BUDGET STATEMENT 2011

Contents

A. ECONOMIC PERFORMANCE

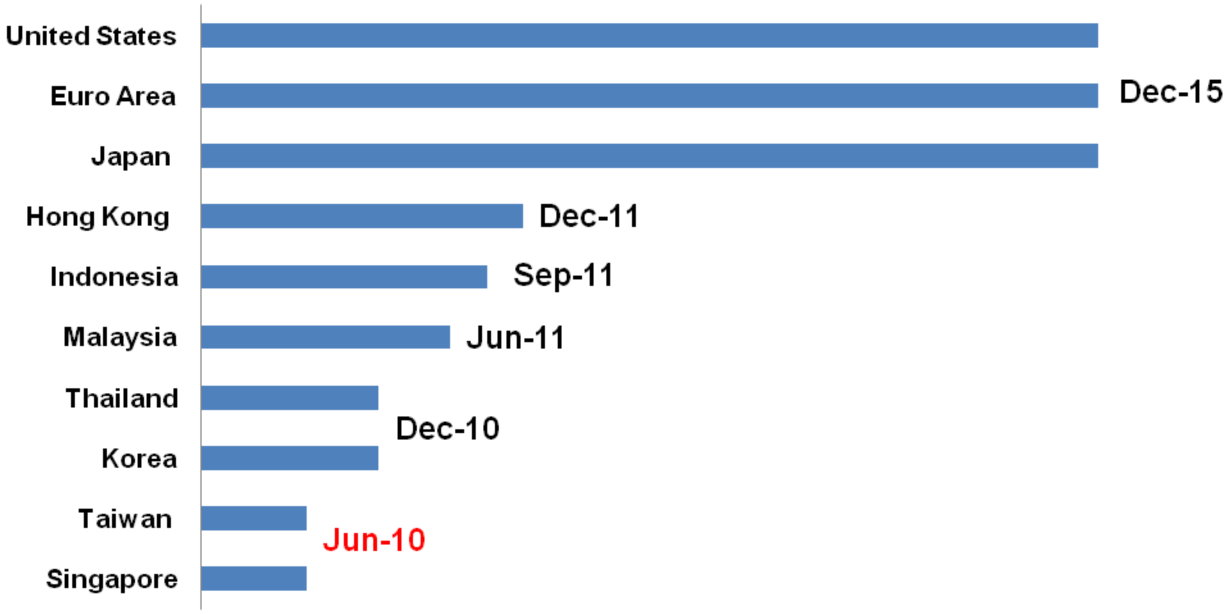
A.1. Mr Speaker Sir, I beg to move, that Parliament approves the financial policy of the Government for the Financial Year 1st April 2011 to 31st March 2012.

An Exceptional Year

A.2. Our economy has done exceptionally well in the past year. After two weak years in 2008 and 2009, when growth was close to zero, our GDP grew by a record 14.5% in 2010. Unemployment is down to the levels seen in early 2008, before the crisis.

A.3. We have recovered faster than most economies. The IMF has estimated how long various economies will take to get back to their potential GDP levels – in other words their potential based on longer-term trends. Singapore had recovered fully from the crisis by the second quarter of 2010, like Taiwan. Most other Asian economies did so by the end of last year, or will get back to their potential levels in the course of this year. However, the outlook for the US, the Eurozone and Japan is challenging, with recovery from the crisis expected to take at least another four years (see Chart 1).

Chart 1: Expected Recovery From Crisis[1]



Source: IMF, October 2010

[1]Estimated recovery to potential GDP levels

A.4. Our stronger recovery was partly good fortune, as global trade and confidence in Asia turned around. But it also reflected the way we prepared ourselves for the turn in the winds. We intervened during the crisis to help employers hold on to the workers they would need for the future, and to use the downturn to improve their skills. We also helped workers who lost their jobs to get back into the workforce, by matching them to new employers quickly.

A.5. Our companies made good use of our crisis measures, including the Jobs Credits, SPUR, and the Government’s loan guarantees under the Special Risk-Sharing Initiative (SRI). We were therefore ready to seize opportunities when the winds shifted. In short, our crisis strategy worked.

2011 Outlook – Opportunities and Risks

A.6. As we are now well past the rebound from the crisis, our economy will grow more slowly this year. But Singapore will continue to benefit from the global economic recovery, as well as the competitive edge we have gained over the last few years.

A.7. The external environment is however more complex this year. Growth in the emerging economies, which accounts for two-thirds of global growth, is expected to remain strong. However, these economies are also seeing a build-up of inflationary pressures. Food and other commodity prices have climbed sharply, because supply has been affected by harsh weather conditions while demand continues to grow in China and elsewhere. The political uncertainties in the Middle East have also driven oil prices up. There will not be early relief from these inflationary pressures. Further spikes in commodity prices could lower economic growth in Asia, if governments are forced to tighten domestic policies to control inflation.

A.8. The recovery in the advanced economies, especially the US, is picking up steam. Business investment has restarted and manufacturing activity is strengthening. These are the positives. However, these are only cyclical improvements, while growth prospects continue to be weighed down by structural difficulties. In particular, a combination of high long-term unemployment, weak housing markets and large household debts will depress consumption for some years. Heavy budget cutting in Europe, the UK and Japan, and the withdrawal of the fiscal stimulus in the US later this year, will also dampen growth. In addition, there remain risks in global finance. Problems surrounding sovereign debt in parts of Europe are causing concern.

A.9. We will have to watch the risks and be ready to respond if global growth falters. Overall, however, we face a positive environment for Singapore. The Government expects Singapore's economy to **grow by between 4% and 6% in 2011**. This is still above our estimated trend growth of 3% to 5% for the next 10 years, and reflects the continuing momentum in the economy. Investments and activities are still flowing into Singapore, attracted especially by opportunities in Asia. The record investments that we saw in 2010 are also of an exceptionally high quality, and will create 21,300 new skilled jobs once these projects are fully realised.

A.10. However, **inflation** is a key concern for everyone this year, and especially for low-income families. CPI inflation was 4.6% year-on-year in December 2010. We expect inflation to be around 3% to 4% this year, higher in the first half before moderating later in the year. However, a large part of the CPI inflation increase can be explained by higher COE premiums and the higher imputed values of owner-occupied homes, compared to a year ago. For the majority of households, these increases do not mean substantially higher cash outlays. The Monetary Authority of Singapore's (MAS) core inflation measure, which excludes the effects of these two factors on the CPI, is projected at 2% to 3% for 2011 as a whole.

Fiscal Position for FY2010

A.11. Our strong growth last year, far better than either the Government or the markets expected at the start of the year, has yielded an improved fiscal position for **FY2010**. The better growth is estimated to account for about 80% of the increase in revenues over what we projected a year ago. The property market was also much stronger, resulting in further increases in stamp duties and other revenues.

A.12. We had originally estimated an Overall Budget Deficit of $3.0 billion or about 1.0% of GDP for FY2010. Given the much improved economic performance, we now expect the overall budget to be **close to a balanced position**, with a small deficit of $0.3 billion or 0.1% of GDP.

Putting Back into Past Reserves

A.13. Members will recall that the Government had sought and obtained the President's approval to draw $4.9 billion from Past Reserves, to fund the Jobs Credit Scheme and the Special Risk-Sharing Initiative under the Resilience Package. We were in the midst of a global crisis of unprecedented scale. Our access to Past Reserves gave us the resources and confidence to deal decisively with the downturn and to be prepared to take further measures if the situation worsened. In the event the amount drawn for these two schemes was $4.0 billion, less than expected.

A.14. We have recovered well from the crisis, putting our fiscal position on stronger footing. With the much lower deficit we achieved last year, as well as our good Budget position this year, we should be able to achieve an overall budget surplus during the current term of Government. We have thus decided to **put back into Past Reserves the $4.0 billion that we had drawn earlier for the Resilience Package**. I have informed the President of our decision.

A.15. There is no legal or constitutional obligation for the Government to return to Past Reserves any amount drawn. However, it is the responsible and prudent thing to do, once a Government has secured a stable fiscal position within its term. This is the way to uphold the philosophy that has enabled us to build up and maintain our reserves, and derive from it income each year to meet our strategic needs.

B. BUDGET 2011: GROWING INCOMES, STRENGTHENING OUR SOCIETY

Building for the Future

B.1. We are taking major steps in this year's Budget to **strengthen our economy and society for the future.** The Budget has two objectives.

B.2. **First**, we must **grow incomes for all Singaporeans.** We aim to raise incomes by 30% in real terms over this decade. However, we can only achieve this if we grow our economy, upgrade our businesses and invest in raising skills, craftsmanship and the quality of service in every job. That is the only way we can improve incomes and living standards, including for those at the lower end of the income ladder.

B.3. This year's Budget doubles our commitments to achieving this objective. We will significantly enhance support for companies to invest in workers' skills and productivity, and to help Singaporeans upgrade. We will also boost assistance for our companies to venture abroad, and to entrench high-value economic clusters in Singapore.

B.4. Together, these efforts comprise our core economic agenda. If we succeed, we will make the breakthrough into becoming a first-rate developed economy a decade from now, with advanced skills and higher incomes, and a larger base of globally competitive enterprises.

B.5. **Second**, we will **strengthen our society**. We will take further measures to ensure an inclusive society – where everyone can contribute and share in the country's progress, regardless of where they start from. The Budget will introduce tax measures to expand support for lower- and middle-income Singaporeans. We will help their children get the best start in life through education, from pre-school through to tertiary education. We will enhance grants to help lower-income Singaporeans own their own homes. We will commit substantially more resources towards developing a top quality long-term care sector for the elderly. We will also raise the quality of life for all Singaporeans, by investing in the rejuvenation of our HDB neighbourhoods and developing a vibrant and widely accessible arts and culture scene.

B.6. **Finally,** we will also be able to **share surpluses** with Singaporeans this year. As I explained earlier, we have first, as a matter of prudence, used our surpluses to put back in Past Reserves what we had drawn during the crisis. Next, in Budget 2011, we are moving ahead with major measures for our future – to build up a vibrant economy and enable an inclusive society. However, our strong Budget also allows us to provide an additional package of benefits to all Singaporeans this year.

