BUDGET STATEMENT 2003
SEIZING OPPORTUNITY IN UNCERTAINTY

CONTENTS

ANNEXES

PART I: OUTLOOK AND RESPONSE

Mr Speaker, Sir

1.1 I beg to move that this Parliament approves the financial policy of the Government for the financial year 1st April 2003 to 31st March 2004.

1.2 In 2001, our GDP shrank by 2.4% in our worst-ever recession since Independence. Last year began promisingly. Despite the uncertainties of the war against terrorism and the conflicts in the Middle East, initially the recovery of the United States (US) economy boosted our growth prospects. But as the year progressed, a wave of corporate scandals and the WorldCom and Enron collapses shook the confidence of investors and consumers. This slowed down the US economy. The European Union (EU) and Japanese economies also lost steam. However, the East Asian economies did well. Our exports to China grew strongly, but this was not enough to make up for the fall in external demand elsewhere.

1.3 Despite the unfavourable conditions, our economy grew by 2.2% in 2002. Unemployment peaked at 4.6%, but improved slightly to 4.2% by the end of the year. Manufacturing grew by 8.3% driven largely by the small, but fast-expanding, biomedical science cluster. Exports remained resilient, growing by 1.9%.

1.4 Singapore continued to attract investments. We garnered over $9 billion of fixed-asset investments in manufacturing. Foreign manufacturing fixed-asset investments rose from $6.6 billion in 2001 to $7 billion last year, while committed foreign business spending grew by 35% to $1.5 billion. The electronics cluster continued to attract the largest share of investments followed by the chemicals cluster. Investments in biomedical projects generated the second highest value-added for the economy. All these investments are expected to create 21,000 jobs.

1.5 Despite some public concern about the cost of living, the Consumer Price Index (CPI) last year fell by 0.4%. Healthcare and education costs rose, but housing and car prices fell. Lower electricity tariffs, cheaper accommodation and household durables combined to reduce housing costs by 2.2%. Cheaper petrol and a lower road tax reduced transport and communication costs by 1%. Basic food items like rice, cooking oil, meat, seafood and vegetables all cost less.

1.6 The Government implemented a slate of measures to help Singaporeans cope with the downturn and adapt to the economic restructuring. Last year, our training and upgrading programmes helped 36,000 workers learn new skills to match the jobs that are available or being created. The Off-Budget package helped all Singaporeans, especially the lower-income and unemployed. 800,000 HDB households received 10 months of utilities rebates worth a total of $226 million. A further $110 million went towards helping Singaporeans through rebates on rental and service and conservancy (S&C) charges.

Immediate Outlook

Global

1.7 At present, the major uncertainty hanging over the world economy is the prospect of war in Iraq. Consumers are holding back their spending, and companies are delaying investment plans. Within a few weeks we will know whether war is going to break out. Within a few months we will know how things have turned out.

1.8 One significant worry is oil prices. After a war, they could fall back to normal and give a boost to growth, or they may stay high and slow down the recovery process. The crisis in Venezuela, which has significantly reduced world supplies of oil, makes it more likely that oil prices will stay high.

1.9 Growth in Europe and Japan this year is expected to remain sluggish. In the US, the consumer confidence index in January reached its lowest level since 1993. The present projection remains for a pickup in the second half of the year, bringing growth close to 3%, slightly better than 2002.

Regional

1.10 In East Asia, sustained domestic consumption should maintain growth at rates similar to last year, despite tensions in the Korean peninsula. Exports from the Southeast Asian region should stay robust, as stronger demand from China should partially compensate for the weaker demand from the developed economies. China is a large and rapidly growing market that offers many opportunities to nimble entrepreneurs and companies. India's economy too has much potential. It is showing a new dynamism and a more outward orientation, especially in the southern states.

1.11 Economic cooperation among the ASEAN countries is gradually deepening, for example through the ASEAN Free Trade Area (AFTA). ASEAN is also launching Free Trade Agreement (FTA) negotiations with

China and Japan, and preparing to benefit from an FTA with India and the Enterprise ASEAN Initiative with the US. Terrorism is still a problem in Southeast Asia, but after the Bali bombing, ASEAN countries are cooperating more closely to combat this threat.

Singapore

1.12 Given the external conditions, I expect Singapore's economy to continue to grow slowly in the first half of the year. In the second half, if the US economy and the global electronics industry strengthen as we hope, Singapore should also recover more strongly, and our unemployment should start to decline. For 2003 as a whole, MTI expects GDP growth to be between 2% and 5%, although it is less likely to be at the high end of the range. Like in 2002, growth is likely to be narrow and uneven across the different sectors. A broader-based recovery is not expected until 2004.

Starting Well

Mr Speaker, Sir.

1.13 We now live in a fundamentally changed world. Singapore is at a turning point. We face not just greater economic volatility, but also new political and security uncertainties. Competition is keener and changes are coming faster. To stay in the race and ahead of the pack, we must constantly adapt to the changes around us, and restructure our economy.

1.14 After many years of rapid growth and development, our people now enjoy a high per capita income and a high standard of living. But as our economy matures, it will be difficult for us to maintain the same high rates of growth that we experienced in the 1980s and 1990s. Structural unemployment will become a more serious problem. Older, less educated workers who fail to update and upgrade their skills will be particularly vulnerable. The Government's fiscal position will tighten as slower growth means less buoyant revenues, while an ageing population will lead to increased social spending. We must find new sources of growth or else stagnate and decline.

1.15 These challenges are formidable, but we can overcome them. Over the last 30 years we have built up our financial, physical and human resources through toil and teamwork. We have strengthened our social cohesion and institutions. We share ideals and values that help us to work harmoniously together for maximum results. These key advantages help us tackle difficult problems together, and restructure our economy for continued prosperity.

1.16 We have already begun the task of restructuring. In October 2001, the Government announced the establishment of the Economic Review Committee (ERC) to develop new strategies to take us forward. Last year, the Government accepted and implemented two major recommendations of the ERC.

1.17 Firstly, we decided to restructure our tax system. We are lowering corporate and top personal income tax rates substantially. This will help to retain and attract businesses and talent, and thus create good jobs for Singaporeans.

1.18 At the same time we are raising the GST rate. The Government provided a generous $4.1 billion offset package to help Singaporeans adjust to the GST increase, and ensure that no household will be worse off for at least five years. In addition, the Government is phasing in the GST increase over two years, instead of raising it to 5% in one step, as originally planned. This puts an additional $650 million into the pockets of Singaporeans.

1.19 Secondly, we restructured the CPF to focus on the basic retirement needs of Singaporeans and trim over-investment in housing. This will keep the burden of CPF contributions as low as possible, while meeting the essential needs of the majority of the population. To help older workers aged 50-55 stay employable, we also capped employers' contributions to their CPF at 16%.

1.20 Besides these ERC recommendations, we responded to the recession by moderating wage increases to maintain our competitiveness and retain jobs. Singaporeans have been guided by the National Wages Council's recommendation of wage restraint, which extends until June this year. Their willingness to accept these sacrifices reflects their pragmatism, as well as the close tripartite relationship between the unions, employers and the Government.

1.21 This clear response has distinguished us from other countries. Foreign investors and analysts have noted our decisive actions to restructure the economy and tackle the downturn, as well as our support for difficult but essential policies. This is a key reason why we have continued to attract investments, even as investment flows into other Southeast Asian countries have declined.

Moving Ahead

1.22 We have made a good start in restructuring the economy to secure our future. But this is a long process, and much more work lies ahead.

1.23 Earlier this month, the ERC completed its work and published a comprehensive report. It recommended immediate measures to help our economy recover fully from the recession, as well as longer term strategies to make Singapore a leading global city. These five strategies addressed:

- Our External Ties
- Our Competitiveness and Flexibility
- Our Entrepreneurship and Singapore Companies
- Our Manufacturing and Services; and
- Our Human Capital

1.24 The Government accepts the recommendations in the ERC report. These recommendations reflect the inputs of over a thousand participants from the private sector, the labour movement, as well as the public sector. The Government thanks all of them for their efforts and contributions. Their proposals provided a sound basis for revitalising our economy, and for sustaining growth in the next phase of our economic development.

1.25 Let me first explain these five strategies before I give the Government's response to the immediate steps recommended by the ERC. Later, in Part III of the speech, I will announce specific measures to implement the ERC recommendations.

<u>External Ties</u>

1.26 Our first strategy is to expand our ties with economic partners globally and in Asia, especially Southeast Asia. The US, the EU and Japan will continue to be our main markets and sources of investments. But we must also seize opportunities in new markets, particularly China and India, by deepening our knowledge of their business conditions and expanding trade and investment ties with them. Singapore must make itself a hub for strategic and high value-added activities of companies that operate in our broader hinterland of greater China, India and Australia, which are within a seven-hour flight radius from us.

1.27 We must continue to deepen our economic integration with our ASEAN neighbours, and make ASEAN more attractive to foreign investors. By combining our complementary strengths, ASEAN countries can compete more effectively, and hold our own in manufacturing activities, even against China. This is what Singapore is doing together with Batam and Bintan.

1.28 As a small, open economy dependent on world trade, Singapore supports multilateral trade liberalisation within the World Trade Organisation (WTO) framework. However, we must complement this with bilateral FTAs with key trading partners to expand our economic ties and assure our access to their markets.

