $100 from 1 January 2006.
- Companies given flexibility to go above foreign worker dependency ceiling up to a higher limit, subject to a higher foreign worker levy of $500 for each extra foreign worker.

For details, please refer to the Budget 2005 website at ***www.mof.gov.sg/budget_2005/budget_speech/index.html***

Fiscal Overview

For FY2004, the revised estimate for operating revenue is $27.81 billion, and that for total expenditure is $29.22 billion. After discounting special transfers totalling $1.71 billion and taking in the Net Investment Income contribution of $2.68 billion, the revised budget deficit is $440 million.

For FY2005, the government expects a budget surplus of $210 million.

REPUBLIC OF SINGAPORE

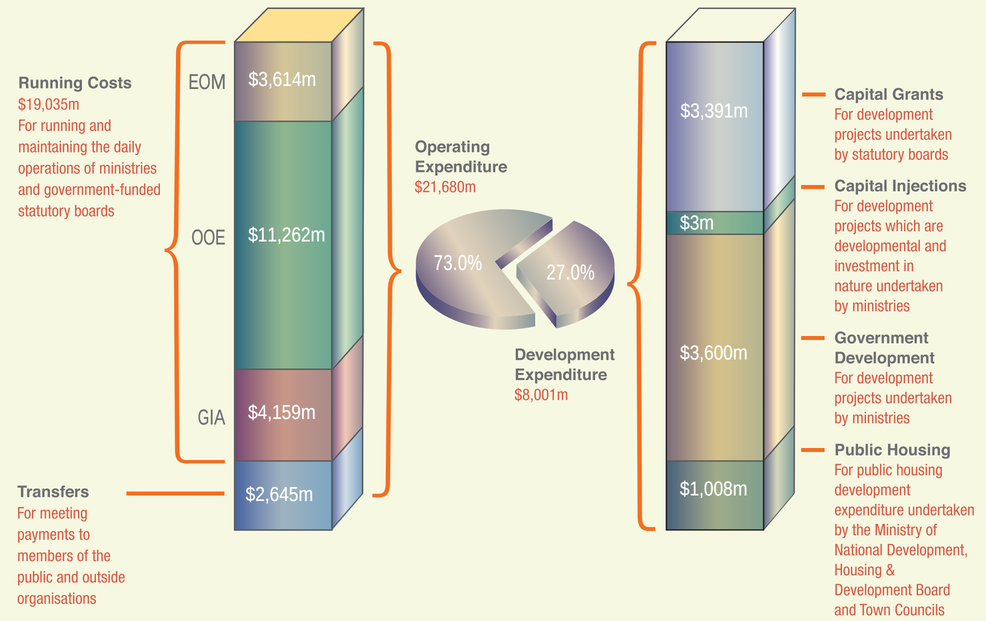
THE BUDGET
FOR THE FINANCIAL YEAR
1 APRIL 2005 TO 31 MARCH 2006

	Revised FY2004 $b	Estimated FY2005 $b	Change over Revised FY2004 $b	%
OPERATING REVENUE	**27.81**	**28.85**	**1.04**	**3.7**
Corporate Income Tax	7.71	7.91	0.20	2.7
Personal Income Tax	3.93	4.44	0.52	13.1
Assets Tax	2.09	1.91	(0.19)	(8.9)
Customs & Excise Tax	2.00	2.24	0.24	11.8
Goods & Services Tax	3.70	4.00	0.30	8.1
Motor Vehicle Related Taxes	1.37	1.52	0.15	10.7
Vehicle Quota Premiums	1.49	1.37	(0.13)	(8.6)
Other Taxes	3.36	3.35	(0.01)	(0.3)
Other Fees & Charges	1.99	1.97	(0.01)	(0.7)
Others	0.17	0.15	(0.03)	(15.8)
Less:				
TOTAL EXPENDITURE	**29.22**	**29.68**	**0.46**	**1.6**
Operating Expenditure	20.49	21.68	1.19	5.8
Development Expenditure	8.74	8.00	(0.73)	(8.4)
PRIMARY SURPLUS/(DEFICIT)*	**(1.41)**	**(0.83)**	**0.58**	
Less:				
SPECIAL TRANSFERS	**1.71**	**0.82**	**(0.88)**	**(51.7)**
Economic Restructuring Shares	0.90	-	(0.90)	
Top-up to Medisave Accounts	0.10	0.32	0.22	
Utilities Save Scheme	0.01	0.06	0.05	
S&CC and Rental Rebates #	-	0.06	0.06	
Top-up to Edusave Accounts	-	0.05	0.05	
Top-up to CPF Accounts for Older Workers	-	0.08	0.08	
Top-up to Medifund	0.20	-	(0.20)	
Top-up to Lifelong Learning Fund	0.50	-	(0.50)	
Injection to Community Care Fund	-	0.25	0.25	
Add:				
NET INVESTMENT INCOME CONTRIBUTION	**2.68**	**1.86**	**(0.82)**	**(30.6)**
OVERALL BUDGET SURPLUS/(DEFICIT)	**(0.44)**	**0.21**	**0.65**	

