BUDGET SPEECH 2012
An Inclusive Society, A Stronger Singapore

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A. ECONOMIC PERFORMANCE

A.1. Mr Speaker Sir, I beg to move, that Parliament approve the financial policy of the Government for the Financial Year 1st April 2012 to 31st March 2013.

FY2011 Fiscal Position

A.2. Our economy grew by 4.9% in 2011, within the 4% to 6% range that we had expected at the start of the year. However, our Budget for FY2011 is expected to have a surplus exceeding what we estimated a year ago.

A.3. We had originally estimated an Overall Budget Balance of $0.1 billion or 0.02% of GDP. We now expect higher corporate income tax collections, reflecting stronger corporate profits, and lower than expected claims for capital allowances. In addition, property-related taxes such as stamp duties increased sharply in the buoyant market. These temporary boosts to our revenues led to a larger Overall Budget Surplus for FY2011 of about $2.3 billion or 0.7% of GDP.

The Economic Context in 2012

A.4. For 2012, MTI expects Singapore's GDP growth to be between 1% and 3%. We are already seeing weaker demand in our manufacturing sector, reflecting sluggishness in the developed markets. However, prospects remain positive for companies with markets or investments in Asia. They are continuing to hire and expand, although with some caution given the unpredictable global conditions. There will also be continued demand from the region for our services - in finance, logistics and tourism. Taken as a whole, Asia is providing some lift to our economy at a time of continuing economic weakness in the US, Japan and Europe.

A.5. Our economy will slow down this year, but we should look at this in perspective. We enjoyed an exceptional rebound in 2010. By the middle of that year, we had recovered the lost output from the 2008-2009 crisis[1]. Growth in 2011 too was healthy, at about 5%. Against this backdrop, a slowdown to 1% to 3% growth in 2012 is still consistent with our medium-term growth potential of 3% to 5%.

A.6. Our labour market is still very tight currently. Job creation remains positive overall, although we expect some easing in our export industries.

A.7. The principal focus of this year's Budget is therefore not on providing a countercyclical boost to the economy, but on addressing Singapore's longer-term challenges and building a better future for our people. It is a Budget for the future.

A.8. Nevertheless, we are monitoring global developments closely. There are still threats hanging over the world economy – in the Eurozone's unresolved problems, in the tensions over Iran's nuclear programme and in a US economy which remains vulnerable to setbacks. Should events take a sharp turn for the worse, we will be ready to act decisively, just as we have done in the past.

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[1] The economy is estimated to have recovered its potential GDP level within the first half of 2010. This is the level of GDP that would have been attained if the economy had been following its medium-term growth path, without cyclical ups and downs.

B. BUDGET 2012: AN INCLUSIVE SOCIETY, A STRONGER SINGAPORE

B.1. Our mission is to build an inclusive society and a stronger Singapore.

B.2. A whole array of social and economic strategies is aimed at achieving this defining goal. It means upgrading our economy and developing deeper skills, so that we can sustain growth, create better jobs in every vocation and enable Singaporeans to earn better incomes. It means doing more to help children from poorer homes overcome early disadvantages, find their strengths and develop to their fullest potential, so that we keep social mobility up. Equally, we have to help our elderly live well, and provide stronger support for Singaporeans with disabilities – they all have a part in our nation’s progress and must share in its fruits.

SUSTAINING ECONOMIC GROWTH

B.3. Our first task is to upgrade and restructure our economy, so that we can grow by becoming more productive, and can rely less on expanding our workforce. We embarked on this new direction two years ago. Our aim is to achieve productivity growth of 2% to 3% per year, or in total 30% productivity growth over a decade. It is a challenging target.

B.4. We have made some progress in the last two years, but mainly because the economy rebounded strongly in 2010 after the downturn, with output growing much faster than the workforce.

The core task of restructuring businesses and industries remains and must be our key economic priority.

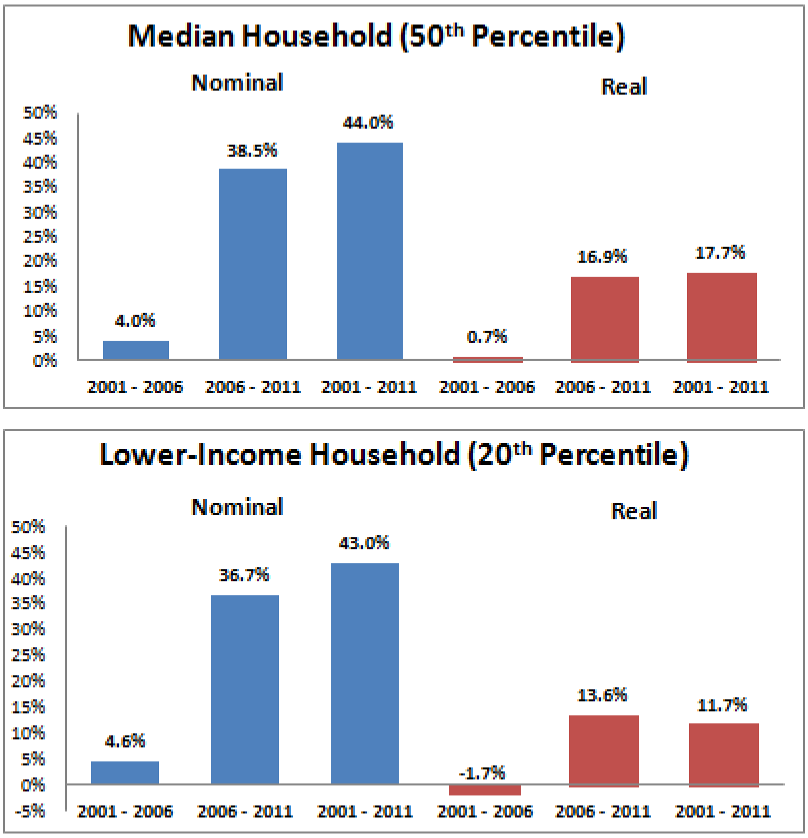
B.5. We will therefore take important further steps in this Budget to promote this necessary restructuring. We have to reduce our dependence on foreign labour, and do much more to build an economy driven by higher skills, innovation and productivity, as the basis for achieving higher incomes for Singaporeans.

B.6. Foreign workers have in fact been indispensable to many of our industries. Our businesses have complemented a core Singaporean workforce with foreign employees at all skill levels. It has enabled them to stay competitive internationally and to service their customers and markets. In particular, many smaller and newer firms would not have been able to survive and grow without access to skilled foreign workers.

B.7. Singaporeans workers too have benefited, and not just businesses, from the presence of foreign workers here. As the number of foreign workers rose in recent years, so did demand for local workers. Many new jobs have thus been created for Singaporeans. Incomes have gone up. The median Singapore household saw income per household member grow by 17% in the past five years, after adjusting for inflation. The lower end has not lost out either. Singaporeans at the 20th percentile of households experienced 14% real growth in income per household member – both because their individual wages have gone up, and also because more members of the household obtained jobs (see Chart 1)[2].

[2] More details in Annex A-1.

Chart 1: Growth of Singaporean Household Incomes Per Member



Source: DOS

Notes
Based on Singaporean-headed households with at least one employed person.
Household income growth is based on household income (including employer CPF contributions) per member.
Income of the median household is deflated by overall CPI at 2009 prices. Income of the household at the 20th percentile is deflated by CPI for lowest 20% at 2009 prices.

B.8. Some Singaporeans at the lowest rungs of the income ladder, especially cleaners, have not seen this lift in incomes. We take that seriously, and are tackling the problem. But the broader picture of the last five years has been that most Singaporean families have enjoyed significant real income growth.

B.9. However, our increasing dependence on foreign workers is not sustainable. It will test the limits of our space and infrastructure, despite our efforts to build more housing and expand our public transport system. A continued rapid infusion of foreign workers will also inevitably affect the Singaporean character of our society. There is also an important economic reason: the easy availability of foreign labour will reduce the incentives for our companies to upgrade, design better jobs and raise productivity.

B.10. We must therefore take further measures to reduce the inflow of foreign workers, and help our businesses adapt to the permanent reality of a tight labour market.

B.11. None of this will be easy. Many companies, including growth enterprises with strong demand for their services, are finding it difficult to recruit local workers. While many of them may be able to adapt and grow in less labour-intensive ways, others may choose to downsize, switch to new business lines or move abroad. We must allow market forces to restructure our economy, so that efficient enterprises have more room to grow. The Government cannot decide which companies should succeed or phase out. But we will provide broad-based support to help as many businesses as possible to retain their roots in Singapore and grow, and help Singaporean workers who may be displaced to find new jobs.