1.29 We have already signed FTAs with Australia, New Zealand, Japan and the European Free Trade Association (EFTA). The negotiations for the US-Singapore FTA were concluded in January. We look forward to signing and ratifying the agreement this year.

1.30 We are currently negotiating FTAs with Canada and Mexico. We will also launch a trilateral FTA with New Zealand and Chile. We are likely to launch FTA talks with India and also South Korea this year. As part of ASEAN, we are negotiating an FTA with China and doing a study to launch an FTA with India.

1.31 These bilateral arrangements will save our exporters hundreds of millions of dollars in tariffs a year, create opportunities for our companies to expand overseas, and attract more investments here to take advantage of the FTAs. This will result in more jobs for Singaporeans.

Competitiveness and Flexibility

1.32 Our second strategy is to strengthen our competitiveness, and enhance the flexibility of the economy. Given our small land area and our dependence on imported energy, we cannot compete based on costs alone, against larger countries better endowed with natural resources. Instead, we must redouble our efforts to improve our microeconomic competitiveness and efficiency. We must offer a superior business environment and an internationally competitive cost structure.

1.33 The Government is committed to keeping taxes low, especially direct taxes on companies and individuals, in order to keep the burden of government light, encourage investments and reward enterprise. We believe that a 20% tax rate will be highly competitive, but we will continue to track international trends.

1.34 The CPF must stay focused on its core purposes of providing basic financial security in retirement, housing and healthcare for the majority of Singaporeans. To be sustainable over the long term, the CPF must not become a heavy imposition on employers that deters them from employing workers or growing their businesses.

1.35 Our labour market must be flexible, so that workers can move freely from one job to another, and companies can hire or shed workers when they need to. The more difficult and expensive it is for companies to downsize, the more reluctant they will be to employ people in the first place. This will raise unemployment, to the detriment of workers, as has happened in Germany. Work arrangements such as overtime practices must become more flexible to accommodate the ups and downs in business conditions. Our wages need to reflect the worth of the job and the contribution of the employee, instead of depending rigidly on the seniority of the person.

1.36 Finally, competitively priced infrastructure will help keep business costs low. We should not subsidise services below their true cost, but nor should we allow monopoly or cost-plus pricing to inflate costs for other businesses.

1.37 Land is one of the most important factors of production. To make optimum use of this resource, the land market must be efficient and flexible. This is especially so for industrial land, because MNC projects can go to any number of countries. Hence we must ensure an adequate supply of industrial land at a competitive price. We can do so, because we have reserved enough industrial land to meet the needs of a large manufacturing sector.

1.38 We must improve the quality and efficiency of infrastructure services like utilities and port services. NEWater is an economical, assured and high quality source of water which complements our other water sources. It will adequately meet the needs of both industries and households. In the electricity market, competition in a properly structured industry will ensure that electricity is produced and supplied as efficiently as possible. Since we started restructuring the electricity industry in 1995, productivity per worker has increased by 60%, and tariffs have come down.

1.39 In port services, PSA Corporation has cut tariffs and given $300 million worth of rebates to shippers, in order to provide better value to its customers. To meet growing competition, PSA must cut its costs and be as lean as possible. This is why PSA is retrenching its staff and rationalising its operations. These steps are painful, but unavoidable if PSA is to grow its market share, and remain the world's port of call.

Entrepreneurship and Singapore Companies

1.40 Our third strategy is to encourage the spirit of entrepreneurship among Singaporeans. To thrive in a volatile and unpredictable environment, and to ride on the growth of emerging regional markets, Singaporeans must take risks, seize opportunities and create new possibilities for themselves. Every Singaporean must rely on his own wits and initiative, in order to respond quickly and supplely when conditions change. It is heartening that despite the slow economic growth, about 600 more new businesses were registered last year compared to the previous year.

1.41 Entrepreneurship is not just for the minority of Singaporeans who take the plunge and start up new businesses. It is a mindset that all of us should share. It must pervade all businesses, large and small, as well as the public sector. In Singapore, an entrepreneurial and innovative civil service bureaucracy must not be a contradiction in terms.

1.42 Government policies will help to foster entrepreneurship. Low direct taxes will allow successful entrepreneurs to keep more of the fruits of their labour. Improvements to the education system will expose Singaporeans to business concepts from an early age. The public sector will continue to simplify its rules and procedures and cut red tape. Ministries and statutory boards will avoid crowding out the private sector by spawning companies to do things that the private sector can do.

1.43 Entrepreneurship requires talent. While we develop our own talent, we must also attract entrepreneurs from all over the world to launch ventures and develop ideas here. To do so, we must offer an environment in which good ideas stand the best chance to be nurtured and take off.

1.44 Producing entrepreneurs will also depend on our social values. A society that prizes self-reliance is more likely to produce winners. So is one in which winners are celebrated, while the unsuccessful are encouraged to learn from their mistakes and try again.

1.45 We must become such a society. Then we can produce a constant stream of dynamic start-up companies, some of which will grow into major players. Our established companies can also develop into internationally competitive firms. This will enable us to continually renew our economy, staying ahead of others through innovation and enterprise.

Manufacturing and Services

1.46 Fourthly, we must promote manufacturing and services as twin engines of growth. Manufacturing will remain a mainstay of our economy. Our strong manufacturing base generates 80% of our exports, sustains many domestic support industries and provides good jobs for Singaporeans. We must continue to strengthen and upgrade this key economic sector.

1.47 Other countries too are relying on manufacturing to spur their economic development. Competition is fierce, especially from emerging players like China. They do not just rely on their low costs. They are also upgrading their technical know-how, and moving into higher value-added activities. We have no choice but to upgrade our own manufacturing technology, or else see our manufacturing sector hollowed out.

1.48 To strengthen the manufacturing sector, we must acquire new technologies and capabilities. Research and development (R&D), coupled with enhanced protection for intellectual property, are critical elements. We must help Singaporeans to continually improve their skills and acquire new ones in order to push our manufacturing sector further up the value chain.

1.49 To diversify our economy, we must complement manufacturing with a robust services sector. Services already make up about two-thirds of our GDP and overall employment. However we must promote our services sector more actively. Exportable services offer good growth potential, because the growing middle classes in China and India will demand many services which we can provide.

1.50 We are already a key hub for seaport and airport services, logistics, trading, info-communications technology, financial services and tourism. We will continue to invest in these areas and use our strong position to meet the competition from other countries. At the same time, we will grow new services industries like healthcare, education and the creative industries.

1.51 Even in the services sector, the trend worldwide is to outsource semi-skilled jobs to countries with cheap and abundant labour. Many US multinationals have outsourced their back-end call centre operations to the Philippines and India, lured by low wages and an ample supply of English-speakers. Part of the training for call operators is to watch American TV serials, so that they can discuss the latest episodes in the proper American accents, and make the callers think they are talking to people in the US. So in services, as in manufacturing, we need to upgrade our workers' skills for higher-value jobs, and train enough workers in the skills that these new services industries need. Ultimately, our human capital drives our competitiveness.

Human Capital

1.52 Our fifth strategy is therefore to invest in our people. This is a key prerequisite for the success of all our other strategies. We must continue to develop our talent to their maximum potential. Continuing education and training will help our workers update their skills and keep their jobs. The recent changes to our upper secondary education system and the planned expansion of tertiary education will have a far-reaching impact on the abilities and outlook of the next generation of Singaporeans. The new, broader-based educational system complements our traditional focus on numeracy and technical knowledge with a new emphasis on independent project work and creative thinking. It will enable Singaporeans to thrive in a knowledge-driven economy.

1.53 Around the world, dynamic cities like New York, London and Shanghai are competing for global talent. This is on top of the considerable talent inflow from their national hinterlands. Since Singapore lacks a domestic hinterland, it is even more vital for us to reinforce our own talent pool with global talent to sustain a sophisticated and globalised knowledge economy. Singapore welcomes anyone, whether entrepreneur, scientist, engineer, manager or artist, who can contribute to our growth and prosperity.

1.54 We should also strengthen our links with the community of overseas Singaporeans, numbering some 150,000-strong. Many of them have a deep sense of attachment to Singapore and want to offer their experience, expertise and network of contacts. As our economy globalises further, the number of overseas Singaporeans will grow. Our international network will help us to sense what is happening in all the major cities, and equip Singaporeans with the exposure and flexible attitudes to operate in a diverse world.

Tackling Immediate Issues

1.55 Most of the measures in this year's budget are directed at these five strategies. However, before I discuss them, let me address the ERC recommendations dealing with the immediate economic situation.

<u>CPF Changes</u>

CPF Restoration

1.56 The ERC recommended that the Government defer for two years any further restoration of the current CPF contribution rate of 36%. The rate would thereafter be restored progressively to the full 40%, although the pace and timing will depend on prevailing economic conditions. The ERC also proposed to proceed with the other changes to the CPF scheme, which had been linked to the full restoration.

1.57 The Government accepts these recommendations. The Singapore economy has not yet fully recovered from the 2001 recession. Moreover, the current slowdown is not just a cyclical downturn, but a reflection of a fundamentally changed environment. Even as we pursue longer term strategies to adapt to this new landscape, we must maintain Singapore's competitive position and make sure the recovery is firmly on track.

1.58 Deferring any further CPF restoration for two years will ensure that we do not increase the burden on employers before the economy has fully recovered. It will send a strong signal to investors that Singaporeans understand what is at stake, and are determined to face up to the new challenges.