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

Reclassified from operating expenditure wef from FY2005

TOTAL EXPENDITURE - A FUNCTIONAL CLASSIFICATION



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

Summary of Major Policies Introduced in 2004

Major Policies Introduced	Description
Issue of the 2nd and 3rd lot of Economic Restructuring Shares (ERS)	The ERS helps to offset the increase in the GST rate from 3% to 5%. The 2nd and 3rd lot of ERS were issued in early 2004 and early 2005 respectively. Singaporeans can exchange their ERS for cash at $1 per share. Outstanding shares will earn annual dividends, in the form of bonus shares, over five years. The bonus shares each year will be calculated at a rate of 3% plus the real GDP growth rate of the preceding calendar year. In 2004, almost $10m worth of bonus shares were given out. In 2005, holders of ERS shares received 11.4% bonus shares on balances as at 31 December 2004, based on the real GDP growth of 8.4% for 2004.
Exemption of Foreign Source Income and Individual's Singapore Source Investment Income	To promote financial services, all foreign source personal income remitted into Singapore from 1 January 2004 is exempted from income tax to encourage Singapore resident individuals to remit their offshore funds into Singapore for investment and management. All Singapore source investment income derived by individuals from financial instruments were also exempted from income tax from 1 January 2004. These schemes will encourage individuals to save and plan for retirement as well as boost our private wealth management industry.
Formation of the Accounting and Corporate Regulatory Authority (ACRA)	The Former Registry of Companies and Businesses (RCB), and the Public Accountants Board (PAB) were merged and became a statutory board, named the Accounting and Corporate Regulatory Authority (ACRA), on 1 April 2004. The merger enhances Singapore's corporate regulatory framework and achieves greater organizational effectiveness.
Best Sourcing	Best Sourcing seeks to ensure that each dollar spent by the government delivers the best value for money to the government and taxpayer. As at December 2004, an overall 1.8% of non-core functions in the public sector had been market tested. Of the 74 projects which were market tested, 46 were outsourced. This resulted in an annual operational cost savings of approximately $8.9 million and $55 million worth of contracts for the private sector.

Major Policies Introduced	Description
Public Private Partnerships (PPP)	The Public Private Partnership initiative seeks to bring together the expertise and resources of the public and private sectors to provide services to the public at the best value for money. This is a win-win-win solution for the public sector, the private sector and the Government. For members of the public, it brings together the expertise of the Government and the private sector to meet the needs of the public effectively and efficiently. For the public sector, PPP can provide better value for money through private sector innovation; optimal whole lifecycle costing; better asset utilisation; and optimal sharing of responsibilities between the public and private sector. For the private sector, PPP offers more business opportunities. The Government will consider applying PPP mainly to large-value projects whose capital value exceeds S$50 million. For a start, the Ulu Pandan NEWater Plant will be built on a Design-Build-Own and Operate 20-year PPP model by Keppel Engineering Pte Ltd and the desalination plant will be built on a Build-Own-Operate (BOO) 20-year PPP model by SingSpring. Two other PPP projects are also currently in the tender phase: an incineration plant, and TradeXchange, which is a national integrated IT platform for the trade and logistics community. The Government is also exploring PPP for the Sports Hub and the development of student housing with ancillary facilities by the National University of Singapore (NUS).