B.12. Our SMEs are in fact the most affected by this challenge. The Government will extend special help to them, so they can reorganise and upgrade their operations, attract Singaporeans to work with them, and be viable and vibrant contributors to our economy years from now.

B.13. We have in fact seen major improvements in productivity in each phase of our economic development. In 1980, it took 27 workers to produce $1 million worth of output (in today's prices). Today, it takes only 10 workers to produce the same value of output. This is why the median Singaporean worker now earns three times as much as 30 years ago, after taking inflation into account[3].

B.14. However, while the economic growth in these past decades has relied equally on productivity improvements and increases in the labour force, in future, productivity must be the key driver of our growth. In terms of productivity, we still are some distance behind the most advanced economies. Today, the same value of output produced by 10 workers in Singapore takes only 7 workers to produce in the US or 6 in Switzerland[4].

B.15. If we succeed in transforming our economy and achieving productivity growth of 2% to 3% per year over this decade, we should be able to sustain economic growth at 3% to 5%, and build competitive enterprises. It is, more importantly, the only way in which our workers can enjoy higher incomes and our society can be strong and cohesive.

A FAIR AND INCLUSIVE SOCIETY

B.16. Restructuring our economy so that our incomes can grow steadily is therefore our first task in building an inclusive society. We have to maintain a dynamic economy and grow the pie, in order to generate the resources to help all Singaporeans get a fair share of the pie.

B.17. But to build a fair and inclusive society, we also have to create more opportunities for lower and middle income Singaporeans,

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[3] MOF estimates.

[4] Based on data from official sources and converted to common currency using average market exchange rates from 2009 to 2011.

and provide stronger help for families who fall on difficult times to pick themselves up.

B.18. We have taken major steps in this direction in the last five years. We introduced the Workfare Income Supplement (WIS) scheme in 2008. This is a major Government programme, topping up the wages of low-income workers by as much as 25% each year. In addition, we have a one-off Workfare Special Bonus that will last till next year. Through these two Workfare schemes, we are benefiting 400,000 Singaporeans by a total of $590 million per year.

B.19. We are providing lower-income families with bigger grants to buy their own homes. We have continued education reforms to broaden the pathways to success, and increased education subsidies for students from lower-income families, from pre-school through to university. We have more than doubled the help that Medifund provides. And we have provided strong incentives for better-off Singaporeans and companies to give back to society and strengthen our social compact.

B.20. We have to do more. Our population will age quickly over the next two decades. We must be ready for that. We also have to do everything we can to keep up social mobility in each generation, and prevent a permanent underclass from forming in our society.

B.21. We will address these challenges not just in this year's Budget, but over the next five years.

B.22. Budget 2012 marks a significant step up in our support for three groups of Singaporeans:

a. For older Singaporeans, including those in the middle-income group, we will introduce a comprehensive set of measures to help you work, to build up your savings, and to stay healthy and have a greater sense of security in retirement.

b. For Singaporeans with disabilities, we will do more to help you maximise your potential at each stage of life – in early childhood, in school, and as adults, to work and to be cared for.

c. For lower-income Singaporeans, we will do more to support your children’s education, and help you acquire skills as adults, hold good jobs and improve your incomes over time. We will also introduce a new and permanent feature in our tax system: GST Vouchers, which will provide continuing assurance of a fair system of taxes and benefits.

B.23. The changes we are making continue the process begun five years ago, of making our system of taxes and benefits more progressive, and strengthening our social safety nets. Through education, work, housing and healthcare, we are giving more help and support to lower and middle income Singaporeans.

B.24. We must therefore expect our social expenditures to rise in the coming years, most of all in healthcare. At the same time, we are making major investments in our public transport system, including new initiatives that I will mention later.

B.25. The step up in our social programmes makes it critical for that we strike the right balance in our public finances. We must avoid the path that many developed countries took, where successive governments, across the political spectrum, committed themselves to continually expanding social entitlements – in social security, healthcare, and unemployment – without the ability to pay for them. Their massive public debts have now resulted not just in a financial crisis, but a social crisis, with their citizens being forced to make painful adjustments in living standards for several years to come.

B.26. Singapore’s system of sustainable finances, where we spend what we can afford, is a strength. We must preserve this advantage, so that we can build and maintain a fair and inclusive society not just for 10 or 15 years, but for our children’s generation and beyond.

C. RESTRUCTURING TO SUSTAIN GROWTH

C.1. Mr Speaker Sir, I will now move on to the first major priority of this Budget: restructuring our economy, to grow on the basis of skills, innovation and productivity.

C.2. We have to take further steps now to slow the growth of our foreign workforce. But the Government will also provide more help for our industries to restructure and upgrade, so that we can continue to grow despite the constraints in labour supply.

C.3. We will also provide further support for businesses that are innovating, establishing their mark internationally, and capturing growth opportunities in the region and further afield.

C.4. I will talk about each of these priorities in turn.

ADJUSTING TO SLOWER WORKFORCE GROWTH

Managing our Dependence on Foreign Workers

C.5. The Economic Strategies Committee in 2010 recommended that we moderate the growth of the foreign workforce, and in the long term, avoid its proportion of the total workforce increasing steadily beyond one-third. While the proportion may fluctuate above or below one-third from time to time, we should not indefinitely increase our dependence on foreign labour.

C.6. We have introduced several measures since 2010 to reduce the demand for foreign workers. We announced a schedule of increases in foreign worker levies in Budget 2010, which we extended in last year's Budget. We are halfway through this process of levy increases, which will be fully phased in for every sector by July 2013.

C.7. More recently, we raised the eligibility criteria for Employment Pass (EP) and S Pass holders, to keep pace with the improving salaries of our Singaporean PMETs (Professionals, Managers, Executives and Technicians). This was implemented last month, and new applications for EP are now subject to the tighter criteria and higher qualifying salaries.

C.8. It will take time for these measures to have an effect on businesses' demand for foreign workers. The foreign workforce has in the meantime grown rapidly, by 7.5% per year over the last two years[5], and is now at about one-third of our total workforce. This has happened in an environment of full employment for Singaporeans and shortage of labour in many sectors of the economy.

C.9. <u>We have no alternative but to slow down the growth of our foreign workforce.</u> Some sectors, such as construction, will require significantly more foreign workers over the next five years, given our major housing and public transport projects. However, economy-wide, we will have to take further measures to avoid an ever-increasing dependence on foreign labour.

C.10. <u>We will therefore introduce a calibrated reduction in Dependency Ratio Ceilings (DRCs) in the manufacturing and services sectors</u> (The DRCs specify the maximum proportion of foreign workers that companies can hire). Firms that are the most heavily reliant on foreign labour will have to find ways to reduce their

[5] The foreign workforce growth of 7.5% per year over the past two years excludes foreign domestic workers.

dependence. Many other firms in manufacturing and services are still well within their DRCs and have headroom to employ foreign workers. However, we should take the opportunity now of a slow growth year to lower the DRCs across the board in both manufacturing and services. All firms can then take this into account in their future hiring decisions. This will help to contain our dependence on foreign workers in the long term.

C.11. Depending on the growth of the foreign workforce in the next 12 months, we may also have to consider further increases in the foreign worker levy beyond July 2013.

C.12. The DRCs for Manufacturing and Services are currently 65% and 50% respectively. From 1 July 2012, we will reduce:

a. the Manufacturing DRC from 65% to 60%; and

b. the Services DRC from 50% to 45%.

C.13. We will also tighten up on the DRC for S Passes. We will reduce the S Pass Sub-DRC from 25% to 20% for all sectors from 1 July 2012.

C.14. We will give affected companies time to adjust to the new DRCs. From 1 July 2012, companies will not be allowed to bring in new foreign workers beyond the new DRCs. However, for their existing foreign workers, companies will be given until June 2014 to comply with the new DRCs. This two-year transition recognises that many companies would have already invested in their existing workers.

C.15. In total, we expect about 500 manufacturing companies and 8,500 services companies to be affected by the DRC changes.

Most are small enterprises which will have to do with one or two fewer foreign workers.

C.16. We will also tighten up in the Construction sector. Besides the reduced S Pass DRC, we will further reduce the Man-Year Entitlement (MYE) quotas by 5% in July 2012, and raise levies for basic skilled workers hired outside the MYE quotas.

C.17. The Ministries of Manpower and National Development will share more details regarding these changes in a press release.