1.59 Some Singaporeans have expressed concern that delaying the CPF restoration will hurt workers' savings. But the more urgent priority now is to help them keep their jobs. When companies are assured that their business costs are not going up, they are less likely to retrench workers or move out of Singapore. They may even be encouraged to hire more workers as soon as business picks up.

1.60 At the same time, we will proceed to phase in other changes to the CPF system that we had intended to do when we restored the CPF contribution rate. These are changes to restructure and improve the CPF scheme, and we should begin to implement them progressively, giving Singaporeans enough time to adjust.

CPF Salary Ceilings

1.61 Firstly, we will phase in the reduction in the CPF salary ceilings. The ceiling is currently $6,000 for private sector employees. This will be lowered to $5,500 in January 2004, and further to $5,000 in January 2005. The civil service will also rationalise the salary ceilings of the public sector to match that of the private sector, including the pensionable officers who have lower CPF contribution rates.

Table 1: Lower CPF Salary Ceilings

CPF Salary Ceiling	Current	From 1 Jan 2004	From 1 Jan 2005
Private Sector	$6,000	$5,500	$5,000
Public Sector (Non-Pensionable)	$7,000	$6,000	$5,000
Public Sector (Pensionable)	$9,333	$8,000	$6,667

1.62 This change will refocus the CPF scheme on the basic needs of the majority of the population, rather than the higher income earners who are better able to plan and provide for their future financial needs. It is not, however, intended as a wage cut. As recommended by the ERC, I encourage employers to pass on part of their cost savings to deserving workers through the variable component of wages, such as bonuses or other variable payments. This will depend on the circumstances of each company and the contribution of each worker.

Employee Contribution Rates for Older Workers

1.63 Secondly, we will phase in the lowering of the employee contribution rate for older workers aged 50-55. The rate is currently 20%. It will be lowered to 18% in January 2004, and further to 16% in January 2005. These changes will enable older workers to take home more of their pay, and will help them when their companies phase out seniority based wage structures.

Table 2: Lower CPF Contribution Rates for Workers Aged 50-55

CPF Rates	Current	From 1 Jan 2004	From 1 Jan 2005
Employer Contribution Rate	16%	16%	16%
Employee Contribution Rate	20%	18%	16%
Total CPF Contribution	36%	34%	32%

Contribution Rates for Special and Medisave Accounts

1.64 Thirdly, we will phase in higher contributions to the Special and Medisave Accounts for all Singaporeans. This is to strengthen savings for old age and healthcare. These changes will be phased in gradually over three years, starting from January 2004.

Table 3:Increased Contribution Rates to Special and Medisave Accounts

CPF Rates	Current	From 1 Jan 2004	From 1 Jan 2005	From 1 Jan 2006
For workers aged 35 years and below				
- Special Account	4%	5%	5%	5%
- Medisave Account	6%	6%	7%	7%
For workers aged above 35-45 years				
- Special Account	6%	7%	7%	7%
- Medisave Account	7%	7%	8%	8%
For workers aged above 45-50 years				
- Special Account	6%	7%	8%	9%
- Medisave Account	8%	8%	8%	9%
For workers aged above 50-55 years				
- Special Account	6%	7%	8%	9%
- Medisave Account	8%	8%	8%	9%

1.65 CPF members need not worry that these changes will leave them with less savings in their CPF Ordinary Accounts to service their mortgage payments. We are implementing the changes over several years, during which we expect wages to increase. In addition, the Government will give those who purchased their properties before 1 January 2004 continued access to their Special Accounts to top up their CPF mortgage payments to the extent that these payments are affected by the changes.

Business Costs

1.66 The ERC also recommended that we keep other components of business costs as low as possible. This the Government is doing, as I explained earlier. Besides wages, land, utilities and infrastructure services all should be competitively priced.

1.67 Several concessions which were introduced as part of the Off-Budget measures in 2001 were subsequently extended and are still in effect. They include the property tax rebate, rental rebates, and the reduction of the diesel tax on taxis and the reduction of petrol excise duties. These four measures are scheduled to expire on 30 June 2003. I have reviewed them and will extend or modify them as follows:

Property Tax Rebate

1.68 I have decided to give a new property tax rebate for commercial and industrial properties for the period of 1 July 2003 to 31 December 2003. The rebate will be $2,000 plus 15% of the balance property tax payable.

1.69 This rebate will cut costs for businesses, both large and small, who own their own premises. It will give them greater certainty amidst the current business environment. The total property tax savings for the year will be $456 million, inclusive of the rebates given for the first half of the year.

Rental Rebates

1.70 Rebates on rental have been given to HDB's 18,000 tenants and lessees, JTC Corp’s 7,000 tenants, and the Singapore Land Authority's (SLA) commercial tenants. Some 2,900 stallholders in ENV, HDB and JTC hawker centres are also enjoying rental rebates. As business conditions remain weak, the Government will extend the rebates by another six months till the end of 2003. These will lower business costs for tenants by another $204 million, on top of the $200 million of rental rebates already given for the first six months of this year.

Diesel Tax for Taxis

1.71 The diesel tax for taxis was reduced from $5,100 to $4,700 in the 2001 Off-Budget package. I have decided to extend this reduction by another six months, till the end of 2003. This will cost the Government about $4 million.

Excise Duties on Petrol

1.72 Currently, excise duties on petrol are levied either at an ad valorem rate on final pump price before GST, or at a prescribed floor rate, whichever is higher. If petrol prices rise, the duties go up correspondingly. This adds to the burden on businesses and motorists. To address this, I have decided to impose excise duties on petrol at a specific rate instead, so that the duties no longer fluctuate with oil prices. This takes effect from today.

1.73 The new specific duty rates for various grades of petrol will be set at the current floor rates of the petrol excise duties, taking into account the Off-Budget reductions which are in force, so that there will be no increase in petrol duties after 30 June 2003.

1.74 This will cost the government about $60 million annually. Details of the changes are in **Annex A**.

Foreign Worker Policy

1.75 The ERC recommended that we keep our foreign worker policies flexible, so that companies can employ the professionals and workers they need, especially those companies which cannot find enough local workers.

1.76 Our policy is to admit a controlled number of foreign workers and this will continue to be a major competitive advantage. These foreign workers help to keep our manufacturing sector viable and competitive, notably in shipbuilding and ship repair. They reduce overall business costs and do jobs which Singaporeans are unwilling or unable to take up. In a factory, without foreign workers manning the third shift, there would be no jobs in the first or second shifts for Singaporeans. In services too, foreign workers help many local companies to stay in business, especially SMEs, thereby creating more jobs for Singaporeans.

1.77 However, we need to strike an appropriate balance between meeting industry's needs for affordable, skilled manpower and keeping Singaporean workers from being displaced. The best instrument for controlling the number of foreign workers is the foreign worker levy. This is a price mechanism which leaves maximum flexibility for the market to allocate the foreign workers to where they are most needed and most productive.

1.78 In 1999, when our economy was hit by the Asian Crisis, the Government sharply lowered the foreign worker levy to reduce business costs. Since then the levy rates have stayed at the same low level. Last December, we extended the levy reduction until June 2003.

1.79 The Government will extend the levy reduction for another six months, until the end of 2003. As foreign worker numbers have remained stable, there is no urgency to raise the levy back again. The only exception is the levy on skilled workers, which is now just $30. MOM will review the skilled worker levy this year to decide whether it is necessary to peg it at a more realistic level next year.

Help for Singaporeans

1.80 Finally, the ERC recommended that the Government help Singaporeans to cope with the current economic difficulties. These include employment-oriented measures, such as encouraging part-time work, augmenting MOM's job bank, improving job-matching efforts, and counselling and retraining retrenched workers. They also include financial assistance for lower income households. The Government agrees with these proposals.

Economic Restructuring Shares

1.81 Apart from helping Singaporeans find jobs, the Government is also providing them with substantial support by offsetting the GST increase through the Economic Restructuring Shares (ERS). In FY 2002, the Government set aside $1.2 billion for the first tranche of ERS. Most Singaporeans would by now have received their basic allocation of ERS worth $400. To date, almost two-thirds of the ERS have been cashed out. Some lower income Singaporeans in 1- and 2-room HDB flats and welfare homes failed to get their ERS because they did not top up their CPF accounts. We are giving them additional time to get their ERS. The grassroots organisations are contacting them individually, to extend financial assistance, if necessary. Those who apply by the deadline of 31 March will get their ERS on 1 May 2003.

Utilities Save Scheme

1.82 I have decided to extend the Utilities Save scheme by one year to help households, especially lower-income ones, cope with their utilities charges. Households in 1- and 2-room HDB flats will enjoy rebates for six months over the one year period from July 2003 to June 2004; those living in 3-room HDB flats will get four months; those living in 4-room HDB flats will get two months; and those living in 5-room HDB flats will get one month. The rebate will be worth $35 per month. This will cost $71 million.

Table 4: Utilities Save Rebates

HDB Flat Type	Number of Months	Total Rebate (at $35 per month)
1-room	6	**$210**
2-room	6	**$210**
3-room	4	**$140**
4-room	2	**$70**
5-room	1	**$35**

1.83 The schedule of rebates is in **Annex B**.

Service & Conservancy Charges

1.84 Last year I announced that the Government would be giving rebates for two to five months of S&C charges in 2003 for Singaporeans living in all 1- to 5-room HDB flats. In addition, the 1-room, 2-room and 3-room flats would also be getting partial rebates on the remaining months of the year. This was part of the package of measures to offset the GST increase. To help families in this economic climate, I have decided to enhance this by granting one extra month of rebate on S&C charges for all 1- to 5-room HDB flats.

