

## **MOF COMMITTEE OF SUPPLY SPEECH 2014**

### **A. INTRODUCTION**

- A.1 Madam, I thank the Members for their thoughtful comments and questions for the Ministry of Finance.
- A.2 My colleagues from MTI spoke yesterday about measures to support industrial and SME development, and to raise incomes through quality growth.
- A.3 In fact, a whole-of-Government approach is needed to meet both economic objectives and social objectives. MOF's policies and initiatives thus complement the efforts of MTI and other Ministries, to create an enabling environment for businesses to thrive, and to meet the needs of our citizens.
- A.4 I will organise my response to Members' cuts around two themes:
- a. First, supporting economic transformation and SME growth; and
  - b. Second, strengthening Government effectiveness
- A.5 I will then deal with tax incentives, reliefs and our reserves.

### **B. SUPPORTING ECONOMIC TRANSFORMATION AND SME GROWTH**

#### **B(I) OPPORTUNITIES FOR SMES IN GOVERNMENT PROCUREMENT**

- B.1 During the Budget Debate, we have heard how SMEs can continue to participate meaningfully in our economy. In fact, SMEs have also had good access to Government procurement, which is a question that Ms Jessica Tan has asked.

- B.2 In 2013 alone, about 80% of all Government tenders (and this is referring to contracts valued above \$70,000) were awarded to SMEs. In terms of contract value, this was about 50% of contracts awarded by the Government, and it is higher than the target 25% share of Government spending which, as Ms Tan shared, the UK has set for its own SMEs.
- B.3 More significantly, SMEs were successful in tendering, not just for smaller projects but fairly sizeable ones.
- a. For example, for the 1105 tender contracts valued between \$1 million to \$50 million called last year, SMEs won 872 of them, or about 80%.
  - b. In the construction sector, where we look at contracts valued between \$50-100 million in 2013, SMEs clinched about 60%, 19 of the 31 contracts.
- B.4 However, there is scope to help SMEs, in particular smaller SMEs, take on more or larger projects. For instance, in the IT and Telecommunication sector, SMEs won 60% of the tenders awarded which collectively accounted for 40% of the total contract value. We intend to do more to focus our help to nurture Singapore tech start-ups in the IT sector and at the same time achieve better outcomes for the Government. MCI will be addressing this in their Committee of Supply response.

## **B(II) HELPING SMES TO UPGRADE**

- B.5 Madam, in the Budget Round-Up Speech, DPM Tharman has explained that PIC is a broad-based scheme that we have deliberately kept simple to support as many businesses as possible in the productivity drive. To help SMEs, we will make PIC claims easier and process them more quickly.

- a. First, they will get help to avoid common mistakes when applying for the PIC cash payouts, and this will be done through a web-based application form that provides built-in validation checks. In other words, even before they submit their claims, the application process will alert them on how they can avoid common mistakes.
  - b. From early next year, IRAS will be able to process most claims within two weeks, compared to three months today. Businesses will then get their PIC cash payouts with less paperwork and in shorter time.
- B.6 Many SMEs actually apply for PIC themselves without using consultants because it is a fairly straightforward process. Businesses which need help can attend PIC seminars or sign up for PIC clinics, which offer free one-to-one consultation sessions with officers from IRAS and SME Centres, which MOS Teo Ser Luck had talked about yesterday.
- B.7 The PIC covers a very broad range of activities. It is unlike SPRING's Innovation and Capability Vouchers scheme which is designed specifically to help micro and small SMEs take the first step in capability upgrading, with the support of external consultants. To keep things simple for such SMEs, there are pre-selected modules and pre-qualified consultants for SPRING's ICV scheme.
- B.8 Given the much wider range of businesses and activities supported by PIC, having a list of accredited PIC consultants as suggested by Ms Tan Su Shan, or even accredited PIC vendors, would make PIC more restrictive than necessary. So, we will take a practical approach. Where it makes sense, we can have a pre-qualified list; but where it'll be restrictive, we'll leave it open