C.18. We will provide significant assistance to help our SMEs adjust to these changes. <u>However, we have to do so in a way that will promote restructuring and upgrading.</u> This means that greater assistance will flow to those that are willing to improve productivity, design better jobs to attract local workers, and innovate in order to grow.

C.19. There is in fact significant scope to step up productivity in the services sector, where the labour crunch is most severe. For example, our retail industry lags behind several other global cities – its productivity level is less than half of that in New York, Paris and London and remains behind Hong Kong's. We will support efforts by our services industry to make the transition to a higher level of quality and skills.

C.20. <u>We will also help companies in their efforts to attract local workers</u>. Even the more successful players in the services industry are finding it hard to recruit local workers. We have to do more to tap on the latent pool of local manpower which is still available. Many of our homemakers and Singaporeans who retired early say they are willing to work, either part-time or full-time.

C.21. Attracting these Singaporeans will require a few changes. First, jobs will have to be designed with the worker in mind, especially for homemakers and older workers. They will also have to pay enough to attract local workers.

C.22. Take Sakae Sushi for example. They have been actively hiring homemakers for the past 15 months, for jobs during meal times. Sakae Sushi gets the manpower it needs during the busy hours, while the homemakers are able to earn an income and still spend time with their children. Employees have spread the word to their friends and Sakae Sushi hopes to employ more homemakers, up to half of its total workforce. Some of these employees, although working part-time, have risen up the ranks to hold supervisory positions as shift leaders.

C.23. Better pay and working conditions are necessary but we will also need a collective effort to re-instil pride in every job. Waiters and cooks in restaurants; chambermaids in hotels; crane operators and other construction tradesmen; machine operators and salespersons. Everyone has to play a role — employers, employees and customers — if we are to <u>bring back respect for these jobs</u>, attract locals and develop high-quality and experienced teams. These are good jobs in every developed society.

HELPING SMES MAKE THE TRANSITION

C.24. I will introduce several measures to help our SMEs to restructure, attract local workers, and grow. Besides these longer-term measures, I will also provide some temporary assistance to help our companies cope with the current environment of higher business costs.

Special Employment Credit

C.25. Older workers will be an increasingly important resource for companies. Compared to a decade ago, our businesses now recognise much more clearly the value of older workers.

C.26. I will provide a significant incentive to help them attract and retain older workers. All employers will receive a Special Employment Credit (SEC) for their Singaporean workers who are above 50 years old and earning up to $3,000 per month. The SEC will be 8% of wages. A lower SEC will also be provided for workers with a monthly wage of between $3,000 and $4,000. The SEC will cover almost 350,000 workers, or four-fifths of older Singaporean workers.

C.27. The SEC is unlike the Jobs Credit Scheme, which applied to all workers and was a one-off, counter-recessionary measure. The SEC will be in place for the next five years (2012-2016), to enable employers to plan ahead in hiring older workers. Beyond that, depending on labour market conditions, we will consider if the SEC should be retained, and if so in what form.

C.28. This is a substantial enhancement to the SEC[6] which I first introduced in last year's Budget. It will provide employers with benefits of about $470 million per year — more than twice the increase in their wage bill of $190 million as a result of higher employer CPF contribution rates for older workers, the details of which I will elaborate on later.

C.29. I therefore strongly encourage companies to make full use of the SEC to hire older Singaporean workers and reward them well. The higher CPF contributions will also encourage older workers to participate in the workforce.

SME Cash Grant

C.30. Besides the SEC, I will provide a one-off cash grant to help companies offset higher business costs, which may persist in the business slowdown. The grant is sized to benefit smaller companies more. Companies will receive a cash grant pegged at 5% of their revenues in YA2012, capped at a payout of $5,000. They will receive the grant as long as they have made CPF contributions to at least one employee[7]. The scheme will cost Government around $320 million in FY2012.

[6] In Budget 2011, a one-off Special Employment Credit (SEC) for Singaporean workers aged above 55 was introduced. This previous Special Employment Credit cost the Government an average of $33 million per year over three years.

[7] The employee must not be a shareholder of the company.

Transforming through Productivity and Innovation

C.31. However, <u>the only lasting solution</u> for dealing with the labour shortage is to improve productivity.

C.32. We introduced a number of major new measures to help businesses address this challenge over the past two years. First, we provided broad-based support through the Productivity and Innovation Credit scheme, or PIC, which I will further enhance in this year's Budget. Second, we set aside $2 billion for the National Productivity Fund (NPF), which will provide more targeted support for industry efforts to restructure and upgrade over the next decade. Third, we are investing significantly in Continuing Education and Training (CET) to help our workers develop new skills and expertise and increase their versatility.

Enhancement of Productivity and Innovation Credit (PIC)

C.33. 2011 was the first year in which businesses benefited from the PIC scheme, which provides for a 400% tax deduction on up to $400,000 spent on a broad range of productivity-related expenses, such as training or investment in equipment.

C.34. Our companies will enjoy tax savings totaling $650 million from the PIC claims they have made in this first year alone. Any company, be it small or large, new economy or old, can take advantage of the scheme. In fact, one in three small companies[8] - those with turnover of $10 million or less - have used the PIC. They will see their taxes come down by 40% on average. And

[8] These exclude companies whose status according to ACRA is dormant, inactive, no business done, in liquidation, receivership or has been dissolved.

they will also see their benefits quickly because 90% of all PIC claims are processed within three months.

C.35. We have received useful suggestions on how we can improve the PIC further, from business groups such as the Singapore Business Federation **-** SME Committee***.*** I will introduce a few changes in this Budget:

a. To give businesses <u>more cash upfront</u> for their investments, I will enhance the PIC scheme to provide a **60% cash payout** for up to $100,000 of firms' PIC expenditures. This means a $60,000 payout from the Government, compared to the $30,000 given previously. This is a substantial subsidy for any SME investing in its workers or its operations. It is especially useful to companies with limited taxable income, which would not be able to benefit fully from the PIC tax deduction.

b. Next, they will <u>get their cash payout faster</u>, to help them with their cash flow. From 1 July 2012, companies will be able to apply for and obtain their cash payouts on a quarterly basis instead of having to wait till the end of their financial year.

c. I will also make it <u>easier for companies</u> to claim PIC benefits on their in-house training costs, by removing the requirement to have these training programmes certified by the Singapore Workforce Development Agency (WDA) or Institute of Technical Education (ITE). This will be for in-house training costs of up to $10,000 per year, which will cover the majority of training initiatives by smaller companies.

d. I will make other refinements to the PIC scheme which are contained in Annex A-4.

Enhanced Training Support for SMEs

C.36. I will introduce three further enhancements to support worker training.

C.37. First, more help will be given for SMEs who upgrade their workers through all courses certified by WDA, and Academic CET programmes at the polytechnics and ITE. They will henceforth get a 90% course subsidy. Together with the enhanced cash payout under the PIC, our new subsidies will effectively cover almost the full cost of training for SME-sponsored employees[9]. Further, we will increase the absentee payroll cap from $4.50 to $7.50 an hour. This is therefore a very generous scheme, and we will let it run for three years. About 8,400 courses could potentially come under this scheme. More details will be announced by the Ministries of Manpower and Education in the Committee of Supply (COS) debate.

C.38. We will provide similar training benefits for self-employed persons. WDA will work with our industry associations and agencies, such as the National Taxi Association and Media Development Authority (MDA), so that self-employed individuals such as taxi-drivers and freelancers in the creative sector can benefit.

Grants to Support SME Upgrading and Productivity

[9] For example, for a training course that costs $1,000, the SME will only pay $40.

C.39. Second, we will step up grants to help SMEs transform their operations and raise productivity. L.S. Construction is an example from an industry with significant scope for improvement. We have all seen the traditional scaffoldings, covering the whole façade of a building and with working platforms at every level. Erecting such structures is labour-intensive. Their solution, using a grant from the Productivity Improvement Project (PIP) scheme under BCA's Construction Productivity and Capability Fund, was to replace the current system of scaffoldings for high-rise building construction. L.S. Construction has introduced an integrated climbing scaffold and safety screen system commonly used in developed countries. This system moves up via cranes as the building construction progresses. The benefits — only 40% of the manpower required previously is needed to construct the scaffold.

C.40. This is not an example that involves major breakthroughs in technology. But I mention it to illustrate how companies can take advantage of our schemes to bring in existing innovations that can make a meaningful difference to their daily operations.