Table 5: Rebates for Service & Conservancy Charges

HDB Flat Type	Original Number of Months of Rebate	Revised Number of Months of Rebate
1-room	5	**6**
2-room	4	**5**
3-room	4	**5**
4-room	3	**4**
5-room	2	**3**

1.85 This will increase the total number of months of S&C charges waived to six months for 1-room flats, five months for 2- and 3-room flats, four months for 4-room flats, and three months for 5-room flats. This extra month of rebate will be granted in April, and will cost the Government an extra $31 million.

1.86 The new schedule of rebates for S&C charges for 2003 is at **Annex C**.

PART II: THE FY 2003 BUDGET

Mr Speaker Sir,

2.1 I will now turn to the budget for the Fiscal Year 2003.

Revised FY 2002 Budget Estimates

2.2 First, let me recap the FY 2002 Budget. I refer Members to the first column of the budget statistics table on the screens and in your Handout.

Table 6: Budget Statistics for FY 2002 and FY 2003
(figures rounded off in $ billions)

	FY 2002 Budget	**FY 2002 Revised Estimates**	**FY 2003 Budget**
Taxes & Fees	26.8	25.3	26.6
NII Contribution	2.4	3.8	3.0
Operating Revenue	***29.2***	***29.1***	***29.6***
Total Expenditure	28.3	27.4	30.0
Special Transfers			
• ERS	-	1.2	0.60
• Lifelong Learning Endowment Fund	-	0.5	-
• Medical Endowment Fund (Medifund)	-	0.1	-
Surplus/(Deficit)	***0.9***	***(0.1)***	***(0.9)***

2.3 When I presented the budget last year, I estimated operating revenue at $29.2 billion and total expenditure at $28.3 billion, leaving a modest surplus of $900 million. I also estimated then that the surplus would turn into a small deficit of $190 million after accounting for the package of offsets, rebates and Economic Restructuring Shares.

2.4 As the second column of the table shows, the revised operating revenue is almost the same as the budgeted amount. Tax revenues were lower because of the cut in corporate income tax to 22% in YA 2003 and slower economic growth, but Net Investment Income (NII) contribution was higher than expected. The revised total expenditure is about $1.0 billion less. Therefore, in addition to the $1.2 billion special transfer for the ERS, I have decided to make additional special transfers to the Lifelong Learning Fund (LLF) and the Medical Endowment Fund (Medifund).

2.5 The Lifelong Learning Fund is an important part of our continual education and training (CET) framework. Established three years ago, the Fund will be built up to a target size of $5.0 billion to ensure a secure and continuing stream of income to support lifelong learning in Singapore. As highlighted by the ERC, we spend less on CET at the national level than on pre-employment, formal education and training. I have therefore decided to transfer $500 million into the Lifelong Learning Fund, to bring the Fund to $1.5 billion. This will generate $60 million of interest income a year to fund skills upgrading and retraining programmes.

2.6 The Medifund has helped many needy Singaporeans to pay for their medical bills during this economic downturn. To enable the Medifund to help more Singaporeans, I have decided to increase it to $900 million through a $100 million special transfer.

2.7 Taking the revised revenue, expenditure and special transfers into consideration, an overall budget deficit of **$90 million** is now expected for FY 2002.

Projected FY 2003 Fiscal Position

2.8 Let me move on to the FY 2003 Budget, which is summarised in the last column of the table.

2.9 The operating revenue for FY 2003 is estimated at $29.6 billion. This includes $3.0 billion in NII contribution, and is $500 million more than the operating revenue for the previous year. Total expenditure is budgeted at $30.0 billion, comprising $20.4 billion in operating expenditure, and $9.6 billion in development expenditure. Taking into account the $600 million provision for ERS, the Government is, therefore, projecting a deficit of $900 million, before taking into account the fiscal changes in this Budget Speech.

2.10 The Government turned in a budget deficit in FY 2001, and is likely to be in deficit again in FY 2002 and FY 2003. This will be the third consecutive year that the Government is running a budget deficit. But this is the appropriate fiscal stance to adopt in an economic downturn. During recessions, revenues will fall, but expenditures need to be maintained to fund essential projects and services, thereby resulting in a budget deficit. This deficit serves as a stabiliser to steer the economy towards the path of recovery. The Government has done this previously, although not in recent years. After the deep recession in 1985, we ran a budget deficit for two consecutive years, in FY 1986 and FY 1987.

2.11 I assure the House that this Government has not changed its longstanding prudent fiscal policy. The Ministry of Finance continues to plan for a modest budget surplus over the business cycle. In difficult years, we can accept a deficit. But we intend to accumulate surpluses in good years, to cover these deficits and build up the reserves for rainy days. This prudent and disciplined approach has kept the Singapore dollar strong and inflation low. If we spend beyond our means, inflation would go up, the value of Singaporeans' savings would be eroded, especially our CPF savings, and confidence in our currency and economy would fall.

2.12 However, we must recognise that it will be more difficult to balance the budget in future, even after the economy has recovered. Revenues will be less buoyant, as we lower income tax rates further, and as our GDP grows less rapidly. On the other hand, we will come under persistent pressure to spend more, especially in healthcare and social services, as the population ages.

2.13 Government expenditure has already gone up over the years. A decade ago, it was only 15% of GDP. This year, it will be 19% of GDP. This is still low compared to the 40% or 50% share of GDP that the Government takes up in most developed countries. This is the result of our deliberate policy to focus spending on critical areas that yield lasting returns, but it also reflects our relatively young population.

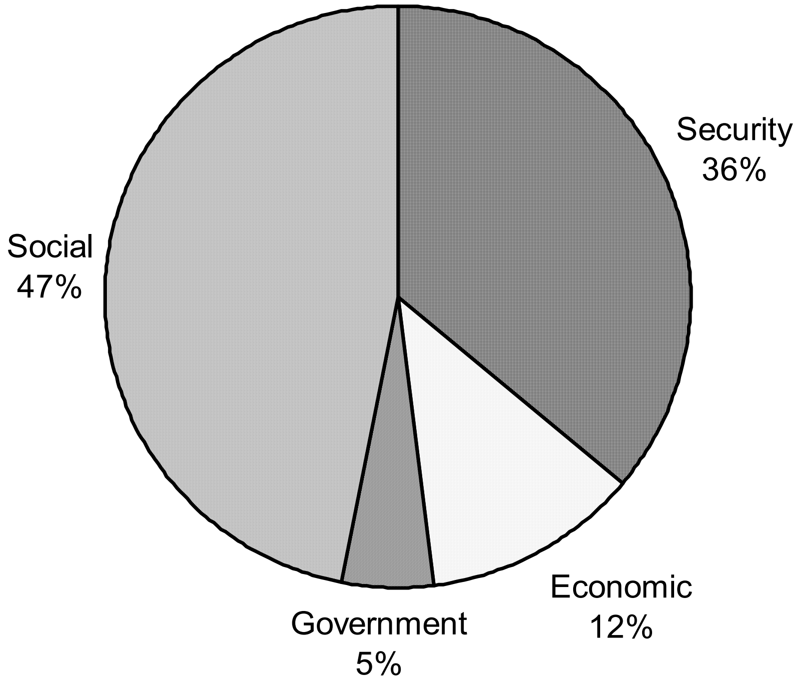
2.14 In healthcare, for example, our national expenditure currently stands at 3.5% of GDP. 3.5% is much lower than any developed country, but this is not solely because of our efficient healthcare system. It is also because our population is much younger. If our population had the same age profile as, for example, the UK, then based on our present spending patterns alone, our national expenditure on healthcare would be 7.2% of GDP, higher than the UK's figure of 6.8%. Similarly, if we were to match the age profile of Japan, our healthcare expenditure would be close to Japan's (6.6% versus 7.4%). As our population is ageing rapidly, we must expect our national health expenditure, including government's share, to go up too.

2.15 Higher government spending will mean higher taxes. To keep taxes as low as possible, we must target government social spending to reach those who need it most. One effective way to do so is through means-testing. The Ministry of Health (MOH) already uses means-testing to decide on subsidies for step-down healthcare. As revenue pressures intensify in future, we will need to extend means-testing to other medical and social services. This will ensure that truly needy Singaporeans receive adequate support, despite our budget constraints.

Expenditure Priorities

2.16 Let me move on to the Government's expenditure priorities.

Table 7: Sectoral Shares of FY 2003 Budget



Social

2.17 The Government will maintain the balance of expenditure across the four sectors: Social, Security, Economic and Government Administration. Nearly half of the Government's FY 2003 expenditure will be on social development. MOH will spend $1.2 billion to subsidise Singaporeans' healthcare costs through 13 public hospitals and healthcare institutions, 17 polyclinics and 64 voluntary welfare organisations. MOH will also spend $270 million on health research and promotion, as well as the Interim Disability Assistance Programme and Eldershield.

2.18 The Government will continue to invest heavily to develop Singapore's human capital to the maximum. Some 660,000 students will benefit from the $4.5 billion that MOE will spend on their education from primary school to university.