B.7. This is a bonus, but it is not merely incidental to our fiscal policy approach. It is how we share and redistribute the benefits of growth with Singaporeans, while keeping to fiscal discipline. This package of surplus-sharing will also help most of our lower- and middle-income households to offset their higher costs of living this year.

Dealing with Inflation

B.8. However, while we are able to share surpluses with Singaporeans this year, this is not the main way we deal with the rising cost of living. Let me briefly explain how we approach this problem of inflation.

B.9. As a country that imports almost all we consume, we will always be vulnerable to inflation abroad. This time round, it is mainly food, utilities and other fuel-related charges that are concerning most Singaporeans

B.10. Our first approach is to seek to moderate **medium-term** inflationary pressures through the Singapore dollar exchange rate policy of the MAS. The MAS has permitted the Singapore dollar to appreciate against a basket of foreign currencies over the last 18 months, which has helped counter inflation in imported goods. However, using the exchange rate to offset sudden spikes in prices, such as what we have seen in oil prices over the last six months, would require a sharp appreciation of the Singapore dollar. This would disrupt our exporters.

B.11. Second, the Government will stay alert to any attempts by businesses to profiteer or collude to raise prices excessively. This is unlikely to happen in most industries, because firms which raise prices excessively risk losing business to their competitors. Nevertheless, the Ministry of Trade and Industry (MTI) has been monitoring retail prices, and will be forming a group under Minister of State (MOS) Lee Yi Shyan to keep a closer watch on any excessive price increases or anti-competitive practices. In fact, some of our businesses can also be angels. NTUC Fairprice has just cut prices of its house brand items by 5% till the end of May, and NTUC Foodfare has also announced that it will not increase the prices of basic beverages like tea and coffee at most of its outlets.

B.12. The third way we help Singaporeans with inflation is through our fiscal policies. We provide greater subsidies and benefits to those who need it most, in health, education, housing and other areas. These are permanent programmes. On top of this there is more help for the needy through ComCare and a whole range of community-based programmes – just like the daily meal vouchers that Southwest CDC, using a donation from a local entrepreneur, has just expanded to reach out to 2,000 students living in the district.

B.13. The final approach, however, is the most fundamental. We must continue to grow Singaporeans' incomes, so that even after taking into account inflation, their real purchasing power increases. It is not possible to achieve this every year, but we must grow the real incomes of Singaporeans over time. That is indeed the first major strategy of this Budget.

C. GROWING INCOMES FOR ALL SINGAPOREANS

SUSTAINING GROWTH

C.1. To raise Singaporeans' incomes over the next decade, we must first sustain our economic growth. Without a growing economy, no strategy can realistically raise incomes, whether for the average citizen or those at the lower end of the workforce.

C.2. We expect Singapore to be able to sustain growth of 3% to 5% on average over the rest of the decade, lower than the 4% to 6% we had expected for the last decade. It is however not possible to achieve this steady rate of growth every year. We cannot avoid the impact of global recessions, but our strategy is to recover quickly each time. We also seize the opportunity to grow faster when global conditions are positive because we know that the economic cycle will eventually turn.

C.3. By growing faster when conditions are right, we are not therefore going for growth for its own sake. It is the way for us to **achieve an average growth that is in line with our longer-term potential**, and thereby grow Singaporeans' incomes on a sustainable basis.

C.4. We saw this in the last decade. We had three recessions – in 2001, again from 2002 to 2003, and during the global financial crisis in 2009. Despite these recessions, we averaged creditable growth of 5.5% per annum over the decade. This was only possible because we grew well during the recoveries following each recession, making up for the periods of slow growth.

C.5. Had we not seized opportunities and attracted investments vigorously after each storm, we would have done significantly worse than we actually did over the decade. Incomes of Singaporeans would have grown much more slowly or not at all, with the brunt of the difficulties being borne by those at the bottom.

C.6. Consider what happened to **low-income Singaporean workers**, at the 20^{th} percentile of incomes. Their wages grew by about 23% in the last decade, or by 5% in real terms. (This is without taking into account the Workfare payments they have received since 2008.) But virtually **all the increase in their incomes happened in the second half of the decade**, when our economy grew well. It more than made up for the first half of the decade, when weak economic growth kept wages at the bottom stagnant (see Annex A-1).

C.7. Because we grew well in the second half of the decade, we brought unemployment down, raised demand for workers and enabled wages to pick up for many at the lower end of the workforce.

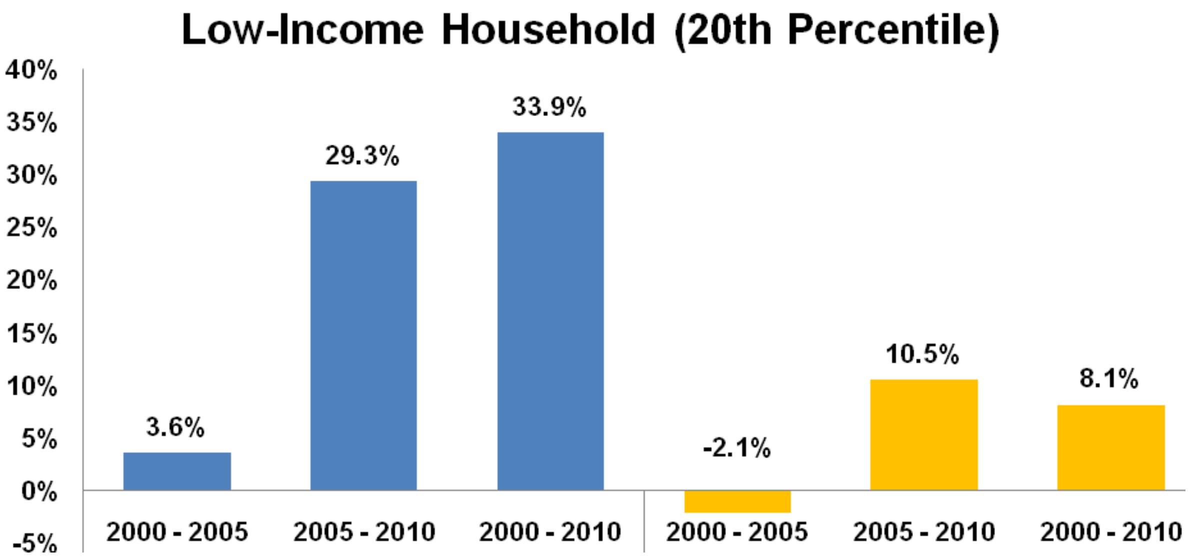
C.8. The challenge of keeping jobs and growing incomes for low-skilled workers is ever-present. The reasons are well-known – competition from China and other emerging players has exerted downward pressure on wages of low-skilled workers all around the world, at the same time that IT and other technologies have replaced many simpler jobs in factories, offices, stores and other workplaces. It has led to stagnating or falling wages at the bottom end in most developed societies. In Asia, we see it happening in Japan; even in Korea, which has a competitive and dynamic economy, wages of those at the bottom end have fallen in real terms.

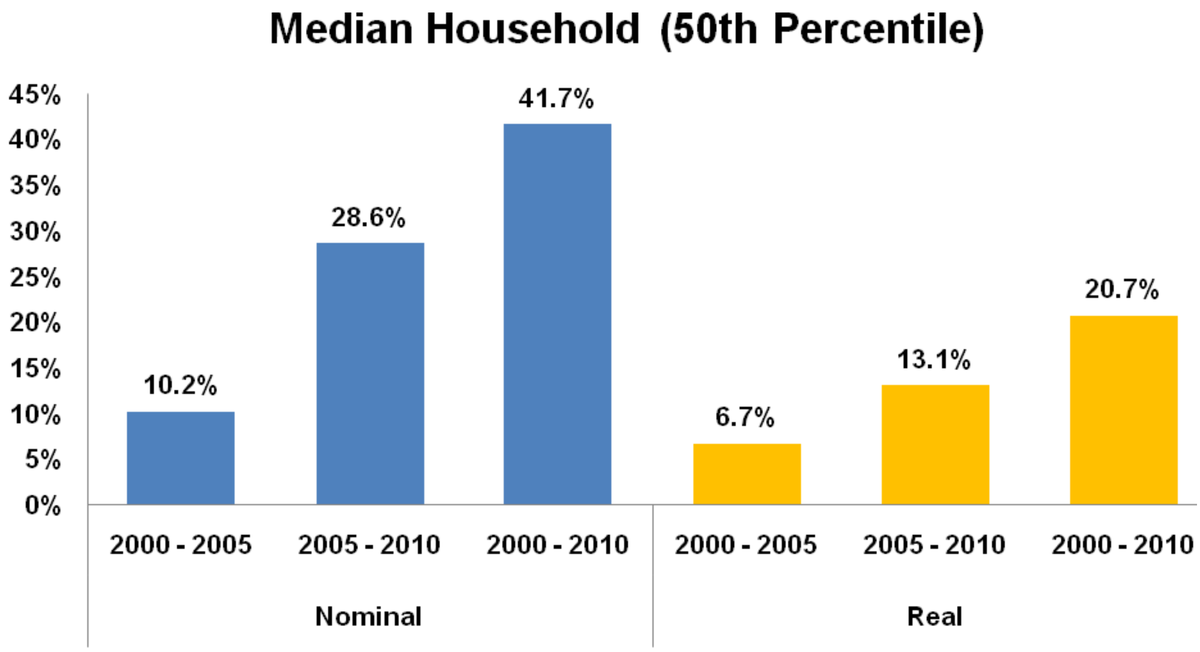
C.9. Fortunately for us, we have been able to avoid a sustained decline, and instead achieved some growth in real incomes at the 20th percentile of workers over the last decade, unlike in many other economies. **Further, we have created many more jobs**. More of our people have joined the workforce, raising our participation rates closer to OECD levels. The result has been higher household incomes, as more members of the family have been able to find work, including part-time jobs.

C.10. This chart (Chart 2) shows what happened. **For Singaporean households at the 20th percentile of incomes, real incomes went up by about 8% over the decade** – as growth in the second half of the decade more than offset the decline in real incomes that took place earlier. Further, this increase in incomes **does not take into account the significant increase in net transfers from the Government** that low-income households received over the decade.