C.41. Third, we will increase grants for capability development amongst our SMEs from the current 50% to a 70% subsidy rate for the next three years under schemes managed by SPRING and IE Singapore. This will provide a $200 million boost over the next three years, which will help SMEs attract local talent and automate or upgrade.

C.42. Taking all these schemes together with those introduced in the last two Budgets, we will be providing substantial support to our businesses, mainly to help them upgrade and to hire older workers. This amounts to a total of about $1.4 billion this year, which will more than offset the additional amount businesses will pay due to increased foreign worker levies. This is true for our small businesses as well.

Renovation and Refurbishment Deduction Scheme

C.43. The next scheme is targeted especially at companies in the services sector. We introduced the Renovation and Refurbishment Deduction Scheme in 2008 to help businesses renew and refresh their premises, such as showroom displays or the décor for a restaurant. The scheme is due to expire next year.

C.44. Our service sector SMEs have found the scheme helpful. I will therefore make the scheme a permanent feature of our tax system, just like our capital allowance regime which our manufacturers have found helpful. I will also double the amount of expenditure that may be claimed from $150,000 to $300,000.

Mergers and Acquisitions

C.45. Another dimension of the restructuring of our economy will be through business consolidation or acquisition. It is how many of the more efficient and competitive players in each sector can gain economies of scale, acquire new capabilities, and raise overall industry productivity.

C.46. In Budget 2010, I introduced the Mergers and Acquisitions (M&A) Allowance scheme to support this. Companies are able to enjoy tax allowances of 5% of up to $100 million of the value of the acquisition. To provide further support to SMEs contemplating business consolidation, I will grant a 200% tax allowance on the transaction costs incurred, such as legal and tax advisory fees, subject to an expenditure cap of $100,000. More refinements to the M&A Allowance scheme are provided in Annex A-4.

CAPTURING OPPORTUNITIES FOR GROWTH

C.47. Let me go on to speak about the support we will provide for companies to capture new opportunities for growth. <u>This too is part and parcel of restructuring our economy.</u> Our companies must seize opportunities to grow in markets abroad or move up the value chain in their Singapore operations, so that we can sustain economic growth.

Internationalisation

C.48. The demand for urban services and infrastructure in emerging markets is growing rapidly. Many of our companies are well-placed to benefit from these opportunities, in areas such as water and sanitation, and construction and engineering works. In last year's Budget, I mentioned that the Government was working with Temasek Holdings to develop a specialised institution that will plug gaps in financing for larger, long-tenure projects overseas. Temasek has since put together a consortium of reputable financial institutions to establish a specialised project finance company (PFC).

C.49. The PFC will aim to have about 80% of its portfolio comprising cross-border projects with significant Singapore-based corporate participation. Once it has built up its operations and market presence, the PFC is expected to provide about $400 million of financing annually, in turn catalysing an additional $2 billion to $3 billion of projects.

C.50. As with similar institutions internationally such as the EXIM banks, some government support is necessary to ensure its viability, whether in the form of direct government loans, capital injections or guarantees for fundraising by the institution. The Government has decided that the best approach is to provide a <u>guarantee on the debt instruments</u> issued by the PFC, rather than to get more directly involved in the business through capital injections or direct loans to the PFC. This more arms-length approach is a better way of ensuring commercial discipline and sustainability in this project finance company.

C.51. The guarantee will allow the PFC to raise funds competitively, and thereby also offer terms to our companies that will help them compete internationally on a more equal footing. However, losses on any of the loans made by the PFC will have to be met in the first instance from its overall revenues and the consortium’s equity. This substantially reduces the risk of the guarantee being triggered.

C.52. The PFC is expected to be operational by the second half of this year, by which time more details will be made available.

Trade Financing and Political Risk Insurance

C.53. Another gap in cross-border financing that we had identified earlier was in trade financing for SMEs dealing in emerging markets.

C.54. We will expand the current suite of trade financing schemes under IE Singapore. This will include helping companies secure insurance coverage for political risks for projects overseas, especially in emerging markets.

C.55. The Ministry of Trade and Industry will elaborate further on this in the COS.

Double Tax Deduction for Internationalisation

C.56. I will also provide further help for companies to meet the direct costs of overseas marketing and business development by simplifying the Double Tax Deduction (DTD) for Internationalisation scheme. The details are in Annex A-4.

Developing New Competitive Strengths

C.57. In this year's Budget, I am also providing further support to some of our growth industries so as to help them develop capabilities and to align the tax rules applying to them with international norms.

Tourism

C.58. To develop distinctive and high-quality tourism offerings, and thereby attract higher visitor spend, we will inject an additional $905 million into the Tourism Development Fund (TDF).

C.59. Further, to capitalise on the vibrant growth of international cruise tourism, I will extend the GST Tourist Refund Scheme (TRS) to international cruise passengers departing from the Singapore Cruise Centre and the upcoming International Cruise Terminal.

C.60. I will also simplify and enhance the GST relief for goods brought in by travellers and residents returning from abroad, so as to keep pace with rising expenditures and bring the relief quantums closer to international practices. The details are in Annex A-4.

Marine and Offshore

C.61. Our Marine and Offshore industry, already a leader internationally, is developing new capabilities to take advantage of new growth opportunities. We will allocate $150 million from the National Research Fund to A*STAR and EDB to help our companies build R&D capabilities to develop solutions for deepwater oil production.

Gold Trading Hub

C.62. We will facilitate the development of gold trading, which can draw on Singapore's strengths as an international financial centre and trading hub, to meet strong demand for investment-grade gold in Asia.

C.63. Investment–grade gold and other precious metals are essentially financial assets that are actively traded and are just like other financial instruments that do not attract GST. I will therefore exempt them from GST. This change brings our tax treatment of investment-grade gold and precious metals in line with the practices of many developed economies, like Australia, UK and Switzerland.

Providing Tax Certainty

C.64. One of the concerns of our business chambers in recent years has been the treatment of capital gains. Although Singapore does not have a capital gains tax, businesses face some uncertainty about whether the gains from the disposal of their investments would be subject to income tax. I will set out clear guidelines specifying when a company will not be taxed on their gains from disposal of equity investments. Details on this and other tax changes are in Annex A-4.

Tobacco Tax

C.65. Finally, a quick word on sin taxes. I will raise the excise duties for beedies, “ang hoon” and smokeless tobacco by 20%, and unmanufactured tobacco by 10%. This is a continuation of our policy to harmonise tax rates on cigarette and non-cigarette tobacco products which we started last year.

D. ENHANCING OUR TRANSPORT SYSTEM

D.1. I will now go on to a significant initiative in this year's Budget - to enhance our public transport system.

D.2. Reliable and convenient public transport is critical to the quality of daily life for the majority of Singaporeans. When the planned Downtown Line, Tuas West Extension, Thomson Line and Eastern Regional Line are completed in a decade's time, our rail coverage will be comparable to that of cities with the most developed rail networks today such as New York. We will also have 400,000 housing units within 400 metres of MRT stations, double the number today.

BOOSTING BUS CAPACITY

D.3. It will take time for these rail capacity improvements to be completed. In the meantime, we will significantly ramp up bus capacity so as to relieve daily congestion in public transport. 60% of all passenger trips are in fact made on buses.

D.4. The Government has decided to make a major commitment to improve bus service levels. We will partner the public transport operators (PTOs) to add about **800 buses over the next five years**, or a 20% increase. This is a significant increase. It took the PTOs close to 20 years to grow the public bus fleet by 800 buses in the past.

D.5. The Government will provide funding for 550 buses while the public bus operators will add another 250 buses. This significant increase in bus capacity will reduce crowding and waiting times. For example, it will enable almost all feeder buses to run every 10 minutes or less – for two hours during morning and evening peak periods, instead of a one-hour peak currently.

D.6. This is an important new commitment that will stretch beyond this term of Government. To ensure that the Government can fulfil this commitment for both the purchase of buses and the running costs for 10 years, I will set aside $1.1 billion in this Budget for a Bus Services Enhancement Fund.

D.7. Beyond this one-time Government commitment to fund 550 buses, the viability of bus operations will have to rest on improvements in efficiency and a sustainable system of fare revenues.

REVISIONS TO THE VEHICLE TAX REGIME

D.8. I shall now move on to private transport measures.

D.9. The Green Vehicle Rebate Scheme (GVR) was introduced in 2001. Electric and hybrid cars, as well as those running on compressed natural gas (CNG), are given a 40% rebate of their Open Market Value, which is offset against the vehicle's Additional Registration Fee or ARF.