Security

2.19 We will devote 36% of total expenditure to the Security and External Relations sector. This will maintain and raise Singapore's preparedness to handle both conventional and terrorist threats.

2.20 We must maintain and upgrade our conventional defences. A strong SAF is the shield for our security and our deterrence against potential external threats.

2.21 At the same time, Singaporeans must be vigilant against the threat of terrorism. While we have broken up the *Jemaah Islamiyah* group in Singapore, the group is still active in the region and key members remain at large. The formation of the Immigration and Checkpoints Authority (ICA), in April this year, will enhance security at our checkpoints. The ICA will exploit cutting-edge technology such as gamma ray scanners and biometric identification tools to prevent undesirable people and goods from entering Singapore. The Home Team will also enhance its ability to prevent and respond to accidents and incidents.

Economic

2.22 To help Singapore develop new economic capabilities and sharpen our competitive edge, MTI's budget will be significantly increased. The Government will set aside $500 million to grow Singapore companies and help them venture abroad. We will invest $1.0 billion to strengthen our R&D capabilities and $1.8 billion to enhance industry capabilities. Another $1.2 billion will be spent on land reclamation and upgrading our industrial and tourism infrastructure.

2.23 Our first-class transport infrastructure is a key competitive advantage. It raises the efficiency of the economy and enhances our quality of life. MOT will spend $1.2 billion to expand and improve our rail and road networks, including the MRT Circle Line and the Kallang/Paya Lebar Expressway.

2.24 The Government will continue its strong support for re-training and upgrading workers' skills. In addition to the $500 million top-up for the Lifelong Learning Fund in the FY 2002 budget, this year I am setting aside another $37 million to enhance MOM's many employment assistance and training programmes. This will generate 20,000 additional training places under the Skills Redevelopment Programme and 7,500 job placements through the People for Jobs Traineeship Programme, which provides financial support to employers who hire older unemployed workers.

Government

2.25 Our e-Government Action Plan for the public sector was launched three years ago. Today, more than 90% of services which can be delivered electronically are already online, making Singapore a world leader in e-Government. To the public, this means faster and more convenient access, as well as more innovative and seamless public services. From next month, the Government will be providing an online consultation portal on eCitizen to obtain public feedback on new policies. This will include the consultation on the changes to income tax laws following from this Budget.

2.26 However, not all Singaporeans are IT-literate. To help those who do not have access to a computer or are not able to use one, the Government has established eCitizen Help Centres at CDCs and CCs. This is part of our plan to ensure that everyone may enjoy the convenience and benefits of e-Government and e-services. From March 2003, eCitizen Help Centre services will also be available from private sector outlets such as Fuji Film and NTUC Fairprice which sign up to offer the service.

2.27 Despite the cost of these improvements, the Government's administrative functions will only consume 5% of total expenditure. As always, the bulk of government resources goes to the operational ministries to deliver services to the public. The Government sector will remain lean and efficient, and will restructure itself if necessary to deliver value-for-money services.

Pulling Together

2.28 The measures I have outlined in Part I and II will address the immediate economic difficulties and lay the foundation for the strategies to restructure our economy.

2.29 Looking ahead, we expect the Singapore economy to grow more slowly, even after the present slowdown, because we are now at a higher level of development, and external conditions are more difficult. We grew by an average of 7.3% per year over the last 15 years. For the next phase, the ERC estimates our medium-term growth potential will be 3% to 5%, comprising labour force growth of 1% to 2% and productivity growth of 2% to 3%.

2.30 Growth of 3% to 5% is lower than what we have become used to, but it is still an ambitious target. Few developed countries with per capita GDPs similar to ours have maintained such a high rate of growth. However, the major global cities in those countries, such as London or New York, which draw on wider hinterlands, have been able to grow faster and sustain higher per capita incomes than their national averages.

2.31 Singapore too should be able to achieve 3% to 5% growth, provided we too adopt the approach of these global cities. This is why we must stay flexible, adapt quickly to changing markets and technologies, continue to welcome global talent and keep on upgrading our capabilities. Then we can take advantage of the new opportunities, provide good jobs for our people, and raise our income and standard of living.

2.32 Not every Singaporean will find the going easy. The powerful forces of globalisation will widen our income gaps. A small number of citizens will need help to keep up. But every Singaporean can benefit from our country's progress, provided he puts in the effort and is willing to adapt himself to the opportunities and jobs available.

2.33 The Government will concentrate its social safety nets on the minority of Singaporeans who need them the most. This will ensure that the help reaches the neediest Singaporeans without undermining our work ethic and culture of self-reliance.

2.34 However, the task of caring for less successful Singaporeans cannot fall entirely on the Government. Singaporeans have a responsibility to look after others doing less well than themselves. The generous response of Singaporeans to charity drives is thus both heart-warming and reassuring. Concern for our fellow citizens and government assistance will help keep our society cohesive as we navigate an uncertain world.

2.35 No amount of aid to lower-income Singaporeans can substitute for job-creation through strong economic growth. Despite the uncertain outlook, we are well placed to seize the opportunities that only present themselves in uncertain times. If we stay the course, when the storm clouds clear, all Singaporeans will share in the fruits of success.

PART III: STRATEGIES FOR GROWTH

Mr Speaker Sir,

3.1 Let me now set out the measures, especially tax measures, that the Government will implement in this budget to support the strategies for restructuring our economy.

Competitiveness and Flexibility

3.2 To enhance Singapore's economic competitiveness, the Government will implement the ERC recommendations on restructuring taxes, on exempting foreign income and domestic interest income from tax, as well as on portable medical benefits.

Corporate and Personal Income Tax Rates

3.3 Last year, I reduced our corporate and top personal tax rates from 24.5% and 26% respectively to 22%. In my assessment, our present rate of 22% is still competitive for now. Therefore, I will not be reducing corporate and personal income tax rates further this year. Nor, given the tight budget position, will I be giving any rebates on these taxes. However, I reaffirm the Government's intention, which I announced last year, to bring the tax rates down to 20% by YA 2005.

Foreign Income

3.4 Over the years, the Government has received repeated requests to exempt from tax foreign income remitted into Singapore. Until now, we have resisted this proposal. We already have a comprehensive network of double taxation agreements and unilateral tax credits, under which we give credit for taxes paid on foreign income. We may also exempt taxes on foreign income from specific overseas projects under section 13(8) of the Income Tax Act. In practice, foreign income which has been taxed elsewhere usually does not get taxed again in Singapore. At least that's the Government's view.

3.5 We were also concerned that this exemption would create a loophole, which could seriously erode our tax base. Individuals and companies could avoid tax on their Singapore income by round-tripping and transfer-pricing. This is difficult to detect.

3.6 Notwithstanding the Government's view that this was not a problem, we have continued to receive feedback from the business community, and now from the ERC, that taxation of foreign income indeed poses difficulties to companies. Companies find the existing tax credit system more cumbersome than an exemption system. As more companies globalise and earn a larger share of their income from overseas operations, this will be an increasing problem. Simplifying and improving the tax treatment of foreign income will make us a more attractive business hub and boost our services exports. Moreover, other countries, for example, Germany, the Netherlands and Malaysia, have shifted from the tax credit system, to exempting specific categories of foreign income from tax.

3.7 I have therefore decided to exempt from tax all foreign income in the form of dividends, branch profits and services income from 1 June 2003 onwards. This will mean that about 90% of all remitted foreign income will be tax exempt. The exemption will be available to all taxpayers, whether individuals or companies, but it will apply only to income earned from jurisdictions with headline tax rates of at least 15%. All other foreign income will continue to be subject to the existing tax credit system. This will curb round-tripping and transfer-pricing while keeping our system simple. An alternative would be to impose anti-avoidance rules, but that would be complex to administer and burdensome to businesses. The IRAS will release more details by May 2003.

Domestic Interest Income

3.8 The ERC also recommended that interest income sourced domestically be exempted from tax. Our current practice of taxing domestic source interest income encourages funds to be parked offshore in interest-bearing deposits and instruments, thereby benefiting the financial and commercial banking sectors of other countries.

3.9 I have therefore decided to exempt from tax interest paid to individuals derived from standard domestic savings, current and fixed deposits. This change will help retain domestic funds in Singapore, and also attract back funds currently placed offshore.

3.10 The exemption will be implemented in two phases. Depositors with POSBank already enjoy tax exemption on the interest from the first $100,000 of their deposits. From YA 2004, in addition to this tax exemption on POSBank deposits, I will exempt interest from amounts exceeding the first

$100,000 in each of the standard savings, current and fixed deposit accounts of individuals from the first dollar. From YA 2006, the exemption will be extended to the full amount of these deposits of individuals from the first dollar. This two step process is necessary because under an agreement between the Government and DBS Bank, depositors with POSBank enjoy the exclusive right to tax exemption on interest from the first $100,000 of their deposits until 31 December 2004.

3.11 This exemption will cost the Government $43 million per year. The IRAS will release more details by April 2003.

Portable Medical Benefits

3.12 As workers get older and change jobs more frequently, it becomes more important for them to have portable medical benefits. This will provide them with medical coverage not only when they are in employment, but also when they are in between jobs. Furthermore, if a worker develops a long term medical condition, without portable medical benefits he will face difficulties finding another employer willing to take him on and incur the expense of treating his medical condition.

3.13 To address this problem, the ERC recommended that the Portable Medical Benefits Scheme or the Transferable Medical Insurance Scheme be developed.