- B.9 Ms Tan asked if the eligible list of equipment was adequate. In fact, it covers more than 90% of PIC equipment claims. The list is regularly updated based on feedback from businesses and trade associations. In the past two years, we have included new sector-specific automation equipment in sectors such as F&B, construction and cleaning.
- B.10 Businesses with equipment not on the prescribed list fill-in a one-page form. IRAS has approved a vast majority of the applications, 80% of them within three weeks. To require an independent, expert body to assess the claims would actually complicate and lengthen the process.
- B.11 Besides the PIC, there are many other schemes which support SMEs. However, a common feedback is that SMEs have difficulty figuring out which ones to tap on for their particular needs.
- B.12 The Government processes more than 127,000 grant applications by businesses annually. There's scope to streamline grant criteria. To make the application process more friendly, we can also auto-populate common data fields using previously submitted data, for example. MOF and MTI are working with our agencies to improve the accessibility of these schemes.
- B.13 This is a complex exercise as it requires a fair amount of streamlining and standardisation across several agencies; but it is a worthy exercise as it will improve the productivity of businesses and enable the Government to better meet the needs of our SMEs.
- B.14 Mr Liang Eng Hwa asked if we can further reduce the corporate regulatory and compliance burden on SMEs.
- B.15 Our corporate regulatory environment is considered pro-business, with rules that are effective and not excessive. Since 2007, Singapore has been ranked

first on the ease of doing business indicator which the “World Bank Doing Business” Report indicates. And we can do more for SMEs.

B.16 First, when the Companies Act is amended later this year, more companies will be eligible for audit exemption<sup>1</sup>.

- a. Currently, an estimated 197,500 companies enjoy audit exemption;
- b. With the change, another 25,000 companies, almost all SMEs, will qualify;
- c. And this would mean savings amounting to several thousand dollars each from the audit fees they would have to pay.

B.17 This does not mean a loosening of governance and accountability. Existing safeguards will be retained, such as requiring all companies to keep proper accounting records.

B.18 Second, tax filing has been simplified for micro companies with revenues of \$1 million or less. They can also file their returns electronically, thus reducing paperwork. These companies do not need to submit their financial statements and tax computations unless requested by IRAS for audit purposes.

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<sup>1</sup> One of the proposals is to exempt “small companies” from the need to have their accounts audited. A “small company” will be defined as a private company that meets two out of the following three criteria:

- (i) total annual revenue of not more than \$10 million;
- (ii) total assets of not more than \$10 million;
- (iii) number of employees of not more than 50.

**C. STRENGTHENING GOVERNMENT EFFECTIVENESS**

C.1 Madam, let me now address Ms Jessica Tan's question about strengthening Government effectiveness.

C.2 It is an important question because an effective and high-performing Government is needed to prioritise and utilise resources optimally. As a central Ministry, MOF plays a key role in bringing this about. I will share two sets of initiatives.

**C(I) CROWDSOURCING AND CO-CREATING WITH CITIZENS**

C.3 The first is crowd-sourcing. The World Economic Forum conducts an annual ranking of ICT usage and readiness amongst Governments. Singapore has consistently been ranked amongst the top three, out of 140 economies. But we recognise that we can do more. The Government is pushing for more pervasive use of data analytics. In fact, some agencies are already doing so today. For instance, the Land Transport Authority (LTA) uses data analytics to better manage crowding on public buses – it is through the mining of farecard data that allows the LTA to pin-point which segments of a service are most crowded, down to 30-minute intervals. This has helped LTA to plan for the introduction of Peak Period Short Services which has eased over-crowding on certain services when the crowding situation is the most severe.

C.4 We agree with Ms Jessica Tan that there is indeed room for more agencies to mine data more intensively and there is also a rich diversity of experiences amongst our citizens that we should draw on to improve public service delivery.

C.5 Several of our agencies have in fact, started crowdsourcing competitions to catalyse ideas from the public. One such platform is the "Apps4SG"

Competition co-organised by MOF, the Infocomm Development Authority of Singapore (IDA) and Singapore Land Authority (SLA) last year where we received close to 90 submissions of new apps or online services to improve the way we live, work and play in Singapore.

- C.6 One of the finalists was a pair of siblings, Hairul and Shireen, who proposed an app called “FundWagon”. Leveraging on publicly available Government data, the app promotes crowdsourcing of donations by matching interested donors to specific projects of non-profit organisations.
- C.7 Another example is HDB, which has been organising competitions since 2011 to crowdsource “Cool Ideas for Better HDB Living”.
- C.8 To proactively reach out to partner more citizens, MOF will launch a prototype of a Whole-of-Government crowdsourcing portal called “eCitizen Ideas!” by April. “eCitizen Ideas!” will bring all such crowdsourcing competitions in the Government together, and make it easier for citizens to participate.

## **C(II) PROCUREMENT CAPABILITIES AND ECOSYSTEM**

- C.9 The second set of initiatives to strengthen government effectiveness focuses on procurement.
- C.10 I agree with Ms Tan that tightening procurement practices to the extreme can be counter-productive. A balanced approach would require equal emphasis on robust rules, supervision and top level oversight, as well as investing in the capabilities of the procurement officers.
- C.11 Last year, I spoke about plans to professionalise the procurement function. We will launch the Procurement Specialist Track by September this year.