D.10. Ten years on, the take-up of green vehicles remains modest. One drawback of the GVR is that it is based on the technology platform, rather than the actual impact on the environment. Some hybrid vehicles with large engine capacity are in fact not very environmentally friendly, while some petrol cars with smaller engine capacity emit less carbon. We have thus decided to replace the GVR with a new Carbon Emissions-based Vehicle

Scheme, or CEVS in short, when the GVR scheme expires at the end of 2012.

D.11. CEVS is based on carbon efficiency and will be applicable to all new passenger cars. Car models with low carbon emissions will enjoy generous rebates on their ARF of up to $20,000, while those with high carbon emissions will have to pay a registration surcharge of up to $20,000.

D.12. With CEVS, some car buyers will pay less and others pay more, but the Government will collect less revenue overall. CEVS is expected to cost Government $34 million per year, more than double the total annual incentives given under GVR.

D.13. For commercial vehicles and motorcycles, we will be extending the GVR by another two years till end-2014. The Ministry of Transport will be announcing more details on CEVS in the COS.

Special Diesel Tax for Euro V Vehicles

D.14. Last year, the Government announced the adoption of Euro V emission standards for new diesel vehicles by 2014.

D.15. To encourage the adoption of new and cleaner diesel technologies, the Special Tax for Euro V compliant cars will be lowered from $1.25 per cc to $0.40 per cc from January 2013, a reduction of 70%. For a 1,600cc Euro V diesel car, this means that the Special Tax payable is comparable to the annual fuel tax paid by an equivalent petrol car.

Removal of Additional Transfer Fee

D.16. The Additional Transfer Fee, or ATF, is levied on used-vehicle transactions at 2% of the vehicle value at the point of transfer. Arising from feedback from the public and the motor industry, the Government has reviewed and decided that the ATF is no longer necessary. I will therefore abolish the ATF, starting tomorrow. This is estimated to cost the Government $70 million per annum in revenue forgone.

E. A FAIR AND INCLUSIVE SOCIETY

E.1. Mr Speaker Sir, we are making important moves to build a fair and inclusive society. We are growing our economy in a way that can lift incomes for all Singaporeans. Equally, we are stepping up social policy: to provide greater economic security for the elderly and Singaporeans with disabilities; and to help lower-income families develop resilience, strive hard, and move up.

E.2. We have two key challenges. First, to help the growing number of older Singaporeans live comfortably, even as they are living longer.

E.3. Our seniors want active and fulfilling lives. At the same time, many have worries, including those in the middle-income group. They worry about whether they will be able to afford treatments when they fall ill, whether they will be a burden on their children, and whether they can grow old in the company of family and friends.

E.4. We will do more to help them. We are particularly concerned about the current generation of older Singaporeans, many of whom have very limited cash savings. Their CPF balances are low because wages were much lower 20 or 30 years ago, and the Minimum Sum they were required to set aside was also much smaller.

E.5. However, these older Singaporeans do have substantial savings in the value of their homes.

E.6. We will help them use this wealth to boost their retirement income. At the same time, we will give them greater assurance of being able to afford their healthcare.

E.7. Our second challenge is inequality. The economic pressures that have led to widening income gaps nearly everywhere in the world will not go away soon. Furthermore, because Singapore is a global city, our income inequality will inevitably be wider than in larger countries, like in many other global cities.

E.8. But we cannot leave our social compact vulnerable to market forces. We have to do all we can to contain inequality, and to sustain social mobility in each new generation.

E.9. We are therefore making a determined, multi-year effort to raise the prospects of success for lower-income families. We must also give our middle-income families every opportunity to achieve their aspirations in an evolving and often unpredictable economic environment.

E.10. We still see evidence of considerable social mobility, as students from all backgrounds flow through our education system. Take our PSLE cohorts. Each year the top students come from schools all around the island, including many neighbourhood schools. And a significant proportion of students from the lower end on the socio-economic scale make it to the top one-third in PSLE performance.

E.11. But it will get more difficult to keep up this mobility in the years to come – precisely because we achieved a very high degree of mobility in the past. We must therefore work harder at this. We must find every effective way to help those who start off lower down to catch up and do well; every way to prevent disadvantage from repeating itself across generations.

E.12. Education and jobs are the springboards to success in Singapore. We will do more to help children from disadvantaged homes, starting earlier in their lives – better quality pre-schooling, specialised intervention to help those with specific learning difficulties, and more after-school student care in the primary school years. We are also broadening education so that every student can develop their strengths, in and out of the classroom.

E.13. We are expanding our pathways to a university education, to match the aspirations of our students and give them skills that will find them good jobs. PM spoke about this at last year's National Day Rally. We are also investing heavily to give every adult worker the opportunity to keep up-skilling, or even return to a tertiary institution, mid-career, to enrich his knowledge.

E.14. But we must also groom a larger pool of social workers and other professionals, to help lower-income families overcome the deeper and more complex problems that many of them face. The solution to low incomes does not only lie in supporting incomes through government transfers, as many societies have found. We need many more people with passion for the job, from speech therapists and learning support specialists to work with children in their early years, to counsellors who can help families work towards better times, or gain the trust of drug offenders and help them turn their lives around. This is an important priority. We will do more to <u>attract Singaporeans into the social sector</u>, reward them better, and enable them to have fulfilling careers.

HELPING OUR SENIORS LIVE LONG, LIVE WELL

E.15. Mr Speaker Sir, let me move on now to the main steps we are taking in this year's Budget, as part of the broader shifts that we will be making in our social policies over the next five years.

E.16. First and foremost, we want to help Singaporeans age with dignity and grace. Our seniors aspire not just to live long, but to have fulfilling, active golden years.

E.17. The key change is that fortunately people are healthier and are living longer, but unfortunately working careers have not lengthened to the same extent. So the savings they have at the time they retire have to be stretched out in smaller amounts over a longer period. To help our older Singaporeans, we will provide strong support for those who desire to stay at work. We will also help them unlock the savings in their homes, so as to boost retirement income. And we will significantly expand hospital and long term care capacity and make services more affordable – including for the middle-class elderly.

Rewarding Work

E.18. First, helping older Singaporeans at work.

Increase CPF Contribution Rates

E.19. Earlier, I announced a strong incentive we will provide for employers to engage older Singaporeans. The Special Employment Credit (SEC) will especially help older Singaporeans who are in the bottom half of the income ladder.

E.20. On top of this, we will help all our older workers, including those with incomes in the upper half, by raising CPF contribution rates.

E.21. We lowered contribution rates for older workers in the late 1980s and again in the last decade, because their employment rates were lower compared to younger workers. Seniority-based wages discouraged employers from hiring older workers. The lower CPF contribution rates hence helped to offset the higher cost of older workers, and <u>kept them in demand in the employment market</u>. However, we have made good progress in recent years in flattening wage scales, and in increasing the employment of older Singaporeans.

E.22. We can expect this positive trend to continue. The labour market is tight. Our workers in their 50s and 60s will increasingly have better educational and skills profiles. Our re-employment legislation is now in place. And the SEC will provide further support.

E.23. It is therefore a good time for us to raise CPF contribution rates for three groups of Singaporeans – those aged 50 to 55, 55 to 60 and 60 to 65.

E.24. First for those aged <u>between 50 and 55</u>. We have had good consultations with our tripartite partners, and reached a consensus that we should give this group the same CPF contributions as younger workers, rather than reduce CPF contribution rates after age 50.

E.25. We therefore need to raise CPF contribution rates for this group by <u>6 percentage points</u> – 4 percentage points from the employer and 2 percentage points from the employee – to reach the full

CPF contribution rate of 36%. However, we cannot make this major move in one step, and particularly with an economic slowdown at hand.

E.26. For the first step this year, we will raise CPF contribution rates for those aged between 50 and 55 by 2.5 percentage points – 2 percentage points from the employer and 0.5 percentage points from the employee. This will bring their total CPF contributions up from 30% to 32.5%.

E.27. For the second group comprising Singaporeans aged between 55 and 60, we will raise contribution rates by 2 percentage points – 1.5 percentage points coming from the employer and 0.5 percentage points from the employee.

E.28. For the third group, those aged between 60 and 65, their employer contribution rate will increase by 0.5 percentage points. There will be no increase in their employee contribution rate. (See Table 1 for full schedule.)

E.29. We will have to watch how the employment market develops before making any further moves. The SEC will hopefully encourage employers to attract and retain more of these older workers.