3.14 The Portable Medical Benefits Scheme will involve additional contributions to the CPF Medisave account by employers. To encourage employers and workers to switch to the new scheme, I have decided to raise the tax exemption limit for additional Medisave contributions for private sector employees from 1% of an employee's monthly salary at present, to a lump-sum of $1,500 per employee per year. This will take effect from YA 2004.

3.15 Presently, medical benefits are tax deductible expenses for employers, up to a limit of 2% of payroll. From 1 April 2004, employers who implement either of the new schemes will continue to enjoy a 2% deduction limit. However, employers who do not implement these schemes will only be allowed to deduct 1% of their total payroll for medical expenses.

Entrepreneurship and Singapore Companies

3.16 Let me now take the House through what the Government plans to do in response to the ERC's call to facilitate entrepreneurship in Singapore.

Companies Act Amendments

3.17 Last October, the Government accepted all the recommendations of the Company Legislation and Regulatory Framework Committee (CLRFC) which aim to simplify business regulations, support entrepreneurship and lower the cost of raising capital in Singapore. Let me highlight three of the Committee's proposals.

New Business Vehicles

3.18 The Government will introduce two new business vehicles next year to give businesses more options in structuring their business activities. The Limited Partnership and Limited Liability Partnership structures will be available to all businesses. They offer limited liability to the partners, as well as the flexibility of being structured as partnerships. Small businesses and start-ups may find these structures useful for their business activities.

Company Secretaries

3.19 To lower business costs for private companies, the government will remove the statutory requirement for private companies to appoint professionally qualified company secretaries. Although a private company must still appoint a company secretary to keep proper records, it is free to choose between doing so internally and outsourcing the job to professional company secretaries.

Audited Accounts

3.20 Audited accounts will no longer be required for dormant companies, and for exempt private companies with small annual turnovers. This will reduce compliance costs for small businesses, leaving them to decide whether they need audited accounts. The annual turnover threshold for exempt private companies will initially be set at $2.5 million, and will be raised to $5 million after one year. I have decided to make this change in two steps after taking in feedback from both companies and audit firms.

3.21 The legislative changes to the Companies Act will be made soon.

Concession for Enterprise Development

3.22 Some of the expenses incurred by businesses before trade revenue is earned may not be eligible for tax deduction. With effect from YA 2004, I have decided to regard the first day of the accounting year in which a business earns its first dollar of trade revenue as the point at which the business starts trading. Businesses will benefit from tax deductions for all revenue expenses incurred during that accounting year. If a business is able to prove that it has started trading and incurred revenue expenses even earlier, it will be allowed to deduct these expenses as well.

Revised Overseas Investment Incentive

3.23 Currently, the Overseas Investment Incentive allows an approved company to deduct losses arising from the sale of shares or liquidation of an approved overseas investment against its statutory income. To help our companies expand overseas, I have decided to revamp this incentive to allow an approved company to defer its income taxes for two years if its approved overseas investment incurs operating losses during the first three years of the investment. This will affect all new investments made from 1 January 2004.

3.24 The details of the tax changes to foster entrepreneurship are in **Annex D**.

Government Procedures and Rules

3.25 The ERC has underscored the importance of minimising Government rules and regulations so as not to stifle entrepreneurship. The Government has set up several channels to streamline and review its procedures and rules to make them more pro-business.

3.26 The Pro-Enterprise Panel is a joint public- and private-sector committee which frequently solicits feedback on rules and regulations that can hinder entrepreneurs. Out of 500 suggestions received from entrepreneurs over the past two years, 50% have been implemented and regulations were either removed or relaxed.

3.27 A Rules Review Panel of five Permanent Secretaries is currently overseeing an effort by all Ministries to review their rules by the end of FY 2004, and thereafter every five years. One outcome is that one-third of all required statutory declarations have been removed.

3.28 Furthermore, 12 government licences are due to be removed in FY 2003. This includes a hatchery licence administered by the Agri-Food and Veterinary Authority. Currently, Singapore only has one hatchery and it is already issued with a Farm Licence. Hence, it does not make sense for the agency to duplicate its regulatory efforts. If Members discover any other licences which seem redundant or meaningless, please let me know about it.

3.29 As for those licences which are still needed, and there are a few, putting them online allows us to reduce processing time and costs for entrepreneurs. BizFile is a fully online system that cuts the time taken to incorporate a company from a few days to a couple of hours. By July 2004, an entrepreneur will be able to apply for many of the registrations and licences required to start up a company through a single online form on the eCitizen portal. From 1 March 2003, a new Government-wide authentication system called SingPass, short for Singapore Personal Access, will be made available to any individual who seeks to transact with the Government online.

Public Sector Market-Testing

3.30 Apart from streamlining its rules, the Government will create more opportunities for businesses. My Ministry is introducing market-testing for non-core government services this year, beginning with new services. Public sector agencies will be required to compare the cost of providing the service in-house against the price quoted by private sector vendors. If a private sector vendor can deliver the service more cost-effectively, it will be engaged to do so.

Statutory Board Companies

3.31 In addition, the Government will progressively stop providing services that the private sector can supply. Ministries and statutory boards will no longer set up new companies, except in strategic areas or where the private sector is not ready. The Ministries have started a review of all their companies, to be completed by this fiscal year. It will be repeated every three years to determine which companies should be retained, and which should be divested.

3.32 We have so far identified a few dozen companies, mostly small, which are non-strategic and can be divested within the next few years. Two larger examples are Ascendas and PSB Corp. Ascendas develops, markets and manages business parks in Asia, while PSB Corp's core business is in testing, technology, consultancy and training services. A third, smaller example is Hdbay, which provides interior designing services and develops e-commerce applications. It also accredits and recommends renovation contractors to homeowners.

Minister of State in Charge of Entrepreneurship

3.33 Strengthening the spirit of entrepreneurship is a long term effort, involving not just policy changes, but also changes in mindsets and culture.

The ERC recommended that the Government designate a Minister or Minister of State to work with the Entrepreneurship 21 Ministerial Committee, and be responsible for promoting and driving the diverse initiatives to develop a more entrepreneurial Singapore. The Government agrees. Mr Raymond Lim, Minister of State for Trade and Industry, who chaired the Entrepreneurship and Internationalisation Sub-Committee of the ERC, will take charge of the Government's efforts to facilitate entrepreneurship in Singapore.

Manufacturing and Services

3.34 The Government will introduce a range of new or enhanced measures to sustain the competitiveness of our manufacturing and services sectors.

Intellectual Property

3.35 On manufacturing, the ERC recommended that we move beyond being a production base, to become an innovative creator of products and new business. On services, the ERC proposed that we focus on exportable services, and develop new services like healthcare, education and creative industries, in order to service the region. These are all high value-added and knowledge-intensive activities. Investors in these fields do not look for the cheapest location, but for the country where their intellectual property (IP) enjoys the best protection, and where the environment is most conducive to the creation of new IP. This is an area where we enjoy a significant advantage over our regional competitors.

3.36 We will build on this lead. We will continue to build up and attract talents in R&D and in the creative fields. The Ministry of Law is conducting a comprehensive review of our current IP laws to support the growth of new industries, to take into account technological advances, and to strengthen further IP protection. To make Singapore a key node for developing, managing and commercialising IP, I have also decided to introduce the following tax measures:

Royalty Income

3.37 To encourage firms to hold their IP rights in Singapore, I have decided to extend the Unilateral Tax Credit Scheme to royalties remitted from all non-treaty countries. This will take effect from YA 2004.

IP Acquisition

3.38 Companies can currently apply to EDB or the IDA for writing-down allowances over a five-year period for capital expenditure incurred in acquiring intellectual property such as patents, copyrights and trademarks. To increase Singapore's attractiveness as an international IP holding location, I have decided that writing-down allowances will be granted automatically, subject to the condition that the legal and economic ownership of the IP lies with the Singapore entity. This will apply to IP acquired on or after 1 November 2003.

Patenting Costs

3.39 To encourage more companies to patent their inventions and make Singapore an attractive base for IP management, I have decided to complement the Patent Application Fund Plus grant scheme with tax deductions for the costs of patenting an invention. This will apply to patenting costs incurred on or after 1 June 2003.

Foreign Income for R&D

3.40 To increase the stockpile of funds for R&D activities conducted in Singapore or controlled from Singapore, I have decided to introduce a new R&D incentive, which will be effective from 1 June 2003. Companies under this incentive will be granted tax exemption on foreign sourced royalties and interest income that are used for R&D purposes.

Provision of Information and Digitised Goods

3.41 I have decided to facilitate the flow of online information and digitised goods by granting exemption on withholding tax for payments made by end-users to non-resident persons. This will take effect immediately.

<u>Integrated Industrial Capital Allowance</u>

3.42 Our manufacturing sector draws strength from its international linkages, for example with Batam and Bintan. Corporate groups increasingly split their activities across geographical boundaries. Marketing or other high value-added activities are concentrated in the main company, with other activities distributed to its regional subsidiaries.

3.43 To accommodate this business model, I have decided to introduce an "Integrated Industrial Capital Allowance" incentive from 1 March 2003. Under this incentive, companies will be allowed to claim capital allowances on equipment that is used by their subsidiaries outside Singapore.