Year		2002	2003	2004	2005
Overall Ranking of Singapore in the IMD World Competitiveness Yearbook		8th	4th	2nd	3rd
Competitiveness factor[1]	Government Efficiency	2nd	3rd	1st	2nd
Sub-factors[2]	Public Finance	10th	4th	25th	28th
	Fiscal Policy	2nd	2nd	4th	12th
	Institutional Framework	1st	2nd	1st	1st
	Business Legislation	3rd	5th	1st	2nd

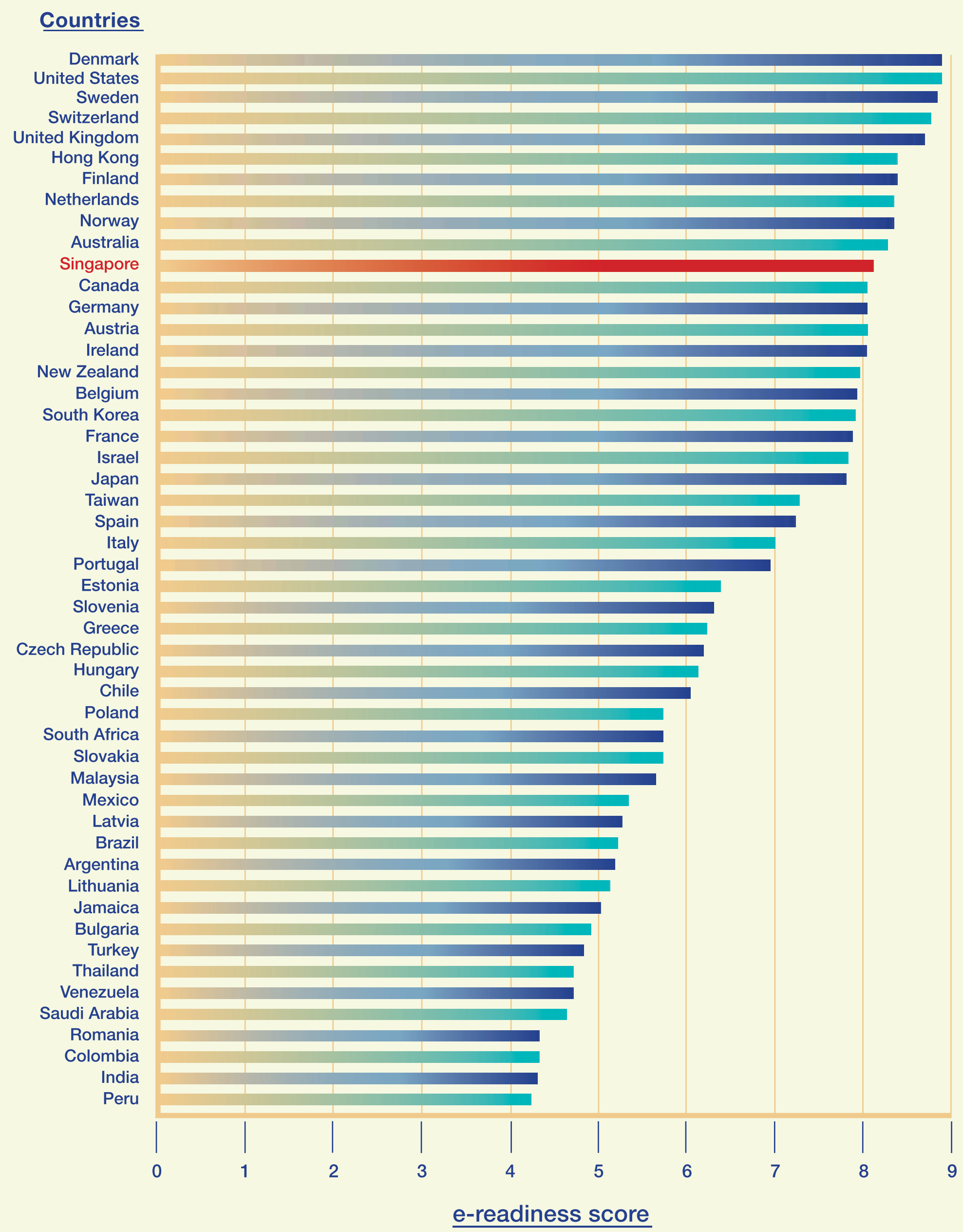
Source: The IMD[3] World Competitiveness Yearbook 2005