Table 1: Increased CPF Contribution Rate

Age	New contribution rates* from Sep 2012 (increases from current rates are in brackets)

	Employer	**Employee**	**Total**
Above 50 to 55	**14** (**+2.0**)	**18.5** (**+0.5**)	**32.5** (**+2.5**)
Above 55 to 60	**10.5** (**+1.5**)	**13** (**+0.5**)	**23.5** (**+2.0**)
above 60 to 65	**7** (**+0.5**)	7.5	**14.5** (**+0.5**)

* *% of wages.*

E.30. We will allocate more of the increased contribution rates to the Special Account (SA), with a smaller portion going to the Ordinary (OA) and Medisave (MA) accounts.

E.31. These changes in CPF contribution rates will take effect from <u>September 2012</u>, in line with the first disbursement of the enhanced SEC.

E.32. We will <u>also raise contribution rates of self-employed persons into their Medisave Accounts</u>, to be in line with those of employees. The Medisave contribution rates for those aged 50 and above will be raised from 9% to 9.5%. This change will take effect from January 2013.

E.33. More details are in Annex B-1, and a press release that the Ministry of Manpower will issue later today.

Enhanced Earned Income Relief

E.34. I will also raise the income tax relief for older taxpayers so that they can retain more of their income from work. They deserve this. I will double the Earned Income Relief for those aged 55 and above. Those aged 55 to 59 will now enjoy $6,000 in Earned Income Relief per annum, while those aged 60 and above will enjoy $8,000.

E.35. 119,000 older Singaporeans will benefit. The increased relief will cost the Government $30 million per annum, and will be effective from Year of Assessment 2013.

Helping Seniors Unlock Savings

E.36. As I mentioned earlier, many of our current generation of elderly have significant wealth in their homes. We will provide them an attractive option to free up money for their retirement years by moving to smaller homes.

Silver Housing Bonus

E.37. First, we will introduce a Silver Housing Bonus of $20,000.

E.38. This Bonus will be given to older Singaporeans who wish to sell their existing flats and purchase 3-room or smaller HDB flats. Many of our senior citizens are in fact keen to do so – the great popularity of our Studio Apartments speaks for itself. It is not just a desire to unlock their savings, but that the apartments are practically designed for them. And they have nearby amenities that cater to the elderly, such as Senior Activity Centres. We will be building more Studio Apartments in the next few years.

E.39. The Silver Housing Bonus works like this. The Government will provide $15,000 in cash and $5,000 to the CPF accounts. To benefit from the scheme, the homeowners will use the proceeds from the sale of their previous home to top up their CPF savings up to the prevailing Minimum Sum. All amounts above the Minimum Sum can be withdrawn in cash, and we expect many to be able to do so.

E.40. Suppose we have a retiree couple who each had $10,000 set aside in their Retirement Accounts when they turned 55. They decide to move from a 3-room flat to a Studio Apartment. That gives them net proceeds of $250,000. The proceeds will go into their CPF LIFE. But because they will now exceed the Minimum Sum, they take out $8,000 in cash. Together with the $15,000 cash from the Silver Housing Bonus, they get $23,000 in total. Most important, they also get a much bigger income for life from CPF LIFE - an additional $1,200 per month.

E.41. Seniors who move from a 4- or 5-room flat to a Studio Apartment would gain much more – more than five times as much upfront in cash.

Enhance Lease Buyback Scheme

E.42. To complement the Silver Housing Bonus, we will also enhance the Lease Buyback Scheme. This is another way in which older Singaporeans can get money out of their homes – by selling part of their lease back to the Government.

E.43. To make the Lease Buyback Scheme more attractive, we will double the incentive from $10,000 to $20,000. Of this, $15,000 will be paid in cash – a similar quantum to the Silver Housing Bonus.

E.44. We will also help them keep some of their cash proceeds. Unlike the current scheme, where all proceeds must be used to purchase a CPF LIFE plan, participants can now receive in cash the proceeds that are above the prevailing Minimum Sum.

E.45. The Minister for National Development will elaborate on these measures in the COS.

Better Healthcare, from Hospital to Home

E.46. I will now move on to the significant measures we are taking in healthcare.

E.47. We will double our yearly healthcare expenditure from $4 billion to about $8 billion over the next five years. It is about more and better infrastructure, from hospitals to home-based care. It is about engaging many more healthcare professionals, such as doctors, nurses and Allied Health Professionals, and paying them more competitively. And it is about making it more affordable, including for the middle class.

E.48. We will expand bed capacity in our acute hospitals, as well as our ability to provide longer-term care for the elderly both in institutional settings, and at home. But we must also shift from the current concentration on acute hospital care and move towards providing affordable, long term care. Most importantly, we must make it easier and more affordable for the elderly to stay at home, with access to quality care services when needed.

Expand Healthcare Capacity

E.49. First, we will expand public hospital capacity. We will increase the number of beds in acute hospitals by <u>about 30%</u>, or 1,900 beds by 2020. This is more than the capacity of the Singapore General Hospital (SGH) today.

E.50. Second, we will add another 1,800 Community Hospital beds by 2020, <u>more than a 100%</u> increase from today. Besides the new Community Hospitals that will be co-located with Khoo Teck Puat Hospital and the new Ng Teng Fong General Hospital, we will add two more Community Hospitals in Outram and Sengkang by 2020.

E.51. Third, we will <u>more than double the capacity in long term care</u> services by 2020. This includes nursing homes, home-based health and social care services, day care and rehabilitation facilities, and Senior Activity Centres. We will also <u>improve access to polyclinics and introduce new models of care, such as Medical Centres</u> that provide specialist outpatient services in the community.

E.52. The Minister for Health will elaborate on this major expansion and broadening of our healthcare landscape in the COS.

Enhance Affordability

E.53. Next, we will enhance affordability of long term care.

E.54. We will increase subsidies in our Community Hospitals such that all patients can receive help with their bills. Lower-income patients will receive a 75% government subsidy. Those above the median income, who previously did not receive any subsidy, will now receive a 20% to 50% subsidy. The Community Hospitals that previously had to use charity dollars to offset bills for middle-income patients can now use these resources in other ways – such as providing further help to those in need, or improving the quality of care.

E.55. We will also raise subsidies for nursing homes, day care and rehabilitation facilities and home-based care packages so that more in the middle-income group can benefit. Two-thirds of Singaporean households will now qualify for subsidies. As the elderly often do not themselves have income, what this effectively means is that about 80% of elderly will qualify.

E.56. Let me illustrate the impact. For a middle-income family with an elderly parent at a private nursing home, the new subsidies will bring down their costs from about \$2,800 to \$1,700 per month. However, if they opt for a home-based care package, our subsidies will bring the cost down from about \$1,400 to \$700 per month. Both will be significantly cheaper than before, and home-based care will be about 40% of the cost of nursing home care. This shift should hopefully allow about one out of two frail seniors to enjoy home-based care instead of moving to a nursing home.

E.57. Instead of getting external help, some families may prefer to hire a foreign domestic helper, especially when constant attention is required. This may also allow family members to continue working. We will give a \$120 grant per month to families hiring a foreign domestic helper to help care for elderly family members who have severe dementia, or are immobile and unable to care for themselves[10]. This is on top of the $95 concession in the Foreign Domestic Worker Levy that all households with elderly persons will continue to enjoy.

E.58. Families with elderly members also find it very helpful to have safety features in their flats. We will subsidise home modifications such as grab bars and anti-slip treatment for bathroom tiles through a new programme, the "EASE" (Enhancement for Active Seniors) Programme. Each citizen household with an elderly member can get home modifications worth around $2,000. They would pay no more than $250 themselves.

E.59. We expect this programme to benefit 130,000 households and cost around $260 million over the next 10 years. The Minister for National Development will elaborate on EASE in the COS.

Absorb GST for Long Term Care

E.60. GST is currently fully absorbed for Class B2 and C patients in our acute hospitals. I will extend the same benefit to subsidised patients in the long term care sector, extending from Community Hospitals to nursing homes and the range of home-care services that I spoke about this earlier, so that they do not have to pay GST. About 40,000 Singaporeans receiving long term care will benefit.

Medifund Top-up

E.61. The enhanced subsidies that we have introduced in this Budget will help many more Singaporeans with the cost of healthcare.

[10] Those unable to perform three or more Activities of Daily Living.

However, there will be some who need extra assistance, including not only those with low incomes but also some middle-income Singaporeans faced with high medical expenses. Medifund will help them cope.

E.62. I will provide a $600 million top-up to Medifund this year. This will increase the payouts from Medifund by over 20%.