Upfront Land Premium for Leased Land

3.44 I have explained earlier the importance of competitively priced industrial land for attracting manufacturing investments. Currently, tax deductions are granted for the upfront land premium paid by a lessee in respect of a designated lease for the construction or use of a building on JTC or HDB industrial land, provided the lease tenure is not more than 30 years. This restriction was imposed at a time when it was unlikely for lessees to have upfront premium scheme terms exceeding 30 years for industrial land.

3.45 To encourage companies to undertake investments in Singapore over longer periods, I have decided to extend the current 30-year lease tenure restriction to a 60-year limit with effect from YA 2004.

Private Wealth Management

3.46 As we upgrade our manufacturing sector, we must also spur our services sector to become our second engine of growth. In financial services, the development of world-class trustee and custodian services in Singapore is integral to Singapore's development as a wealth management centre. To support this, I have decided to introduce the following changes.

3.47 Firstly, I have decided to extend income tax exemption to foreign trusts administered by all trust companies in Singapore, and not just those administered by Approved Trustee Companies (ATCs) from YA 2004.

3.48 Secondly, by 1 June 2003, the existing lists of designated investments and specified income under the ATC scheme will be replaced with an exclusion list.

3.49 Thirdly, to reduce compliance costs for trust companies currently having to comply with different sets of conditions for the purpose of income tax exemption for foreign trusts and the zero-rating of trustee services provided to foreign trusts, I have decided to align the set of conditions for both from 1 June 2003.

3.50 Lastly, the current GST relief provision in respect of trustee services will be extended to trust administration services provided by a Singapore trust company to a foreign trust of which it is not the trustee from 1 June 2003.

3.51 Apart from improving the tax environment for trusts, the government is conducting a comprehensive review of the Singapore Trustees Act. We must bring our trust laws up to date so that they are relevant to today's needs and supportive of financial sector activity. This is critical in developing the trust industry. The revised legislation will be tabled in FY 2003.

Approved Marine Hull and Liability Insurer Scheme

3.52 The services provided by our transport and logistics industry account for about 8% of GDP and establish Singapore as a leading centre for global trade. With intensifying competition from lower-cost regional centres and changing trade patterns towards Northeast Asia, we must transform ourselves into a leading supply-chain management hub.

3.53 The Approved Marine Hull and Liability Insurer Scheme currently provides tax exemption for income derived by approved marine hull and liability insurers from writing offshore marine hull and liability insurance business for a period of 10 years. To further encourage the development of marine insurance expertise in Singapore, I have decided to extend the Approved Marine Hull and Liability Insurer Scheme to also cover income derived from writing onshore marine hull and liability insurance business with effect from YA 2004.

Approved Third Party Logistics Company Scheme

3.54 Third party logistics companies generally undertake vendor-managed inventory operations where they import and hold goods belonging to foreign principals, and deliver the goods to local customers only upon instruction by the foreign principal. In line with ERC recommendations, I have decided to introduce a scheme whereby qualifying companies can import goods belonging to them or to foreign principals without payment of GST. Under the new scheme, these companies can also move goods to their customers who are under the Major Exporter Scheme, and other qualifying companies under the same scheme, without charging GST. This scheme will be effective from 1 January 2004.

Improved Global Trader Programme

3.55 International trading is a highly mobile and tax-sensitive industry. Although Singapore has flourished as a regional trade hub, we are neither key producers nor consumers. Instead we have leveraged on the presence of international trading companies to build up our global reach. As countries around us develop their own infrastructure and networks, Singapore will face stiffer competition.

3.56 The Global Trader Programme (GTP) now offers a 10% concessionary tax rate on all qualifying trade income. I have decided to enhance and expand the GTP with immediate effect. Under the enhanced scheme, an approved global trading company would be granted concessionary tax rates of 5% and 10% on qualifying offshore trade incomes, depending on the company's turnover and business spending. In addition, the GTP will be expanded to include high-growth, medium-sized trading companies. This will give a further boost to Singapore's status as an international trading centre.

Tax Holiday for the Singapore Commodity Exchange

3.57 The Singapore Commodity Exchange (SICOM) has developed into a global rubber futures trading centre. In order to compete with other emerging exchanges in the region, SICOM must continue to improve on its facilities and strengthen its financial reserves. I have therefore decided to grant another five-year tax holiday to SICOM, with effect from YA 2004.

Submarine Cable Capacity

3.58 To encourage telecommunications operators to provide international connectivity, I have decided to exempt from withholding tax payments for the use of capacity on submarine cables operated by non-resident persons, with immediate effect. I have also decided that payments for the purchase of Indefeasible Rights of Use on submarine cable system will be granted a writing-down allowance over its useful life with effect from YA 2004.

Ministerial Committee on Services

3.59 The issues involved in growing our services sector cut across various Government agencies. Given that it is impractical to designate a single agency to resolve diverse economic and social objectives, the Government agrees with the ERC recommendation to set up a Ministerial Committee on Services, which I will chair, to coordinate policy and make the necessary trade-offs.

3.60 The details of the tax changes to promote manufacturing and services can be found in **Annex E**.

Human Capital

3.61 Since the quality of our human capital underlies the success of all other restructuring efforts, the Government will introduce a number of measures to upgrade our human capital.

Continuing Education and Training

3.62 In future, workers will to have to change jobs more often, and to upgrade their skills continuously to keep pace with economic restructuring. To help them, the Government will put in place a comprehensive continuing education and training (CET) framework, focused on enhancing the employability and competitiveness of our workforce.

3.63 The Government will establish a statutory board under the Ministry of Manpower to enhance the development and promotion of continuing education and training for adults. The statutory board will coordinate CET and employment assistance efforts by working closely with various economic agencies, as well as the private and people sectors.

3.64 The statutory board will build up professional capabilities to strengthen the curriculum design and delivery of adult education and training, and promote the upgrading of all segments of the workforce. It will also drive industry-focused workforce development programmes and oversee the training and placement of unemployed workers. Its mission is to bring greater coherence and coordination to the CET effort, and ensure that our resources committed to workforce training and employment assistance are effectively spent.

Course Fee Relief

3.65 Since 1986, resident taxpayers have been able to claim tax relief for approved courses related to their employment or courses that result in academic or professional qualifications. The ERC has recommended raising the course fee relief from the current level of $2,500. The Government agrees that lifelong learning and training to maintain employability is becoming more important in today's volatile and uncertain economic environment. I have therefore decided to increase the course fee relief to $3,500. This will cost the Government an additional $6.4 million per year.

3.66 At the same time, the Government has reviewed the conditions for claiming course fee relief. Seminars and conferences are becoming increasingly necessary to upgrade oneself. I have therefore decided to expand the scope of the relief to include seminars and conferences.

3.67 Secondly, people may need to retrain not just for their present jobs, but to prepare for possible career shifts. I am therefore extending the relief to courses that are not directly related to one's current profession. To qualify for the relief, the applicant has to establish that the course resulted in a career switch to a relevant job within a period of two years.

3.68 Resident taxpayers who complete courses, seminars or conferences starting from 1 January 2003 will enjoy the enhanced course fee relief.

Overseas Talent Recruitment

3.69 The Double Tax Deduction (DTD) for Overseas Talent Recruitment Scheme introduced in 1998 allows employers to claim a further tax deduction for approved relocation and recruitment expenses incurred in the hiring of top talent from abroad. The scheme helps offset the extra cost that companies bear to employ such persons.

3.70 The decision to relocate is often easier if the individuals are able to bring their families with them. To encourage employers to support the additional cost of relocating top talent with their families, I will increase the deduction limit for the employer from $15,000 to $25,000 for P1 employment pass holders, and from $5,000 to $15,000 for P2 employment pass holders. I will also increase the cap for tax deduction from $150,000 to $275,000 for employers.

3.71 These changes will take effect for expenses incurred from today. Further details can be found at **Annex F.**

PART IV: TAX AND FEE CHANGES

Mr Speaker, Sir

4.1 These tax and policy changes are the Government's response to the main recommendations of the ERC. The report contains other suggestions, which the Ministries will follow up expeditiously. Some of the ERC's ideas require more study. The Government will examine these ideas carefully to find the best ways to implement them.

4.2 In addition to the ERC-related measures, I am making several other tax and fee changes.

Liquor Duties

4.3 To rationalise our liquor taxes, we will adjust selected liquor duty rates. Excise duties will be raised for some types of liquors, and reduced for other types in order to rationalise the duties and bring them in line with our international obligations. The new rates are at **Annex G**. The changes will take effect today and result in a revenue gain of about $9.4 million every year.

Tobacco Duties

4.4 Although the proportion of smokers in Singapore dropped from 18% in 1992 to 14% in 2001, the percentage of young female smokers aged 18 to 24 increased from 2.8% to 8.2% in the same period. To discourage smoking, and especially to deter the young from picking up the habit, the Government will take every opportunity to raise excise duties on cigarettes and other tobacco products.

4.5 Last year, I raised the excise duty on cigarettes from $180 per kg to $210 per kg. I have decided to further increase the excise duties on all tobacco products with effect from today. Excise duty on cigarettes will go up from $210 per kg to $255 per kg. The new excise duties on other tobacco products are at **Annex H**.