C.11. Income growth was stronger for **median Singaporean households**. Their **real incomes grew by 21% over the decade** – again with more of this growth taking place in the second half-decade.

Chart 2: Growth of Household Income Per Member[1]





Source: DOS
[1]Based on Singaporean households with at least one employed person. The CPI for the lowest 20% is used to compute the real changes for the low-income household. Overall CPI is used for the median household.

C.12. Our growth strategies are therefore working. We can and should do more to help Singaporeans who have seen little improvement in their wages. For example, the NTUC and WDA have been working intensively to up-skill workers in the cleaning and security industries and partner with companies to create better paying jobs for them.

C.13. But the vast majority of Singaporean households, including both the median and the lower-income households, have seen significant improvement in real incomes in the last five years, and consequently for the decade as a whole. Growth has also given us the resources to invest for Singaporeans' future, in education and healthcare, and in providing the highest quality living environment in Asia. We have grown so that we **raise living standards and benefit our people**.

Changing How We Grow

C.14. However, we are changing the way we grow. Our local workforce will expand slowly in the next 10 years. We also should not become ever more dependent on foreign labour. We must therefore restructure our economy and raise skills in every job, so that productivity becomes the key driver of growth.

C.15. Even including the exceptional productivity growth we experienced last year on the back of strong GDP growth, productivity improvements contributed to just **one-third** of our economic growth over the past decade[1]. In the next decade, productivity needs to contribute **two-thirds** of our economic growth. Otherwise we will fall short of the 3% to 5% economic growth that we are aiming for.

C.16. We have targeted to improve our productivity by 2% to 3% per year on average, or **30% cumulatively over 10 years**. This will be significantly higher than the 20% increase we managed over the last decade. Achieving this will **bring us up to today's levels of productivity in the most advanced economies** – the US, Japan and the Scandinavian region.

C.17. It is a **challenging target**, but we are devoting substantial resources to achieve it. Last year, we set aside $1 billion in a National Productivity Fund (NPF), and set up the National Productivity and Continuing Education Council (NPCEC) to oversee its use and coordinate the national effort to boost up-skilling and raise productivity. We also lowered taxes to support a broad base of investments in productivity, through the Productivity and Innovation Credit (PIC) scheme.

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[1] Productivity growth over 2000-2010 averaged 1.8% per year. This was about one-third of GDP growth over the period. Productivity growth over 1999-2009 was lower, at 1.2% per year, which was about one-quarter of GDP growth over that period.

C.18. Budget 2011 will build on the strategies that we embarked on last year. I will now elaborate on the specific initiatives.

BOOSTING SKILLS AND PRODUCTIVITY

Enhanced Support for Business Restructuring and Skills Upgrading

C.19. We will provide a significant boost to the schemes we announced last year to help businesses to restructure their operations, up-skill workers and create better quality jobs.

Doubling our Investment in the National Productivity Fund

C.20. Our industry associations, businesses, unions and government agencies have been working out detailed roadmaps to tackle the productivity challenge.

C.21. For example, NParks has been working with the landscape industry and WDA on a new apprenticeship scheme which will provide training to build deeper trade skills, and a structured career path. An apprentice with qualifications from ITE could start off with a pay of $1,500, and aspire to become a Master Tradesman in 10 years, and more than double his starting pay. The upgrading of jobs will be complemented by increased use of technology, such as automatic irrigation and targeted weed control systems, which can reduce need for low-skilled manpower by 30% to 50%.

C.22. The utilisation of the NPF is expected to reach $150 million by this year, and based on plans for the various industries, will reach more than $800 million by 2015. This amount could grow, as more proposals come in over the next few years.

C.23. To ensure continued support **beyond the first five years** for this long-term effort to restructure our industries, I will **top up the NPF with**

another $1 billion this year. This will bring the total fund size to the target of $2 billion.

C.24. More details on the work of the NPCEC will be provided by DPM Teo Chee Hean during the Budget Debate.

Further Enhancement of Productivity and Innovation Credit (PIC)

C.25. Last year, I introduced the five-year PIC scheme. The scheme was especially geared towards SMEs. Taking into account feedback from the various trade and business associations, I will make **significant enhancements to the PIC scheme**.

C.26. I will now allow businesses to **deduct from their taxable income 400% of their expenditures** in any of the six broad categories of investment under the scheme, for example, training or investment in automation equipment. This is up from the 250% tax deduction introduced last year. I will also **raise the cap for such claims for each category of investment from $300,000 to $400,000 of expenditure**. As before, businesses can undertake any number of investments in a year, in the six categories.

C.27. Let me illustrate the significance of this enhanced scheme, with the example of a company which makes investments totalling $500,000 – comprising $400,000 on automation equipment such as computers, and $100,000 on training for its staff. Under the scheme introduced last year, it would have enjoyed savings of $187,000 off its tax bill. With the enhanced PIC, it will now enjoy almost double the tax savings, amounting to $340,000. In other words, **the PIC scheme will pay for two-thirds of the value of its investments** (see Annex A-2 for details of this example).

C.28. I will also enhance the current cash payout option under the scheme, which was introduced last year to benefit SMEs who pay little or no taxes currently, but wish to invest in productivity and grow. I will allow businesses to opt for a **cash payout of up to $30,000 for the first $100,000 of their investments**, in lieu of tax deductions. This is an increase from the maximum grant of $21,000 that a business can currently get under the PIC.

C.29. I will also introduce other changes to make it easier for businesses to make full use of the PIC scheme. First, to **help SMEs benefit from the PIC scheme**, last year I had allowed businesses to combine their annual expenditure caps for YA 2011 and YA 2012. I will now extend this principle, so that businesses can combine their annual expenditure caps for the following three years, from YA 2013 to YA 2015. It will help an SME that is planning a **large investment in any one year** to benefit from the full 400% tax deduction.

C.30. Second, PIC benefits are currently limited to spending on R&D done in Singapore. Responding to the feedback we have received, I will now also allow businesses to enjoy PIC benefits on expenditure for R&D done abroad.

C.31. For the companies that are investing in productivity improvements, **it effectively amounts to a significant cut in the corporate taxes that they would pay.** Take for example a medium-sized company with annual turnover of about $5 million and net profit of $200,000, and which invests $40,000 in productivity. The generous tax deductions under the PIC would reduce the company's tax burden by some 60%, from 8% to 3% as a percentage of its net profits (see Annex A-2 for details of this example).

C.32. These changes will take effect immediately, so that businesses can enjoy the enhanced deductions for YA 2011 for the productivity investments they have already made. The PIC scheme will cost the Government **$520 million per year**.

Expanding Training Support

C.33. We are moving ahead with our Continuing Education and Training (CET) plans. Last year, we announced the Workfare Training Scheme (WTS) to give additional training support for older, low-wage workers. This year, we will strengthen our support for professionals, managers, executives and technicians (PMETs), who in fact now make up more than half of our workforce.

C.34. We will **increase both the capacity and quality of CET for PMETs**. The Ministry of Education (MOE) will expand the capacity for diploma-level programmes at our polytechnics by about 60%, to about **10,000 places by 2015**. The Ministry of Manpower (MOM) will also introduce an umbrella programme for PMETs, Skills Training for Excellence Programme (STEP).

C.35. We will also **make it more affordable for PMETs who wish to upgrade** their qualifications or obtain new skills. First, we will increase subsidies significantly for Singaporean adults who pursue their first degree or diploma on a part-time basis at any of our polytechnics, CET centres, universities or UniSIM. They will receive the same percentage cost subsidy on their part-time courses as what a full-time student currently enjoys. For example, it will mean a part-time undergraduate student in an engineering degree at NTU will pay about $16,000 over a five-year course, down from $21,000 currently. Trainees who obtain their first part-time polytechnic diploma, ITE NITEC or Higher NITEC certificate will benefit from increased subsidies through a completion award. Those who complete their first Workforce Skills Qualification (WSQ) diploma or certificate can also qualify for the award. This award will be applicable to Singaporeans who graduate from 1 March 2011.

C.36. About **30,000 Singaporeans will benefit** from these subsidies. Our CET enhancements will cost the Government about $30 million per year. More details on these initiatives will be announced by the Minister for Education and the Minister for Manpower in the Committee of Supply (COS).

C.37. In addition to these enhancements for PMETs, I will also make a **$500 million top-up to the Lifelong Learning Endowment Fund (LLEF)**, thus increasing the fund size to $3.6 billion. This will increase the base level of long-term assured funding for CET, to complement the allocations from future annual budgets.

Adjusting to Higher Labour Costs

Raising Employer CPF Contributions and CPF Salary Ceiling

C.38. As our economy has recovered strongly, it is timely that we review our CPF contribution rates and the CPF Salary Ceiling. In 2003, we cut the total CPF contribution rate by three percentage points to 33%, and set a target range of 30% to 36%. In the years since, we have progressively raised the employer contribution rate. With the outlook for continued growth in 2011, we will **raise the employer contribution rate by another 0.5 percentage points**, from 15.5%[2] to 16%, which

[2] As announced in May 2010, the employer CPF contribution rate has been raised by 0.5% point in September 2010, with another 0.5% point increase due in March 2011, which will bring the employer CPF contribution rate to 15.5% in March 2011.

will restore the total contribution rate to 36%. The additional 0.5% will go into the Special Account.

C.39. We will also revise the CPF Salary Ceiling from $4,500 to $5,000 per month to keep pace with income growth in recent years. This will align the salary ceiling back to the 80th percentile income, and help middle-income Singaporeans. To give employers sufficient time to adjust, both these changes will only take effect in September this year.

C.40. In line with the higher CPF Salary Ceiling, we will also raise the contribution cap within the Supplementary Retirement Scheme (SRS), which offers tax incentives to encourage voluntary retirement savings to complement the CPF.

C.41. We also want to help self-employed persons (SEPs) increase their savings under the CPF scheme to enjoy the good interest rates and save for their medical and retirement needs.