Enhance MediShield

E.63. The final plank in our plans to provide better healthcare support for older Singaporeans is to enhance MediShield, which covers them for their major hospital bills. For example, a basic MediShield plan can cover up to 70% of a large Class C hospital bill for a knee replacement. This would reduce the patient's payment from $6,200 to $1,800, which can be paid for using Medisave.

E.64. We will extend MediShield coverage from age 85 to 90, as many more Singaporeans are now living till 90 and beyond. MOH also intends to engage the public on other changes to MediShield, including extending coverage to people who suffer from congenital conditions.

E.65. These are worthwhile shifts, and in particular will mean that most Singaporeans will be covered by MediShield for their whole life. But it will also require an increase in premiums across the board.

E.66. I will therefore provide a one-off Medisave top-up to all Singaporeans currently on MediShield, to help them adjust to the premium increase. As older Singaporeans pay the highest premiums, they will receive a larger Medisave top-up (see Table 2).

Table 2: Medisave Top-ups

Age Group[11]	Medisave Top-up
1-40	$50
41-50	$100
51-60	$200
61-75	$300
76 and above	$400

E.67. The Minister for Health will elaborate on MediShield in the COS.

How Older Singaporeans will Benefit

E.68. As all this amounts to a significant package of support for the elderly, let me briefly summarise. Taken together, our strategy of helping the elderly by enabling them to stay at work, helping them unlock the savings in their homes and providing better and more affordable healthcare support will give them peace of mind and a greater sense of security.

a. Older workers will enjoy higher CPF contributions, and reduced income tax bills through a higher Earned Income Relief. Their employers will also receive a Special

[11] Age at next birthday

Employment Credit as an incentive to retain them and reward them adequately.

b. Elderly households who take up the Silver Housing Bonus or the Enhanced Lease Buyback Scheme can gain $20,000.

c. Lower, and especially middle income elderly will benefit from enhanced subsidies in Community Hospitals, nursing homes, day care and rehabilitation facilities and home-based care packages. They can gain $480 to $610[12] per month through subsidies for a range of home-based care services, and a further $1,800[13] to add safety features to their homes.

d. Older Singaporeans who use long term care services can benefit from GST absorption.

e. Those under MediShield will receive Medisave top-ups to help them pay for MediShield premiums as coverage extends to age 90.

E.69. This is therefore a package that will benefit virtually all Singaporean families, including the children who are or will in time be supporting their parents.

SUPPORTING SINGAPOREANS WITH DISABILITIES

E.70. Let me now move on to talk about what we will do for Singaporeans with disabilities. They are not a very large group in our society – about 3% of Singaporeans, or 100,000 in total. But

[12]Based on a home-based care package for an elderly person in a median income household with moderate to severe disability.

[13]For a household living in a 4- or 5-room flat.

their lives can be challenging. Parents of children with special needs try their best to cope and bring up their children with the care and love they need. They could do with extra support.

E.71. We will provide a stronger helping hand for Singaporeans with disabilities, at each stage of their lives.

Strengthening Early Intervention and Education

E.72. Let me start with their pre-school years. We will increase places in centres for children who need intensive early intervention. In addition, in mainstream pre-school classrooms, we will introduce a new programme to provide <u>learning support and therapy interventions</u> to children with mild speech, language and learning delays. Some 2,000 children will benefit from this new "Development Support Programme" when it is fully rolled out.

E.73. MCYS will elaborate on this in the COS. We will also make enhancements to our Special Education (SPED) schools, which MOE will speak about in the COS.

Supporting Employment

E.74. With better education and a supportive community, more young Singaporeans with disabilities will be able to enter the workforce and remain independent in their adult years.

E.75. Chen Min Li is an energetic 23-year-old who graduated from Towner Gardens School, one of our SPED schools. She then went on to complete four years of vocational skills training. She now works in the service crew at Carl's Junior. Min Li is happy to be able to add to her family's finances, and according to her supervisors, is one of the most enthusiastic workers at Carl's Junior.

E.76. There are many others like Min Li who want the opportunity to do meaningful work. I will therefore extend the Special Employment Credit to employers who hire SPED graduates, regardless of age. They will get a credit of 16% of the employee's wages, which is twice as large as the SEC that I spelt out earlier for older workers[14]. With these enhancements, the employer of a SPED graduate who earns $1,000 a month will receive $160 per month in the form of a Special Employment Credit.

E.77. To help the workers earn more income, I will also extend the Workfare Income Supplement scheme to all SPED graduates who work, even if they are below 35, and double the Handicapped Earned Income Relief for all persons with disabilities (refer to Annex A-4).

E.78. Our measures to support their employment will complement what we plan to do under the Enabling Masterplan, such as enhancing vocational training, job placement, and support for continuous improvement in their working years.

[14] For Singaporean SPED graduates earning up to $1,500 per month, the SEC will be 16% of wages. For monthly wages between $1,500 and $3,000, the SEC is $240 per worker. A lower SEC will also be provided for those with a monthly wage of between $3,000 and $4,000.

Better Adult Care

E.79. However, Singaporeans with more severe disabilities will need care throughout their adult lives. This is especially because more and more of them outlive their parents.

E.80. They will be eligible for the same enhanced care subsidies that older Singaporeans will receive. Additionally, we will expand places in Day Activity Centres by 25%[15], to allow their caregivers to work or have free time during the day. With our enhancements in adult care this year, a middle-income household can receive up to $5,700 in subsidies to offset 50% of the annual cost of attending a Day Activity Centre. Low-income households will get more.

E.81. We will also embark on other measures including expanding places in residential homes and providing transport options. The Acting Minister for MCYS will elaborate on these and the other government responses to the Enabling Masterplan Committee's recommendations in the COS.

UPLIFTING LOWER-INCOME FAMILIES

E.82. We know that lower-income Singaporeans have real worries about their day-to-day expenses. And they are concerned about whether their children will do well in school and get a good job.

E.83. Our most important solution to help lower-income families is to give their children a high-quality education, and help them keep upgrading their skills as adults so they can take on better jobs. This is a major work-in-progress. We have also taken significant

[15] 250 additional places.

steps in recent years to support their incomes through Workfare, help them own their homes and build up their savings.

More Support for Children from Lower-Income Families

E.84. In this Budget, we will provide further financial support for children from less well-off families.

Pre-school Subsidies

E.85. We have enhanced our pre-school subsidies significantly in recent years. To provide further support for larger families, we will also introduce a new, per capita household income criterion (PCI) for subsidies.

E.86. Take for example a family of five (with three children), earning $2,500 in household income. They will now pay only $20 for each child in child care[16], compared to $110 previously. This is similar to what lower-income families with fewer children would pay.

MOE Financial Assistance Scheme

E.87. We will help more students benefit from the MOE Financial Assistance Scheme by raising the household income ceiling from $1,500 to $2,500 per month. It will mean that 40,000 more students, or twice the original number, will be fully subsidised for their school fees, uniforms and textbooks, and receive a 75% subsidy on their exam fees.

[16] Assuming they attend a HDB Childcare Centre costing $620 per month.

Top-ups to Schools for Discretionary Financial Assistance

E.88. We will provide a further top-up to School Advisory and Management Committees of up to $15,000 per year for the next three years. This will give the committees greater certainty of government support and help them introduce new schemes in the school – such as transport assistance for students.

E.89. The two enhancements I have just mentioned will also be provided to our SPED schools.

Student Care Fee Assistance (SCFA) Scheme

E.90. We will enhance the Student Care Fee Assistance (SCFA) scheme to benefit more families. As student care costs much more than fees and expenses for regular school, we will extend subsidies to a larger group of families than those who qualify for the MOE Financial Assistance Scheme. Subsidies for student care will be extended to families with up to $3,500 in monthly household income. A family earning say $2,500 per month would typically see the amount they pay for student care reduced from $200 to $80 per month.

Top-ups for Education and Social Support

E.91. To support the Government's and community's efforts, I will also make several top-ups this year.

E.92. I will provide a $200 million top-up to the Edusave Endowment Fund to help all children enjoy meaningful enrichment programmes.

E.93. I will make a $200 million top-up to the ComCare Endowment Fund to support families in need.

E.94. As the community plays a crucial role in helping low-income families, I will also give a total of $10 million to our Self-Help Groups and the CCC ComCare Fund.

Broadening Opportunities for Every Child

E.95. The real story, however, is not just about helping families cover their fees and costs in school. What we are providing is a breadth of exposure to every child regardless of family background in a way that few school systems overseas do. We have been building this up across the school landscape, so as to allow every child to discover what they like, and what they are good at.