[1] The World Competitiveness Yearbook analyses and ranks the ability of the nations to create and maintain an environment that sustains the competitiveness of enterprises. It analyses the nations based on a set of criteria, grouped into four competitiveness factors. The four competitive 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 International Institute for Management Development.

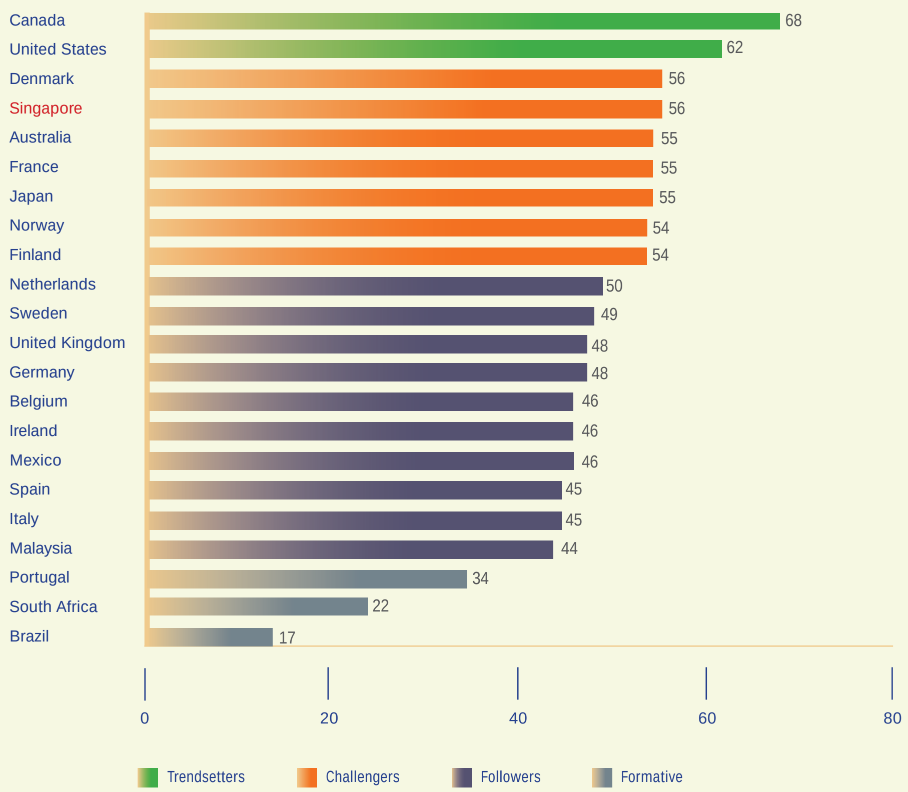
Economist Intelligence Unit E-Readiness Rankings 2005



Accenture 2005
E-Government Leadership Study

Singapore was ranked fourth in Accenture's e-Government Leadership Study that ranked 22 countries in terms of the quality and maturity of e-government services for both citizens and businesses.

2005 overall maturity scores



Canada is the leader in service delivery maturity, followed closely by the Unites States.
Difference in scores of 2 percent or less generated joint rankings.

Source: Accenture report: "Leadership in Customer Service: New Expectations, New Experiences"

MINISTRY OF FINANCE
SINGAPORE

100 High Street #06-03 The Treasury Singapore 179434
Tel: (65) 6225 9911 Fax: (65) 6332 7435
Email: mof_qsm@mof.gov.sg http://www.mof.gov.sg