C.42. The CPF Board and NTUC have been active in reaching out to the SEPs and encouraging them to make Medisave contributions. Companies that work with SEPs can also help. For example, under the National Taxi Association's Drive and Save scheme, taxi companies have agreed to co-contribute to the Medisave of their taxi drivers.

C.43. To support such initiatives, I will grant tax deduction to eligible companies that make voluntary contributions to the Medisave accounts of their SEP partners, up to $1,500 per SEP per year. I will also exempt SEPs from paying tax on these contributions. This will take effect from YA 2012.

Managing our Reliance on Foreign Labour

C.44. Last year, we had set out a schedule to progressively raise foreign worker levies and tighten the levy tiers from July 2010 to July 2012. Since then, our economy has grown much faster than either the Government or businesses expected. The local labour market is at virtually full employment levels. If we do not take further steps now to raise the Foreign Worker Levy, it will be difficult for us to prevent the proportion of foreign workers from rising over time, and exceeding our long-term target of one-third of the workforce.

C.45. We will thus introduce further levy increases for all sectors this year. Most of the additional measures will be phased in at six-monthly intervals, starting only from 1 January 2012, and extending till 1 July 2013, one year beyond the previous schedule. This will give companies time to prepare for the changes.

C.46. Last year, we announced that average levy per foreign worker for the Manufacturing and Services sectors will be raised by about $100 between 2010 and 2012. For the Manufacturing sector, over and above the earlier announced increase of about $100, we will increase the levy by an average of another $60 by July 2013.

C.47. We will go further in the Services and Construction sectors, where the scope for productivity improvements is greatest. For the Services sector, we will tighten the levy tiers and raise levies such that the average levy goes up by a further $180 by July 2013 on top of the earlier announced increase of about $100. For the Construction sector, average levy rates will go up by a further $200 over the same period on top of the earlier announced increase of about $130.

C.48. To manage the continued increase in demand for S Pass holders, we will also increase the levy rates for this category from $50 prior to the adjustments made on 1 July 2010, to $300 to $450 by July 2013, depending on the number of S Pass holders hired by the companies.

C.49. The overall dependency ratios for all categories of foreign workers (Work Permit as well as S Pass holders) will remain unchanged. The Ministry of Manpower (MOM) and the Ministry of National Development (MND) will release more details on Monday.

C.50. Taken together, the increases in foreign worker levies and CPF contributions will raise business costs. The CPF changes will increase annual labour costs of businesses by 0.5% on average. The Foreign Worker Levy adjustments, including those announced last year, would add roughly 1.7% to annual labour costs when fully implemented in 2013. This is the **right time to make these adjustments**, while the economy is growing well.

C.51. However, the increases in foreign worker levies are not merely a cyclical response to current conditions. This is the **direction we are setting for the long term,** so as to provide clear and strong incentive for businesses to upgrade their operations, train up their workers and reduce their dependence on lower-skilled foreign workers. We understand that when the economy is doing well, the number of foreign workers will rise faster. But this has to be offset by a slowdown or even reduction in the number of foreign workers when the economy grows more slowly. Hence, should demand for foreign labour continue to strengthen beyond what we expect in the next two years, the Government will have to review if there is a need for further tightening.

C.52. In the past too, we had made short-term reductions to foreign worker levies in response to economic downturns, as a means to reduce business costs. **We will avoid cyclical adjustments to foreign worker levies in the future.** Instead of cutting levies, we will adopt other measures to help companies through a downturn, such as the enhanced training subsidies we provided in the last recession.

C.53. The Government is also providing firms with substantial assistance to help them upgrade their operations and train their workers, through the NPF and the enhanced PIC scheme. **Companies should take maximum advantage of these schemes to restructure, improve their efficiency, grow their businesses, and to offset the impact of higher labour costs over time.**

Helping Companies with Rising Costs

C.54. I recognise that many companies have seen significant cost pressures in the last year besides increases in their wage bills. Rentals have increased, and so have utility bills. I have therefore decided to provide a set of one-off support measures for companies this year.

Corporate Income Tax Rebate and SME Cash Grant

C.55. First, companies will receive **a 20% corporate income tax rebate, capped at $10,000, in YA 2011.**

C.56. However, many of our small companies may not benefit fully from the corporate tax rebate as they pay very little taxes. In fact, more than 85% of eligible companies will receive less than $5,000 from the tax rebate. Therefore, I have also decided to provide the option of a **one-off SME Cash Grant this year, amounting to 5% of a company's**

revenues in YA 2011, subject to a cap of $5,000. They must, however, have made CPF contributions in YA 2011.

C.57. Companies will automatically receive the **higher of** the corporate tax rebate or the grant when IRAS assesses their tax returns. In total, this will cost the Government about $560 million.

Special Employment Credit

C.58. As a further measure, I will provide employers with a one-off **Special Employment Credit** for older Singaporean workers who are covered by the Workfare scheme. The Credits will be paid out over three years, and will encourage employers to attract and keep older workers. Employers will receive a Special Employment Credit of up to 50% of employer CPF contributions for workers aged 55 to 59. They will get a higher Credit of up to 80% of employer CPF contributions for workers aged 60 and above. The Special Employment Credit will cost the Government about $100 million.

SUPPORTING ENTERPRISE GROWTH

C.59. In Budget 2011, we will make several major investments in our corporate ecosystem. We will help our companies make the most of opportunities in emerging markets, and **entrench our position as a Global-Asia Hub**. We will do more to **groom globally competitive local enterprises**. In addition, we will introduce incentives to **strengthen our economic clusters,** by deepening capabilities and enhancing their competitiveness.

Grooming Enterprises

Differentiating Support for High-Growth Enterprises

C.60. We are making major, broad-based commitments to help all enterprises upgrade and make productivity improvements. However, to restructure our economy, our fundamental approach towards the SME sector must ultimately **favour companies that are more dynamic and innovative**. We must provide them room to grow – to attract the managerial talent and skilled workers they need, and to expand internationally.

C.61. We will **commit $850 million in grants under the Enterprise Development Fund (EDF) over the next five years**, to be administered by SPRING and IE Singapore. This is a substantial increase of about 45% from the previous five-year tranche. One of the priorities of the EDF is to help high-growth enterprises in their overseas expansion.

C.62. Demand in Asia is growing rapidly for competencies and strengths that Singapore companies possess, in areas such as urban solutions and clean technology, as well as in service sectors including healthcare and education. We will boost support significantly to help our companies build capabilities and defray their costs when they venture into new markets in the region and elsewhere.

Foreign Tax Credit Pooling

C.63. I will also simplify and reduce the taxation of foreign income, so as to support companies that are globalising and earning a larger share of their income overseas. I will introduce foreign tax credit pooling to encourage remittance of foreign income to their Singapore bases. It will also give them greater flexibility in the use of their foreign tax credits, reduce their tax payable, and simplify tax compliance. This measure will cost the Government $22 million per year.

Catalysing Cross-Border Financing

C.64. **Cross-border financing is another important enabler for our strategy of growing globally competitive enterprises.** The Economic Strategies Committee (ESC) had recommended that a specialised institution be set up in Singapore to address current structural gaps in financial markets, namely the limited capacity for long-tenor project finance, as well as inadequate access to trade finance for SMEs, especially in their dealings in emerging markets.

C.65. We have developed our plans to plug these gaps. I will first explain our approach to strengthening **project financing.** Our aim is to work with commercial players, so as to catalyse and not crowd out market participants. The Government is working with Temasek Holdings to develop this initiative. Temasek is in discussions with potential partners on establishing an institution that is financially and commercially viable and sustainable. The Government is prepared to provide some initial support for such an institution during its start-up phase.

C.66. To complement this, we are also in advanced discussions with multilateral agencies to partner in offering **political risk insurance** for infrastructure projects. This is especially relevant for Singapore corporates venturing into unfamiliar markets.

C.67. The second area we are addressing is **trade financing.** Our review has concluded that a full-fledged, dedicated trade finance institution would not be ideal as it would require significant economies of scale to be viable. The Government is therefore exploring a model by which our trade finance schemes can be outsourced to existing specialist providers. As these providers have well-developed risk assessment and underwriting capabilities, they would be able to provide trade finance solutions that better meet the needs of SMEs. We will provide an update on this study by the second half of this year.

Reaping Economic Value from R&D

C.68. We will add to our investments in R&D, with an increasing share going towards supporting private sector R&D activity and commercialisation. These are long-term investments, but we have to keep up our steady commitments to R&D, if we are to make the transition towards a high-value economy with a broad base of innovative enterprises. Our Research, Innovation and Enterprise (RIE) 2015 plan for the next five years was announced by the Prime Minister in September last year so I will not expand on this here.

C.69. To support the broadening of our research agenda and increasing commercial outcomes from the RIE 2015 plan, I will **top up the National Research Fund by $1 billion** this year.

Strengthening Clusters

Becoming a Global-Asia Hub

C.70. We are making good progress to becoming a Global-Asia Hub - a location of choice in Asia for global companies as well as a launch-pad for Asian enterprises to globalise. For example, a study by the Business Times and the Accounting and Corporate Regulatory Authority (ACRA) found that about 51% of international companies registered in Singapore in 2009 were from Asia, up from 40% in 2000.

C.71. We will **set aside $2.5 billion over the next five years under the Economic Development Assistance Scheme (EDAS)** to enable EDB to further strengthen Singapore’s value proposition as an Asian base for corporate headquarters and other high-value activities. This will support new efforts, such as developing a talent pool of professionals and executives with a strong understanding of Asian markets and businesses, as well as attracting global mid-sized companies to set up their first Asian base in Singapore.

Enhancing Competitiveness of Our Business Hub

C.72. I will now highlight key tax changes in strategic business sectors to enhance our overall competitiveness as a Global-Asia Hub. The details, along with other minor tax changes, are set out in Annex A-2.

C.73. I will start with the financial sector. Banks are increasingly tapping funds from non-bank sources such as hedge funds and insurers which are not covered under the current inter-bank interest withholding tax exemption. To help banks access more diversified funding sources for their lending business and strengthen our position as a regional funding centre, I will exempt all interest payments made by banks and similar financial institutions from withholding tax. I will also extend the tax exemption schemes for Captive Insurers, Specialised Insurers and Marine Hull and Liability Insurers, to grow their technical expertise and underwriting capacity in Singapore.