This will send a clear signal to more than 2,000 procurement officers across the Public Service of our commitment towards their capability development.

C.12 With the launch, there will be more structured development opportunities and career pathways. The procurement competency and training framework will also be enhanced. Currently, all procurement officers undergo mandatory basic training on Government procurement principles and rules. We will introduce mandatory continuous training, to ensure that skills are deepened as the procurement officers progress in their careers.

C.13 Besides developing the capabilities of individual procurement officers, the Government can build up expertise in specific domains, and share it systematically across agencies, so that we can all be smarter buyers.

C.14 For instance, IDA will deepen its expertise in developing complex IT systems, agile digital services and data science. This will help other agencies tapping on IDA's expertise to procure the right technologies that will improve service delivery and policy implementation.

## **D. TAX INCENTIVES AND RELIEFS**

D.1 Madam, let me now turn to tax incentives and reliefs.

### **D(I) R&D INCENTIVES**

D.2 Ms Tan Su Shan and Mr Yee Jenn Jong raised concerns that the bar for qualifying R&D activities was set too high. Madam, our R&D definition is similar to that of other jurisdictions such as the UK and Australia. To facilitate businesses in their R&D claims, we have issued a note on the criteria as well as the qualifying R&D activities, taking into consideration the practices in other jurisdictions.



D.3 In addition, IRAS has established a Technical Advisory Panel comprising academics and industry experts in the field of science and technology, which it can tap on for advice in the evaluation of R&D applications. We agree with Ms Tan that the rules should not be set up to deter risk-taking of any kind. We are working with tax agents and relevant economic agencies to review the R&D note to provide more helpful guidance to businesses. This new note will be ready by June.

## D(II) MERGER AND ACQUISITIONS (M&A) ALLOWANCE

D.4 Mr Yee Jenn Jong called for a review of two schemes – the M&A allowance, and the Life Insurance Relief.

D.5 The M&A scheme was introduced in Budget 2010 and enhanced in Budget 2012 to help defray the costs incurred by companies undertaking M&As. 67 companies have benefited from the scheme thus far, of which 50 (about 75%) are SMEs. More than three quarters of the tax benefits in YA 2013 went to SMEs.

D.6 The M&A scheme's main purpose is to promote restructuring through consolidation amongst SMEs. Therefore, a requirement is that the acquiring companies must take a controlling stake in the target companies, which can include acquisitions taken in smaller steps over a 12-month period. It does not cater to companies acquiring *parts of a business operation* such as plants and machinery, or intellectual property rights. Such asset acquisitions already qualify for other tax deductions or allowances, for instance under the PIC.

D.7 The M&A scheme is due to expire in March 2015. We will take on board the feedback and useful perspectives provided by Mr Yee and others when conducting the review.

### **D(III) LIFE INSURANCE RELIEF**

- D.8 The Life Insurance Relief is claimed by fewer than 10% of individual taxpayers so, Members may not be familiar with it.
- D.9 It has been around since colonial times and catered to people who bought life insurance as a form of retirement savings. In 1955 we introduced the CPF, and thus provided citizens with a dependable form of retirement savings. As part of the Government's support, taxpayers enjoy tax relief for their mandatory CPF contributions. However, the Life Insurance Relief has been retained as a concession to those who are not required to contribute to CPF, or who have low CPF contributions, of less than \$5,000 per year.
- D.10 The cap of \$5,000 for life insurance premium relief is not low. Based on current information, more than 60% of the claimants were not affected by the cap. In fact, there are three quarter million or 40% of CPF contributors with less than \$5,000 in mandatory employee contributions, who thus enjoy tax reliefs of \$5,000 or less.
- D.11 We have no immediate plans to increase the cap for the Life Insurance Relief cap. To boost retirement adequacy, our focus is on strengthening the CPF system. Tax relief is available for voluntary contributions by self-employed individuals, as well as for the topping up of Retirement Account or Special Account under the CPF Minimum Sum Topping-Up Scheme.

### **E. RESERVES**

- E.1 Madam, let me now turn to some very important questions that Mr Inderjit Singh has posed about our reserves and CPF. First, Mr Singh was concerned

that we may be spending too much from our investment returns; and asked if the returns will be sufficient to prevent a decline of our reserves.