E.96. Muhammad Fairoz is now in Secondary 4 at Yusof Ishak Secondary School. His family has modest means – his father is a factory cleaner and his mother is a housewife. He is doing very well. He has obtained Edusave Merit Bursaries and Scholarships over the last few years, besides the MOE Financial Assistance Scheme. In fact, he has had near perfect scores of 6 academic distinctions every year. He also went to Xi'an on a 10-day cultural exchange programme that was fully funded by the Trips for International Experience Fund that every school gets, plus his Edusave Account.

E.97. Fairoz does a lot more in school. He is a tenor in the school choir, which is where his talent was also spotted for the school's Performing Arts Programme. Last year, he played the role of Professor Higgins in the school's production of "My Fair Lady". Now, he wants to go on to do theatre studies so that he can become a stage actor. So that's how we do it. Give every student the chance to go through varied experiences so that along the way they can discover something they like and that they are good at.

A Fair Tax System

E.98. Let me move on now to a broader theme, which involves how the GST affects the poor, and its role as part of a fair system of taxes and benefits.

E.99. <u>Our fiscal system is a progressive one</u>, which means that the poor get far more benefits compared to the taxes they pay, and the better-off pay more taxes.

E.100. The top 20% of households pay 80% of income taxes collected. We shifted to progressive property taxes last year, and they should become more so over time. Then, there is the GST, which is a flat tax and is therefore on its own, regressive, taking up more of the pay of those with low incomes.

E.101. <u>But taken as a whole, our fiscal system has in fact become more progressive over the last decade despite our raising the GST</u> from 5% to 7%. This is because we introduced programmes like Workfare and enhanced our subsidies to help lower-income families. These enhanced benefits are much larger than the increase in GST that they now pay.[17]

E.102. These permanent transfer schemes are how lower-income Singaporeans benefit from our fiscal system. Our GST, most of which comes from residents in the upper half of the population by incomes, and foreigners, is an important source of revenue that enables us to fund this system of transfers.

E.103. In addition, we provided a substantial package of temporary offsets for individuals and households when we raised the GST in 2007. These temporary offsets lasted until last year.

E.104. To carry on with these offsets, I will now introduce a permanent GST Voucher to help lower-income Singaporeans. The GST Voucher will provide continuing assurance that our GST does not hurt the poor.

E.105. This Voucher will fully offset the 7% GST that the lower half of retiree households pay on their expenses. Many retirees in the upper half will also have their GST offset by a significant amount.

E.106. The GST Voucher for other lower-income families (who do not have elderly members) will also offset about half their total GST bills. Further, taking into account the other permanent benefits that they receive through Workfare, housing, education and healthcare, they will get back much more than the GST they pay.

E.107. There will be three components to the GST Voucher – cash, Medisave top-ups and U-Save. The amount each Singaporean will get will be based on both their income and the Annual Value

[17] If we add it all up, the average lower-income (2nd decile) household has received $2.40 back in additional permanent transfers for every dollar of additional GST paid over the past five years

(AV) of their homes. This is by no means a perfect system, but it is fair to have both criteria. For example, retirees and homemakers who have no incomes but live in higher-end homes, are generally better off than most lower-income Singaporeans.

GST Voucher - Cash

E.108. The <u>cash component</u> will be given to Singaporeans whose incomes fall within the bottom 40%, and who live in HDB flats or the bottom 15% of private properties (those with an Annual Value of up to $20,000).

E.109. Those who live in HDB flats will receive $250 in cash each year. Those living in lower-end private properties will receive $100, as long as their incomes are also low (below $24,000)[18]. $100 may not be a large sum, but taken together with the Medisave component of the GST Voucher, it will provide some help for our retirees who live in lower-end private properties. (See <u>Table 3</u> for full schedule.)

Table 3: GST Voucher - Cash

Assessable Income for YA2011	**Annual Value of Home as at 31 Dec 2011**	
	Up to $13,000	**$13,000 < AV ≤ $20,000**
≤ $24,000	**$250**	**$100**

[18] 40th percentile of annual incomes.

GST Voucher - Medisave

E.110. The second component of the Voucher will comprise an annual top-up to the Medisave Accounts of older Singaporeans. Those above 65 and living in HDB flats or lower-end private properties will receive this top-up (see Table 4). This would benefit 85% of all elderly Singaporeans.

E.111. A 75-year-old Singaporean, for example, will receive $350 if he lives in an HDB flat, or $250 if he lives in a lower-end private property.

Table 4: GST Voucher - Medisave

Age	Annual Value of Home as at 31 Dec 2011	
	Up to $13,000 (All HDB flats)	$13,000 < AV ≤ $20,000
65-74	$250	$150
75-84	$350	$250
≥ 85	$450	$350

GST Voucher - U-Save

E.112. Finally, the GST Voucher will help lower- and middle-income households through permanent U-Save rebates, to offset part of their utilities bills.

E.113. Households living in smaller flats will benefit more. 1- and 2-room HDB households will receive $260 per year, which is equivalent to about three to four months of their utilities bills on average (see Table 5).[19]

Table 5: GST Voucher - U-Save

Housing Type	Annual U-Save
HDB 1- and 2-Room	$260
HDB 3-Room	$240
HDB 4-Room	$220
HDB 5-Room	$200
HDB Executive	$180

E.114. Let me illustrate how the GST Voucher adds up. A retiree couple living in a 3-room flat will receive enough to offset fully the GST they pay each year. They typically pay about $840[20] in GST a year, but will receive $1,240 worth in their GST Voucher. (This is without counting the one-off Medisave top-up they will receive this year, which is not part of the GST Voucher).

E.115. Younger lower-income households (without elderly persons) in 3-room or 4-room flats will also receive a significant GST offset. It should cover about half of the total GST they pay each year.

E.116. In total, the GST Voucher will cost about $680 million this year. As I have explained, this will be a long-term feature of our fiscal system and not a scheme of temporary offsets. To ensure that we can provide this GST Voucher irrespective of economic circumstances over the next few years, I will set aside $3.6 billion

[19] Overall, the U-Save rebates will benefit about 800,000 households (or 75% of all households).

[20] See Annex B-2

this year to finance the scheme for the first five years. To do this I will set up a GST Voucher Fund from which payouts will be made in the coming years.

F. BUDGET POSITION

F.1. Mr Speaker Sir, this is therefore a Budget for the future. We are building an inclusive society, founded on higher skills, better jobs for every vocation, and a fair social compact.

FY2012 Estimated Budget Position

F.2. We are starting off from a position of fiscal strength. For FY2012, we expect a small basic surplus of $1.3 billion, which is close to a balanced budget at 0.4% of GDP. This reflects our operating revenues, but does not take into account the Net Investment Returns Contribution (NIRC) from past reserves. It also reflects the expenditures we will make in FY2012, but not the monies we are setting aside in endowment and trust funds for future spending.

F.3. Our NIRC is estimated at $7.3 billion. Taking this into account and the contributions to endowment and trust funds – all of which that I have mentioned earlier - **the Overall Budget Balance for FY2012 is projected to be $1.3 billion (0.4% of GDP).**

G. CONCLUSION

G.1. Mr Speaker Sir, at the Opening of Parliament in October, PM spoke of building an inclusive society, and sketched the Government's vision for a stronger Singapore and better home.

G.2. Budget 2012 sets out our directions and takes significant steps towards achieving this vision. We are restructuring and upgrading our economy, so that workers can enjoy higher incomes and every Singaporean family can aspire to move up. We are also introducing new initiatives, and deploying more resources to uplift and support lower- and middle-income Singaporeans.

G.3. But we all know that building an inclusive society is not just about government redistributing resources to help the poor. It is about building a society where at its heart, people retain a deep sense of responsibility for their families and seek every opportunity to improve themselves and do better. Where employers treat workers with respect, value their contributions and reward them fairly. Where the more successful step forward to help others in the community, because they feel for their fellow citizens. And where Singaporeans actively participate in causes that will make this a better society. An inclusive society will only blossom if we grow this spirit of responsibility and community.

G.4. It has to be about how we go about our lives as Singaporeans, like the people in this video.

G.5. [Tan Ai Li, 11. Sani Rosmani, 45. Mumtaz Begum, 40. John Forbes, 92. Mrs Goh Kah Tian, 55.]

G.6. Opportunity, improving ourselves, compassion. They define the character of the society we are building, and must be our common purpose as Singaporeans.

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