C.74. Next, the maritime sector. The GDP contribution of the sector has increased from 5% to over 7.5% in the past decade. To further promote its growth, I will introduce the Maritime Sector Incentive (MSI) with effect from 1 June 2011. This scheme will streamline and enhance existing maritime tax incentives. New tax benefits such as certainty of withholding tax exemption for interest payments on loans to build or buy ships will also be introduced to further entrench international ship operators and encourage the growth of the shipping-related services sector in Singapore.

C.75. I will also expand the scope of GST zero-rating for repair and maintenance services performed on ship parts and components, so as to further promote our maritime sector.

C.76. The biomedical sector continues to grow in importance as a key contributor to our economy. Singapore is fast developing into a location for businesses to manage their clinical research and manufacturing. To support growth in the biomedical sector, I will grant GST relief for imported clinical trial materials, as well as enhance the Approved Contract Manufacturer and Trader Scheme.

C.77. I will allow GST zero-rating for specified services supplied to overseas persons, if they are performed on goods kept in qualifying specialised warehouses and eventually sent overseas. This scheme will help to promote the use of specialised storage facilities that store high-value collectibles such as art and antiques.

C.78. Lastly, to strengthen our commodity markets, I will enhance the Global Trader Programme to qualify all derivative trades under the scheme.

MISCELLANEOUS TAX INITIATIVES

C.79. I will also introduce a few other tax-related changes.

C.80. First, to help start-ups. They often incur substantial costs before they begin generating revenue. I will now allow businesses to **claim tax deductions on pre-commencement expenses incurred** in the accounting year immediately before the year in which they earn their first dollar of trade receipts.

C.81. I will also make **refinements to the current tax deduction scheme for companies that purchase shares for the purpose of their equity-based remuneration schemes**. I will henceforth allow for tax deductions when they make such purchases through the special purpose vehicles that are set up as trustees to administer the schemes.

C.82. Next, I will **raise the excise taxes by between 5% and 10% on two classes of non-cigarette tobacco products**.

C.83. Finally, I will also **extend the Green Vehicle Rebate scheme for another year till 31 December 2012**. In the meantime, we will undertake a comprehensive review on the measures to promote the adoption of green vehicles, as part of our overall efforts to promote sustainable development.

D. STRENGTHENING OUR SOCIETY

BUILDING AN INCLUSIVE SOCIETY

D.1. Let me now go on to the second major thrust of the Budget, which is about strengthening our society. We will do more to build an inclusive society, where lower-income citizens can aspire and work towards a better life, and where everyone can contribute and share in Singapore's progress. The most important way for us to achieve this is to sustain our growth, create good jobs and provide opportunities for everyone to keep upgrading. That is the only way we can grow the incomes of Singaporeans sustainably and over the long term.

D.2. However we cannot leave social cohesion purely to market forces. Left to the market, incomes will continue to diverge, and opportunities too will diverge. This is happening around the world, in almost every society that is integrated into global markets.

D.3. That is why the Government has intervened significantly in Singapore to tilt benefits in favour of those lower down the income ladder. But we must avoid the mistakes of the developed countries which have built up unsustainable systems of entitlements – in healthcare, unemployment insurance and pensions. These have not only meant high taxes today, but huge debts and unfunded government liabilities which can no longer be postponed. Worse, the over-generous social entitlements have progressively reduced the work ethic over time. Some of these developed countries are now undertaking painful reforms to gradually recover their economic dynamism.

D.4. Our approach must therefore remain centred on **opportunities, not entitlements.** This is why we are focusing on helping the low-income group through **education, employment and home ownership**:

- We will give their children every support in education, and provide pathways for every ability and talent. We must do everything we can to keep social mobility going with each new generation.
- Second, we will support employment, which is our real safety net in Singapore. Instead of automatic unemployment benefits, we have automatic employment benefits. Through Workfare, we top up to the wages of older, lower-income workers, and provide them extensive support to upgrade in their jobs.
- Third, we help lower-income Singaporeans own their own homes so that they too can see their assets grow as Singapore progresses. Even amongst the lowest 20% of our households, the

home ownership rate is about 85%[3]. No other society comes close. But we will do even more.

D.5. We complement this with ComCare and our health subsidies for the needy, and strong incentives to encourage philanthropy and community giving.

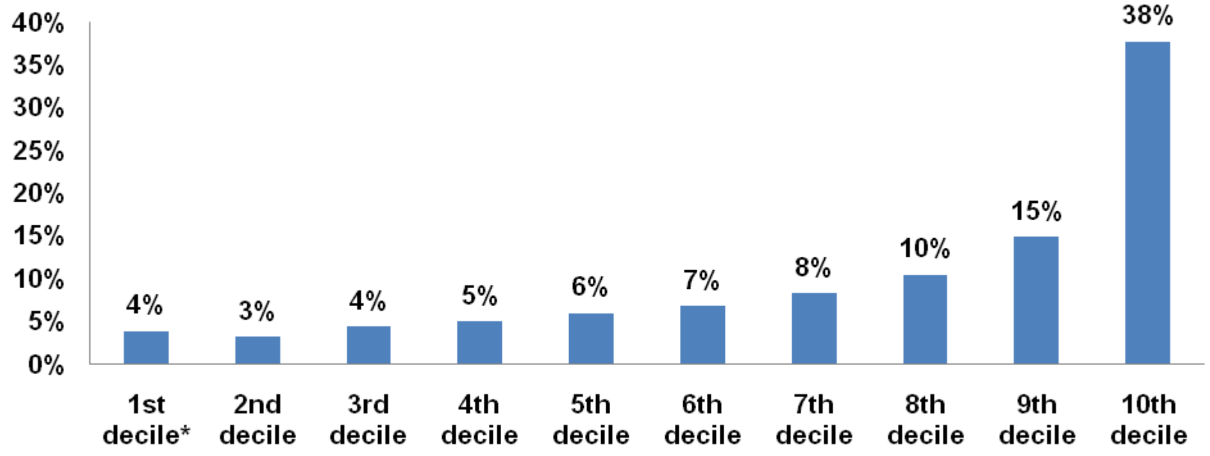
D.6. Further, when our economy does well and our Budget is strong, we share surpluses with Singaporeans through special transfers, with more going to those in the lower- and middle-income groups.

D.7. Together, it all adds up to **a highly progressive fiscal system**. If we add up all our taxes – income and property taxes, GST and other indirect taxes – we find that the **top 10% of households account for 38% of the taxes paid.** The top 20% contribute 53% of all taxes (see <u>Chart 3</u>). That is as it should be.

D.8. Our lower-income groups, on the other hand, receive substantially more transfers from Government than what they pay, including the GST and other taxes. For those in the second decile from the bottom, net transfers from Government over the last five years were in fact equal to about **23% of their incomes** (see <u>Chart 4</u>).

[3] Household Expenditure Survey 2007

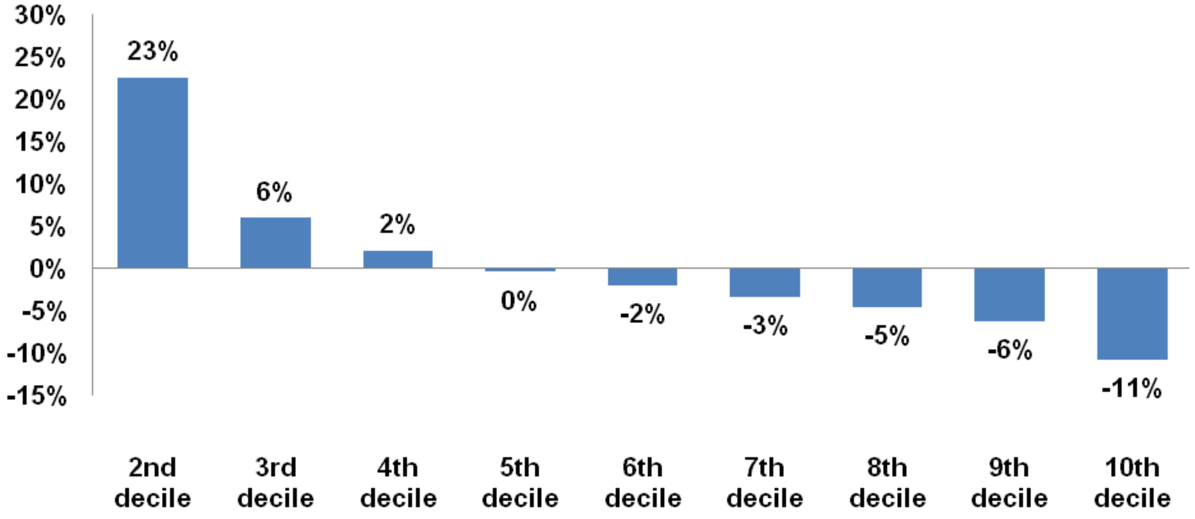
Chart 3: Proportion of taxes paid by Households, 2010[1]



Source: MOF Estimates
[1]The deciles are ranked by income from work.

*The first decile pays a higher proportion of taxes than the second decile as it includes households with no income from work, but who have other sources of income on which they pay taxes (e.g., rental of properties).

Chart 4: Transfers Net of Taxes, 2006 to 2010 (% of Household Income Per Member)[1]



Source: MOF Estimates
[1]Net transfers comprises Government transfers to Singaporean households, net of all taxes paid. The deciles are ranked by income from work.

Note: Data for the first decile has been excluded because they include retiree households and others with no income from work.

What Our Measures Add Up To

D.9. We will keep this progressive system, and enhance it further in this year's Budget.

D.10. The Budget will provide a package of benefits for Singaporeans adding up to **$6.6 billion** – **part of which to be received this year, and the rest being set aside for the future**.

D.11. First, I will provide a **'Grow & Share'** Package of **$3.2 billion** for households **this year,** with more going to our lower- and middle-income families. Second, I will set aside **$3.4 billion** now for **longer-term social investments** to enhance Singaporeans' well-being – especially to support a first-class long-term care environment as our citizens grow older.