- a. The Net Investment Returns (NIR) framework allows us to tap on the investment returns of our reserves for budgetary spending in a sustainable way.
- b. Under the framework:
  - i. The Government can only spend up to 50% of the long-term expected real return from the net assets managed by GIC and MAS;
- c. Hence, 50% of the expected real returns are retained in our reserves, ensuring that it is not decumulated over time.
- d. Our government spending needs will increase over time. But that should not drive the investment strategies of GIC and Temasek. They must continue to invest with the aim of achieving good, risk-adjusted returns over the long term. So far they have achieved this.
- e. If the Government is in need of more revenues besides that obtainable within the NIR framework, the solution is not for our investment entities to take more risk in the hope of higher returns. The solution has to rest on our budgetary measures, not the investment strategies of GIC and Temasek.

E.2 Mr Inderjit also asked if the interest rate of 2.5% for the CPF Ordinary Account (OA) is fair, and how it compares with other systems.

- a. Let me first highlight a few points that have to be borne in mind when comparing CPF returns with those in other systems.
  
- b. First, for the purposes of long-term savings, it is not appropriate to look at the OA rate alone, as most CPF members use the OA account mainly for home purchases. If we look at Special Account (SA) and the Retirement Account (RA) that are invested for the long-term, the interest rates are higher. Members can also choose to transfer monies from OA to the SA.
  - i. The SA, which is for long-term savings, pays an interest rate of 4% currently.
  - ii. Further, we pay an extra interest of 1% for the first \$60,000 of CPF balances.
  
- c. A second point to bear in mind is that the returns on any financial instrument have to be viewed in the context of the performance of their domestic currencies over time. Interest rates are typically higher in countries whose currencies have tended to depreciate over time, because higher interest rates compensate for weaker currencies.
  
- d. A third factor is that many pension funds abroad, especially in emerging markets, are predominantly invested in their domestic capital market, and take on the risk of the equities and bonds that they are invested in. For such pension funds, the returns that can be expected by members will depend mainly on the performance of the domestic market.

- e. Unlike many other pension funds, the CPF system does not expose members to market risk.
  
- f. The CPF monies are invested in risk-free Singapore Government securities. Their value is assured, as they are guaranteed by one of the few remaining triple-A credit-rated governments in the world. Regardless of when CPF members retire or the state of the financial markets when they retire, their CPF monies are safe.
  
- g. In many pension funds abroad, there's the promise of higher returns, but depending on when you retire and the state of the financial markets at that time, your pension withdrawals can vary significantly.
  
- h. In our system, with the CPF monies being invested in Government securities, it is the Government that bears the investment risk.
  - i. The Government's assets that back its liabilities to the CPF include those managed professionally by GIC in particular. GIC invests in a widely diversified global portfolio with the aim of obtaining good long term returns.
  
  - ii. GIC has in fact delivered creditable results over the long-term. However over the short-term, returns can fluctuate widely, depending on global market cycles and shocks. This is indeed what happened during the Global Financial Crisis, when the global markets fell sharply. GIC's returns during this recent period were hence much lower than what the Government paid the CPF, and in turn what the CPF paid its members.

1. GIC's returns over 5, 10 and 20 years are presented and explained in its Annual Report. Temasek also publishes, each year, extensive information on its performance.
  - i. The basic point here, if I could summarise, is that unlike many pension funds, our CPF system does not expose members to market risk. It provides a fair return for the majority of Singaporeans who would not want to be exposed to high levels of investment risks. Those who are prepared to accept higher risks in the hope of potentially higher returns can already invest through the CPF – Investment Scheme (CPFIS), although in doing so many have found their investments not performing better than the returns offered on the SA.
  - j. We have achieved good returns from the GIC over the long term. But over the short term, its exposure to global markets can mean that its returns fall short of what the Government pays the CPF. The Government takes the risk, not CPF members.
  - k. And as I have explained earlier, the investment returns that we expect to make by taking this long term view, and bearing the risks of investments, are not hoarded away in the reserves. *50% of the returns from our reserves flow back* to our annual Budget. The long term returns therefore help to fund spending which benefit our citizens.

E.3 Mr Inderjit asked if giving higher CPF returns will be better than sharing benefits through Government transfers.

- a. The CPF system with its risk-free returns, together with our fiscal transfers, is a fair and equitable approach for our citizens in the long run.
  
- b. Unlike most pay-as-you-go pension systems, our CPF system is designed to be sustainable.
  - i. There are no intergenerational transfers.
  - ii. Instead, CPF contributions are personal savings, and members withdraw their own savings.
  
- c. However, the Government systematically tops up the CPF savings of the lower-income. We do this through Workfare, housing grants and other schemes. These top ups are all borne by the Budget as explicit fiscal transfers.
  - i. And so, the main responsibility for progressivity is placed on the fiscal system.
  
- d. Madam Chair, we have, and will continue to adapt our system of CPF, and the social transfers that are borne by the Budget to suit our changing circumstances and needs.