D.12. These benefits however do not include other **permanent shifts in taxes and subsidies** that Budget 2011 introduces – including greater progressivity in our income taxes, and significantly enhanced bursary support for students.

REWARDING WORKING SINGAPOREANS

D.13. Let me start with measures to support working Singaporeans.

Workfare Special Bonus

D.14. Our Workfare scheme currently provides support for about 400,000 workers.

D.15. As the economy has performed exceptionally and our revenues have been strong in 2010, I will provide a **one-off Special Bonus payment for those on the Workfare Income Supplement (WIS) scheme**. The Workfare Special Bonus will be given for work done in 2010, as well as for this and next year. The Bonus will amount to 50% more WIS for work done in 2010, and 25% more WIS each year for work done in 2011 and 2012. Employees will receive these bonuses fully in cash.

D.16. This year, there will be two Bonus payments, with the first on 15 May 2011. Self-Employed Persons who make their Medisave contributions will also benefit. They will receive half of their bonus in cash, and the other half in their CPF Medisave accounts.

D.17. Let me give an example. A 55-year-old employee earning $1,000 a month last year will receive a regular WIS payout of $2,100. With the Workfare Special Bonus this year, he will get an additional 50%, or $1,050. This is equivalent to getting **one month extra pay, on top of the WIS which provides him more than two months' extra pay**.

D.18. The Workfare Special Bonus, together with the Special Employment Credit which I mentioned earlier, will therefore provide significant additional support over the next three years for older Singaporeans at work - helping them keep their jobs and topping up their pay, including more in the form of cash. We last enhanced the Workfare scheme in 2010, and will review it again comprehensively in two years' time.

Reduction of Personal Income Taxes

D.19. Our personal income tax rates are already low by international standards. Further, only 44% of our resident workforce pay income taxes. However, I will **reduce taxes significantly for middle- and upper middle-income taxpayers**, by introducing a more progressive personal income tax schedule. Marginal tax rates will be reduced for the first $120,000 of chargeable income.

D.20. **All taxpayers** benefit when marginal tax rates are reduced at the bottom of the scale. But middle-income earners will enjoy the largest percentage reduction in taxes. Those with chargeable income of

$60,000 will now pay 25% less tax; they will save $650 a year. Those with chargeable income of $160,000 save a smaller percentage of about 10%; but as they currently pay higher taxes, they will in fact save about $1,600 (see Table 1). Those with chargeable income of above $330,000 will save less than 1%, and get a modest $350.

Table 1: Changes to Personal Income Tax (Effective YA 2012)

Chargeable Income	Tax Payable under New Schedule	Tax Savings
		(%) $
$40,000	$550	39% ($350)
$60,000	$1,950	25% ($650)
$120,000	$7,950	20% ($1,950)
$160,000	$13,950	10% ($1,550)
$240,000	$27,950	4% ($1,150)
More than $330,000	More than $44,350	Less than 0.8% ($350)

D.21. These personal income tax changes will take effect from YA 2012. They will cost the Government about $590 million per year.

Personal Income Tax Rebate

D.22. We will continue to review our top personal income tax rate. While it is higher than in Hong Kong, there is no pressing competitive need for us to reduce it at this point.

D.23. I will however give something back to all taxpayers this year, in view of our stronger than expected revenues in 2010. I will **provide a personal income tax rebate of 20% for individual resident taxpayers for YA 2011**. The rebate will be capped at $2,000. Having this cap allows us to provide the greatest benefits to those with chargeable income of less than $120,000, which covers about 90% of our taxpayers. The income tax rebate will cost the Government $580 million.

Removing Radio and Television Licence Fees

D.24. I will **remove radio and television licence fees permanently**. The licence fees are losing their relevance. First, ownership of TVs is no longer limited to the middle- and higher-income groups. Today, most households – including 99% of lower-income households – own TVs. Second, with increasing media convergence, Singaporeans can now receive broadcast content over the Internet and mobile devices, which do not attract a licence fee.

D.25. I will thus do away with the $110 annual licence fee for televisions, with effect from January 2011. The $27 annual fee for vehicle radios will also be removed. Therefore, those who have yet to pay this year's radio and television licence fees will not have to make the payment, while a refund will be given to those who have already paid. The revenue forgone from the removal of these licence fees will be approximately $120 million per year.

SUPPORTING FAMILIES WITH CHILDREN

D.26. Let me now move on to what we are going to do to help families with children.

Support for Early Years

Child Development Credit

D.27. First, I will **introduce a new Child Development Credit scheme** for all Singaporean children aged six and below[4]. The Credits will be provided from time to time, when we have surpluses to share with Singaporeans. This is similar to the way we provide top-ups to Edusave accounts for school-going children, and to Post-Secondary Education Accounts (PSEA) for students to use when they go on to tertiary education.

D.28. The Child Development Credit can be used to pay for their children's preschool, childcare, and medical expenses. 80% of families with young children will receive **$400** per child, which is in fact more than one month's worth of NTUC childcare fees, after including the universal childcare subsidy. The remaining 20% who are better-off will receive **$300**.

D.29. The Child Development Credit will cost about $90 million and benefit over **220,000 children aged six and below**. The Child Development Credit will be paid into the Children Development Accounts (CDAs), which most children already have. For those who do not currently have CDAs, they will be able to open accounts to receive their Credits[5] (see Annex B-1 for details).

Enhancements to KiFAS and CFAC

D.30. We will also **give additional support to lower-income families by enhancing subsidies for preschool education and childcare fees**. The Kindergarten Financial Assistance Scheme (KiFAS) and the

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[4] Including all children born in 2011.

[5] The usage and withdrawal of the Child Development Credit will be subject to the current approved usage and withdrawal under the Children Development Co-Savings Act. Children who are not currently eligible for CDAs will continue not to receive matching government contribution.

Centre-based Financial Assistance Scheme for Childcare (CFAC) currently provide subsidies for children from low-income families.

D.31. We will enhance and extend subsidies to a larger group of families, including those with up to $3,500 in gross monthly household income (the 40th percentile). Let me give an example of a family earning $2,500 a month (the 30th percentile). The amount they have to co-pay for childcare fees will be reduced from $300[6] to about $90 a month. If instead their child is in an eligible kindergarten, they will now co-pay $33 a month. Low-income families will continue to pay far less – less than $10 a month for childcare.

D.32. These enhancements will double the number of children who benefit from KiFAS and CFAC, to a total of 24,000. The Minister for Community Development, Youth and Sports will provide more details in the COS.

Support for School and Tertiary Students

Edusave Top Ups and Grants

D.33. We are **topping up each primary and secondary school student's Edusave account by $130**, as has been earlier announced by the Minister for Education. We have also committed an additional $100 million in Edusave grants to schools.

Top Ups to SAC/SMC Funds

D.34. School Advisory Committees and School Management Committees also raise money to complement government assistance for these and other needy students. To provide more support for the good work by these Committees, I will provide **a one-off top-up of $4.7 million to**

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[6] They will now also qualify for CFAC, and receive an additional subsidy of $210 a month. They also currently receive the universal childcare subsidy of $300 a month for each child, which is roughly half the average childcare fee of $588 in NTUC childcare centres.

the funds of School Advisory Committees and School Management Committees to help needy Singaporean students. Each school will receive between $10,000 and $15,000, enough to cover about half of what they spend each year to help these students.

Financial Assistance to Special Education Schools

D.35. I will also **provide a top-up to the Boards of our Special Education (SPED) schools which are run by VWOs**. Each school will receive an average of $15,000.

D.36. In addition, we will **extend the MOE Financial Assistance Scheme to pupils from lower-income families in the SPED schools**. It will mean that SPED students from these families will be fully subsidised for their school fees, uniforms, and textbooks, and receive a 75% subsidy on their exam fees.

Enhanced Bursaries for Polytechnic and University Students

D.37. We will also **do more to keep higher education affordable**. We have already enhanced our CDC and CCC bursaries for ITE students from low-income families this year. We will also increase our **undergraduate and diploma bursaries significantly**, to ensure that no student is discouraged from taking his education as far as he can.

D.38. We will raise bursaries for undergraduates at our universities, and diploma students at our polytechnics, and NAFA and LASALLE. We will provide bursaries for **students from both lower- and middle-income families**, up to the 66th percentile of household incomes[7]. University students who get the first tier of bursaries, who are those from the bottom one-third of households, will benefit from an 80% increase in

[7] The existing polytechnic bursary scheme only extends to the 50th percentile. The university bursary scheme was extended to the 66th percentile in 2008.

bursaries, from $1,600 a year currently to $2,900 a year. These subsidies will cover **40% of their fees**, and the students can finance the rest of the cost with a subsidised loan.

D.39. For diploma students, those from the bottom third of households will receive bursaries that are enough to cover **80% of their fees**.

D.40. In total, the measures will cost us an additional $120 million per year. The Minister for Education will elaborate on the details of these measures in the COS.

D.41. When you add up all the grants and bursaries that the Government is providing in education for students from low-income families (the bottom 20%), the support is significant. Currently, a child from a low-income family who starts off in childcare and proceeds through to a polytechnic diploma, already pays only **3% of the cost of his education**. With the enhancements we are making today, **he will pay just 1% of the cost of his education.**

PROVIDING THE BEST CARE FOR OUR SENIORS

Transforming Long-Term Care

D.42. Singaporeans are living longer. A larger proportion of our people are going to be elderly – by 2030, one in five residents will be aged 65 and above. We want to provide our seniors with the best possible care and help them stay healthy and active in their retirement years.

D.43. We are continuing to make significant investments with new acute care hospitals - Khoo Teck Puat Hospital has opened last year in the north, and Jurong General Hospital will open in 2014.

D.44. Our next big priority is to build up our long-term care sector. We will develop a high quality and comprehensive system, to provide the best possible care for the elderly and the disabled, not just in our hospitals but also in the community and in their own homes. We will provide **enhanced government support so that we can develop the VWO sector for long-term care** – good people and institutions that bring passion, expertise, and resources to help the elderly and disabled.

D.45. Today, we already have several good long-term care providers amongst our VWOs. For example, St Luke's ElderCare provides day care services; Metta Welfare Association helps the disabled to stay active; the Home Nursing Foundation does good work to help the elderly in the community. We need more of them, and must raise the quality across the whole spectrum of providers – including community hospitals; day rehabilitation centres and home-based care so that the elderly can be close to family and friends; and institutionalised care in nursing homes and hospices.

D.46. We will take two important steps to develop this care sector.

Top up to ElderCare Fund

D.47. First, we will strengthen existing **government funding** for long-term care. Today, the Government provides significant subventions to providers in the sector through the ElderCare Fund. I will top up the fund by $700 million to reach its previous target size of $2.5 billion. With this top-up, we will be able to provide a 40% increase in funding to support VWOs in the sector. We will also raise the target size of the ElderCare Fund to $3 billion.

Matching Grants for Long-Term Care

D.48. Second, the Government will provide support to **catalyse a higher level of philanthropic and community support** for the long-term care sector. Our VWOs in the sector face many challenges, such as attracting and training good people, and developing new capabilities and services, for which they need more support from the community.

D.49. I will introduce a scheme of matching government grants for donations to the long-term care sector, similar to what we have done for our universities. I will put **$1 billion** into a new **Community Silver Trust**, to provide one-to-one matching for donations to VWOs that provide long-term care to Singaporeans. This commitment of $1 billion should hopefully spur a much higher level of private funding over the next 10 years.

D.50. Let me give an example of the type of quality care that this additional support can make possible. St Luke's Hospital developed a glove-like device to help its elderly stroke patients regain functionality in their hands. During its trial phase, the "Neuro Hand" programme helped patients recover faster. It will be used for stroke patients in St Luke's Hospital from April this year.

D.51. I encourage our philanthropists and others in the community to come forward, participate, and help develop new and better care services together with our VWOs.

Support for Programmes to Help the Elderly Immobile

D.52. We will provide additional financial support for low-income elderly people to help improve their mobility and independence, such as obtaining assistive devices like wheelchairs and walking-frames. The Government will set aside $10 million this year, for community organisations to tap on for this purpose. The Minister for Health will outline the details of this initiative in the COS.

Helping with Medical Expenses

Topping up our Medisave Accounts

D.53. As part of the surplus sharing that this year's Budget allows, I will **provide a top-up this year to the CPF Medisave Accounts of Singaporeans aged 45 and above**. Those aged 45 to 49 will receive up to $300, while those aged 50 to 59 will get a top-up of up to $400. Older Singaporeans will receive more, with those 80 and above getting up to $700 (see Table 2). The Medisave top-ups will benefit approximately 1.3 million Singaporeans, and will cost the Government $500 million.

Table 2: CPF Medisave Top-Ups

Assessable Income for Year of Assessment 2010	**Annual Value of Residence (as at 31 December 2010)**	
	Up to $7,000	**More than $7,000**
Up to $30,000	Aged 45-49: **$300** Aged 50-59: **$400**	Aged 45-49: **$200** Aged 50-59: **$300**

	Aged 60-69: **$500** Aged 70-79: **$600** Aged 80+: **$700**	Aged 60-69: **$400** Aged 70-79: **$500** Aged 80+: **$600**
$30,001 to $100,000		

Building up Medifund

D.54. I will augment our Medifund endowment, which is money well spent in helping needy Singaporeans who are unable to pay for their medical expenses even after using their Medisave and Medishield. The Medifund endowment currently stands at $1.9 billion. I will top it up by another **$500 million** from this year's Budget. In addition, the Government will raise the target size of the **Medifund endowment from $2 billion to $3 billion.**

HELPING THE NEEDY

Enhancing ComCare

D.55. The ComCare Fund has proved to be a major benefit to needy citizens, enabling them to tide over difficult times. The Fund now stands at $800 million. I will inject a further **$500 million into the ComCare Fund this year**. The Government will also **raise the target size for the ComCare Fund from $1 billion to $1.5 billion**. The income from this larger fund will ensure that there is no lack of support for needy Singaporeans, even in years when our economy is down.

Increase in Public Assistance and Singapore Allowance

D.56. We will also **revise the Public Assistance (PA) scheme**, which provides financial aid to those who are permanently unable to work.

The adjustments will ensure the basic needs of PA recipients are adequately met, taking into account recent increases in their household costs, and to provide a buffer for possible spikes that we may see this year, for example in food prices. For a single-person household, we will raise PA rates from $360 to $400 a month. Corresponding adjustments will be made for larger households and for the children. The Minister for Community Development, Youth and Sports will provide more details of these increases in the COS.

D.57. We will also make adjustments to help lower-income government pensioners. The Government **will increase the Singapore Allowance** by $20 per month to $260. This will raise the monthly pension ceiling to $1,190 and benefit about 10,000 pensioners.

Additional funding to VWOs and Self-Help Groups

D.58. Our Self-Help Groups and VWOs such as family service centres have been expanding their roles. They are reaching out proactively to more needy families, to ensure that they remain integrated in the mainstream, and to help their children progress in school. To help them do more, I will set aside **an additional $20 million to help with the professional development of social workers**, so that they can serve better in the VWO sector in the future. I will also **provide Self-Help Groups with an additional $10 million over the next two years**.

Supporting Community Giving

D.59. I spoke earlier about our unique approach of co-funding charitable contributions for the purpose of developing the long-term care sector. We will do more to crowd in the community across the charitable sector. I will **extend for another five years the 250% tax deduction for contributions to Institutions of Public Character (IPC)** that I introduced in 2009. The enhanced scheme has had encouraging results, with sustained giving even during the 2009 recession. I hope that with the strong recovery in both corporate and higher-end individual incomes, we will see many more coming forward to help us make Singapore a truly caring society.

ENHANCING HOMES AND OUR QUALITY OF LIFE

D.60. We are making major investments to make Singapore a top quality home for our citizens. We also want more Singaporeans, including those in the lower-income groups, to have a home of their own which they can take pride in, which can appreciate in value over time, and will allow them to share in our prosperity together with other Singaporeans.

Helping Lower-Income Families Own Their Homes

Special CPF Housing Grant

D.61. We currently provide the Additional CPF Housing Grant (AHG) to help the bottom 50% of our households to own their homes. The low-income group in particular gets an AHG of $40,000. In this Budget, we will introduce further significant assistance to help low-income families purchase their flats.

D.62. The Government will **introduce a Special CPF Housing Grant (SHG) to help low-income families** making a first-time purchase of a Build-to-Order flat, on top of the existing Additional CPF Housing Grant. The SHG will be provided to families who earn up to $2,250 per month.

D.63. The SHG, **together with our other subsidies, will allow more low-income families to own their own homes**. In total, the Government will provide about $175 million in grants each year, for these families to pay for the flat which they will own. This is in addition to providing them with a subsidised loan to pay for their share. Details of this new Grant will be provided by the Minister for National Development in the COS.

Rejuvenating our Heartland

D.64. We will spend **$10 billion to upgrade homes and rejuvenate estates over the next 10 years**. This is a major effort to preserve the value of our HDB flats. Under the Home Improvement Programme (HIP), Neighbourhood Renewal Programme (NRP) and Lift Upgrading Programme (LUP), we will **invest up to $55,000 per flat**. In 2011 alone, around 50,000 flat owners will benefit from these schemes. In the following five years, from 2012 through 2016, another 300,000 will benefit from these upgrading programmes. An estimated 700,000 residents in Jurong Lake, East Coast, and Hougang will also enjoy the new batch of improvements under the Remaking our Heartland (ROH) initiative, some of whom will be beneficiaries of NRP and HIP as well. These rejuvenation and upgrading projects will take place in phases across the island.

Building a Vibrant Arts and Culture Environment

D.65. We will **bring arts and culture within reach of more Singaporeans, and add depth and vibrancy to the arts scene**.

D.66. Interest in arts and culture is in fact growing. Singapore's arts scene is also now being noticed internationally. 'CNNGo' recently highlighted the top reason to visit Singapore this year as being that "Art is Alive", citing a whole range of events taking place, including the Huayi Festival and Art Stage Singapore which were recently held, and upcoming events such as the Singapore Biennale and the Mosaic Music Festival.

D.67. We will build on the positive momentum we have achieved in recent years. The main thrust of what we want to do is to reach out to everyone, and to move beyond the arts and civic district into the heartlands. We will also provide enhanced support for arts institutions and practitioners, so as to encourage groundbreaking new work and to enable more Singaporeans to fulfil their aspirations for careers in the arts. The Minister for Information, Communications and the Arts will speak about these plans during the COS.

D.68. We will therefore significantly increase government spending on arts and culture. Over the next five years, our average annual programme spending will be about $365 million, an increase of more than 50% over the current level.

'GROW & SHARE' PACKAGE

D.69. We have introduced several **long-term measures** to help lower- and middle-income Singaporeans in this Budget.

D.70. I am complementing these long-term measures with a package of **one-off** measures to share our surplus and provide benefits to Singaporeans this year. This is our **'Grow & Share'** Package, which will total **$3.2 billion**. I have already described some of the measures in this package, including rebates on personal income tax, the Workfare Special Bonus, top-ups to CPF Medisave accounts, the new Child Development Credit, top-ups to SAC/SMC and SPED school funds, and additional support for self-help groups and VWOs. Let me now announce further measures in the 'Grow & Share' Package that this year's good Budget makes possible.

Additional Measures in the 'Grow & Share' Package

Growth Dividends

D.71. First, to share the fruits of last year's exceptional economic growth, I will give Growth Dividends to all adult Singaporeans.

D.72. As in the past, the amount each Singaporean will receive will depend on his income and the value of his home. Both factors are relevant. We should give more to Singaporeans who are low-income regardless of where they live. However, there is also a difference in the level of affluence between those who stay in smaller HDB flats and those who live in high-value properties, even if they may not be drawing much income, for example, spouses who are not working.

D.73. The majority of Singaporeans – 80% – will get $600 to $800 each. Those with low incomes and who live in 3-room or smaller HDB flats will get a Growth Dividend of $800. Those in the middle-income group and who live in HDB flats and low-value private homes will receive a Growth Dividend of $600. I will also give $300 to those who live in more expensive homes but who do not have high incomes (see Table 3).

Table 3: Growth Dividends 2011

<table>
<tr><th rowspan="2">Assessable Income for Year of Assessment 2010</th><th colspan="3">Annual Value of Residence (as at December 2010)</th></tr>
<tr><th>Up to $7,000</th><th>$7,001 to $13,000</th><th>More than $13,000</th></tr>
<tr><td>Up to $30,000</td><td>$800</td><td rowspan="2">$600</td><td rowspan="2">$300</td></tr>
<tr><td>$30,001 to $100,000</td><td></td></tr>
<tr><td>More than $100k</td><td colspan="3">$100</td></tr>
<tr><td>NSFs/NSmen</td><td colspan="3">+$100</td></tr>
</table>

D.74. To recognise their contributions to the nation, I will also give NSmen and NSFs, including those below 21 years of age, an additional $100 of Growth Dividends. This is on top of the National Service Recognition

Award (NSRA) payments that eligible servicemen will be receiving, starting February 2011.

D.75. **The Growth Dividends will benefit about 2.5 million Singaporeans and cost the Government $1.5 billion this year.**

D.76. Singaporeans can look forward to receiving their Growth Dividends and CPF top-ups by 1st May 2011.

Help with Household Expenses

D.77. Besides the Growth Dividends, we will **provide households with more direct help to cope with rising expenses**. Utility costs are going up because of the sharp rise in global oil prices. To help households cope with rising costs, I will **provide additional Utilities-Save (U-Save) and Service and Conservancy Charges (S&CC) rebates** this year.

D.78. Singaporeans in HDB flats are still receiving U-Save, S&CC and rental rebates as part of the GST Offset Package introduced in 2007. I will top up the U-Save rebates this year. 1- and 2-room households will get an additional $170, giving them a total of $360 in U-Save rebates this year. This is equivalent to about five months of their utility bills. Those in 3- and 4-room flats will get between $320 and $340, and a little less for 5-room and executive flats.

D.79. I will also provide additional S&CC rebates. 1- to 4-room HDB households will get an extra month of rebate. This will add up to three months of S&CC rebates this year for 1- to 2-room households, two months for 3- and 4-room households, and at least one month for the larger flats (see Table 4).

Table 4: Total Household Rebates in 2011

HDB flat type	U-Save rebate ($)	S&CC rebate (No. of months)
1-room	$360	3.0 months
2-room	$360	3.0 months
3-room	$340	2.0 months
4-room	$320	2.0 months
5-room	$270	1.5 months
Executive	$235	1.0 month

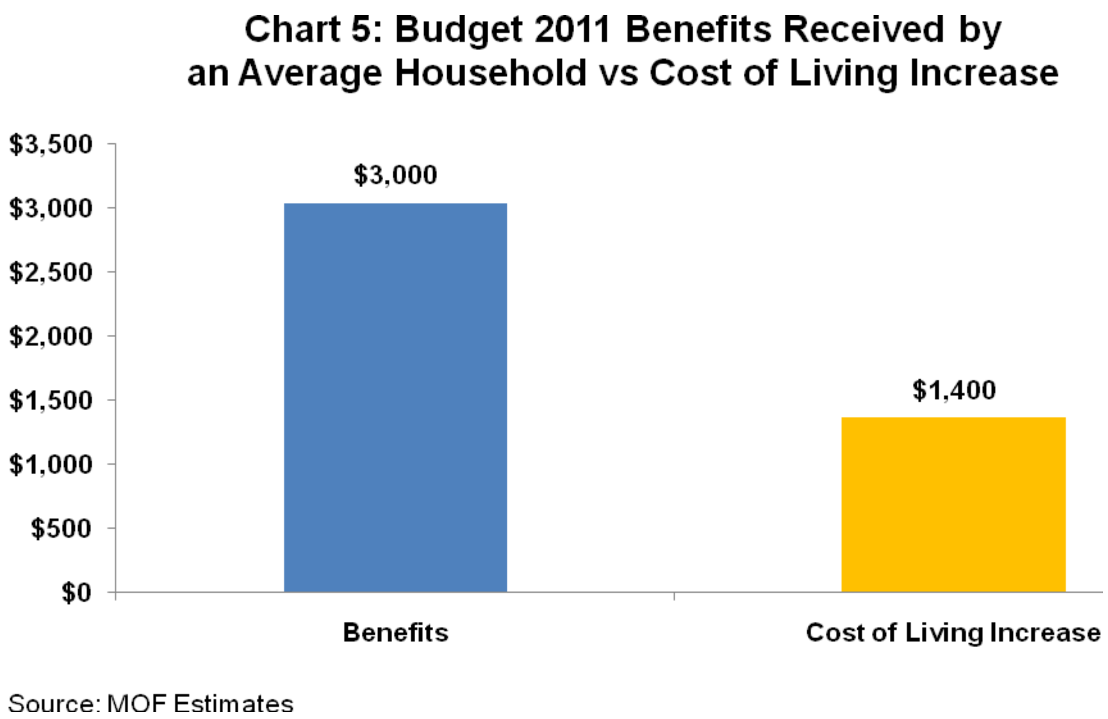
D.80. These rebates will benefit 800,000 households and cost the Government about $200 million, on top of the amounts committed as part of the GST Offset Package.

How the Household Benefits Add Up

D.81. These measures will provide significant benefits for Singaporeans this year, and further benefits in the future. The average Singaporean household will receive about **$3,000** from this year's Budget. This will be equal to about 5% of their annual household incomes. It will also be **more than double the increase they could see in their household expenses this year**[8] (see Chart 5 below and Annex B-2 for examples).

[8] Based on 2007/08 Household Expenditure Survey data. The increase in cost of living in 2011 is based on projection of 3% to 4% increase in household expenses based on the CPI; this excludes the imputed rental

Further, these Government benefits are **on top of wage increases** that they can expect to receive this year, which will also help to offset inflation.



D.82. Lower-income households will get more, especially in comparison to their household expenses. I will illustrate with the case of a 4-person family, with parents earning a combined monthly income of $2,000. They have two young children, one in primary school and the other in childcare.

D.83. The couple will receive Growth Dividends of $1,700 and Workfare Special Bonus of $780 in total. In addition, they will benefit from a Child Development Credit of $400, and a further $260 from this year's enhanced U-Save and S&CC rebates. In total, they will receive about $3,100 from the 'Grow & Share' Package.

value of Owner-Occupied accommodation, which does not imply any cash outlay. It also excludes the cost of purchasing new cars, which only a small proportion of Singaporeans would encounter this year.

D.84. Including other measures that we have introduced this year such as the removal of Radio and TV licence fees, and the enhanced CFAC Scheme for lower-income children in childcare, **the family will receive about $3,500 this year**. This is equivalent to about 15% of their incomes. The benefits that they receive will also be **more than four times the expected increase in their household expenses this year – without taking into account any wage increases.**

D.85. This is also before counting the benefits which they will receive this year, which had already been **committed in previous Budgets**. On top of the $3,500 from this year's Budget, if we add just four elements – the regular Workfare payments they will receive, their existing CFAC fee subsidies, and the pre-committed U-Save and S&CC rebates – the family will receive total benefits from Government amounting to a substantial **$8,500** (see Annex B-2).

E. BUDGET POSITION

FY2011 Estimated Budget Position

E.1. Mr Speaker, Sir, let me now summarise the FY2011 budget position.

E.2. After factoring in the various tax measures and significant special transfers in this year's Budget, we expect a basic deficit of $2.2 billion for FY2011, or about 0.7% of GDP. This is slightly smaller than the FY2010 basic deficit of 0.8% of GDP.

E.3. **The Overall Budget Balance for FY2011 is projected to be a slight surplus of $0.1 billion.** This is after taking into account, firstly, Net Investment Returns Contribution (NIRC) **of $7.8 billion; and secondly, the amounts we are setting aside for Endowment and Trust Funds**

that serve both our economic and social objectives[9]. The injections into Endowment and Trust funds will alleviate pressure on future Government Budgets to fund our long-term needs.

F. CONCLUSION

F.1. Mr Speaker, Sir, this Budget seeks to strengthen both Singapore's economy and society for the future. We are taking major steps to enable Singapore to be a first-rate developed society a decade from now.

F.2. We can deal with the immediate problems. The rising cost of living is a concern. We are providing lower- and middle-income Singaporeans with benefits in this Budget that for many households will more than offset their increase in household expenses – even before taking into account any wage increases.

F.3. Our core agenda however is focused on the longer term. We want to grow Singaporeans' incomes significantly, by transforming productivity. It cannot be achieved overnight, but we are investing substantial resources towards doing so – by helping our businesses invest and restructure, and by developing skills and mastery in every job. Through continuous improvements as well as breakthroughs, we must succeed in raising productivity in every sector, so that we achieve a 30% improvement in real median incomes over the next decade.

F.4. We must also ensure an inclusive society, where everyone, including the lower-income group, can contribute to and share in Singapore's progress. We must sustain growth if we are to achieve this, but growth

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[9] Transfers to Endowment and Trust Funds total $5.5 billion. This includes $3.4 billion to support our longer-term social objectives in healthcare, continuing education, and help-schemes for the needy. It also includes $2.1 billion in investments for productivity and innovation, and measures to help the corporate sector.

on its own will not be sufficient. That is why the Government has been intervening actively to support those lower down the income ladder. We are doing more in this Budget. We are significantly expanding support for children from lower-income families. We are also helping lower-income workers to get more from work, and to own their homes.

F.5. Social mobility will become more challenging as our society matures. But we will find every effective way to help those who start off lower down to discover their strengths, and provide them many routes to achieve their aspirations. We will also keep the progressivity of our fiscal system, which gives us the resources to help those most in need to uplift themselves.

F.6. But whichever way the Government intervenes, we will only succeed if we preserve and strengthen the things that Singaporeans value most – family; everyone aspiring for a better life and feeling they can get there by working hard; and a sense of community. These are the values that will keep our society dynamic, and will allow us to achieve our next transformation as a nation.

F.7. Mr Speaker Sir, I beg to move.