4.6 The Government has also noticed the emergence of low-priced cigarettes with slightly lower tobacco content. The low prices make such cigarettes more accessible to our youths. I have therefore decided to tax cigarettes by sticks, instead of by weight so that these cigarettes are subject to the same duty rates as regular packs of cigarettes. Under this new system of taxation, the excise duty on each stick of cigarette less than 1g will be 25.5 cents, and each additional 1g or part thereof will attract a duty of 25.5 cents. So there is no point having an extra long cigarette. To give traders and cigarette companies time to adjust their systems, this new system of taxation will be implemented from 1 July 2003.

4.7 The annual revenue gain from these changes is about $194 million.

4.8 Travellers can currently bring in tobacco products not exceeding 2 kg without a permit, by paying duty on them. This is equivalent to 100 twenty-stick packs of cigarettes. Some people have found that paying duty on cigarettes bought overseas is still cheaper than buying cigarettes here. I have decided to lower the limit to 400g, which is equivalent to 20 packs of cigarettes. This will take effect from 1 April 2003.

Motor Vehicle Taxes

Valuation Method

4.9 The Government will change the basis for valuing motor vehicles. We will change from the Brussels Definition of Value (BDV) method to the Customs Valuation Code (CVC) method. This new basis will exclude obligatory expenses such as advertising, promotion, warranties, showroom and warehousing costs from a vehicle's taxable value. The effect will be to decrease the ARF and excise duty payable for most vehicles by 3% to 5%.

4.10 This is consistent with our policy of gradually lowering the costs of owning a car and raising usage costs, in order to strike a better balance, and enable more Singaporeans to own cars. For a typical 1,500 cc car with an assessed open market value (OMV) of $15,000 under the existing valuation system, a 5% tax saving would amount to about $1,100.

4.11 This change will take effect from 1 April 2003. Details about the valuation method can be found in **Annex I**.

ARF and Excise Duty Rebates for Wheelchair Lifts

4.12 To help the elderly and disabled meet their transport needs, I have decided to exclude the cost of wheelchair lifts and other costs associated with the installation of such lifts from the OMV of a vehicle when computing the

ARF and excise duty payable. This change will take effect immediately, and will complement other efforts by National Council of Social Services and voluntary welfare organisations to provide transport services for this group of needy Singaporeans.

Childcare Benefits

4.13 Many parents find it difficult to juggle both work and childcare, and one parent may have to stop working as a result. Childcare benefits defray the cost of alternative care arrangements for their children and encourage them to stay in the workforce. I have therefore decided to exempt from income tax employer-subsidised childcare benefits paid to licensed childcare centres with effect from YA 2004. This is in line with the Government's efforts to promote pro-family practices in the workplace.

Stamp Duties

Stamp Duty on Leases

4.14 Presently, all property leases are levied with stamp duty. To reduce the tax burden on families living in rental flats, and the inconvenience to businesses and the general public, I have decided to exempt from stamp duty leases with annual rents that do not exceed $1,000. This change will benefit some 3,500 households that start a new lease or renew the lease of a 1- and 2-room HDB rental flats each year. The exemption will also cover the fixed duty levied on 99-year leases that some 32,000 households enter into each year when they purchase flats from HDB. About 30% of all leases will now be exempted. Households and businesses can expect to save about $340,000 a year from 1 April 2003 onwards.

Seller's Stamp Duty

4.15 The seller's stamp duty on the sale of residential properties within three years of purchase was introduced in 1996 to curb property speculation and to stabilise the property market. It was suspended indefinitely in November 1997 when the property market cooled down. Since the property market is stable, there is no longer any need to retain the seller's stamp duty. I have therefore decided to abolish this duty.

Promoting Philanthropy

4.16 Our tax system recognises taxpayers who support charitable causes.

Donation of Land and Buildings

4.17 From 1 April 2003 onwards, I will be giving income tax deductions for donations of buildings and parcels of land made to Institutions of a Public Character (IPCs). Donors will have the flexibility to decide if they would rather donate the sales proceeds of the asset, or the asset itself, as both options will now allow them an equivalent amount of tax deduction.

Stamp Duty on Donations

4.18 At present, IPCs have to pay stamp duties when they receive donations of immovable properties and shares. To lessen the burden on IPCs receiving such donations and to encourage bequests and donations from estates to IPCs, I have decided to exempt all donations to IPCs from stamp duty. This will take effect immediately.

Donation of Public Sculptures

4.19 As we develop our economy, we should not neglect to preserve our cultural heritage. I am introducing three enhancements to the Public Sculpture Donation Scheme, with effect from 1 July 2003. The enhanced scheme will incentivise donors to adopt existing sculptures, commission and donate sculptures or publicly display sculptures from their private collections. The National Heritage Board will be releasing the details of this scheme by 1 July 2003.

Overall FY 2003 Fiscal Position

4.20 Mr Speaker, Sir, the tax changes in response to ERC measures, taken together with the rebates and other tax and fee changes, will cost the Government $324 million in FY 2003. This will increase the deficit from the $900 million projected in the FY 2003 Budget to $1.2 billion. The Government is able to finance this deficit from funds accumulated in its current term and will not need to draw on past reserves.

PART V: NEW CHALLENGES, FRESH GOALS

Mr Speaker, Sir

5.1 We cannot predict how the international security situation will evolve, nor do we know for sure when the global and regional economy will regain its health. But we can and will use our resources and strengths to give ourselves the best chances to succeed, whatever the circumstances.

5.2 In this spirit, the Government accepts the ERC recommendations to revitalise the economy in the immediate future and sustain growth over the longer term. Vigorously implemented, over a decade these strategies will make Singapore a leading global city, a hub of talent, enterprise and innovation, and one of the best places in Asia to live and work. We will be host to both global MNCs and emerging business networks linking up China, India and Southeast Asia. Our broad economic base will have services complementing manufacturing industries, start-ups operating alongside established companies, and Singaporean companies reinforcing MNCs. These diversified activities will provide a wide range of rewarding jobs for Singaporeans, either as knowledge workers, skilled technicians, or semi-skilled workers.

5.3 Change will not be effortless. There is no safe harbour where our ship can shelter to rebuild and refit, before heading out to sea. In a rapidly unfolding situation, all work must be done onboard ship while we are sailing and battling the elements. The Government will act to bring about and facilitate these structural shifts, but success ultimately depends on the resourcefulness and resilience of Singaporeans.

5.4 We must shake free of our old mindsets, and adjust our positions to better face a changed world order out of which new opportunities will arise. Some of us may not find this easy to do. But everyone who makes the effort will find a place in the new Singapore economy. And all will get focused assistance from the Government and support from employers and unions. Through our joint efforts, our economy will bounce back.

5.5 At the end of the day, the purpose of restructuring is more than finding new growth sectors and creating new jobs. It means forging a bond between all Singaporeans, in a spirit of joint endeavour, to secure our common future. In an uncertain and volatile world, we have to overcome new challenges and set fresh goals for ourselves. We have to grow as a united people, to create a better tomorrow for ourselves and our children, regardless of race, language or religion. And we must bring to this task tough minds and warm hearts.

5.6 Mr Speaker, Sir, I beg to move.

Annex A – Changes to Excise Duties for Petrol

Grades of Petrol	Current Excise Duties	Excise Duties with effect from 28 Feb 2003
Premium	35% of pump price without GST, or $0.44 per litre (whichever is higher)	$0.44 per litre
Intermediate	35% of pump price without GST, or $0.41 per litre (whichever is higher)	$0.41 per litre
Regular	35% of pump price without GST, or $0.37 per litre (whichever is higher)	$0.37 per litre

Annex B – Utilities Save Rebates (from July 2003 to June 2004)

Month	1-room	2-room	3-room	4-room	5-room
July 03	$35	$35	$35	$35	$35
August 03	---	---	---	---	---
September 03	$35	$35	---	---	---
October 03	---	---	$35	---	---
November 03	$35	$35	---	---	---
December 03	---	---	---	---	---
January 04	$35	$35	$35	$35	---
February 04	---	---	---	---	---
March 04	$35	$35	---	---	---
April 04	---	---	$35	---	---
May 04	$35	$35	---	---	---
June 04	---	---	---	---	---

Annex C – Revised Service & Conservancy Charges Rebates (from January 2003 to December 2003)

Month	**1-room**	**2-room**	**3-room**	**4-room**	**5-room**
January	Full	Full	Full	Full	Full
February	$8	$7	$4	---	---
March	Full	Full	Full	Full	---
April (new)	**Full**	**Full**	**Full**	**Full**	**Full**
May	$8	$7	$4	---	---
June	Full	Full	Full	Full	Full
July	$8	$7	$4	---	---
August	$8	$7	$4	---	---
September	Full	Full	Full	---	---
October	$8	$7	$4	---	---
November	$8	$7	$4	---	---
December	Full	$7	$4	---	---
Number of Months of Full Rebate	**6**	**5**	**5**	**4**	**3**

"Full" represents a full rebate for S&C charges in that particular month

Dollar sums of $4/$7/$8 represent partial rebate for S&C charges in that particular month

"---" represents no rebate granted in that particular month

Annex D – Tax Measures to Promote Entrepreneurship and Singapore Companies

Concession for Enterprise Development

1. Businesses that incur expenses before trade revenue is earned may not be able to claim a tax deduction for these expenses.

2. To promote enterprise, the first day of the accounting year in which a business earns its first dollar of trade revenue will be regarded as the point at which the business starts trading. This administrative concession will provide businesses with greater certainty about the deductibility of their expenses.

3. This concession will take effect from YA 2004. Businesses will benefit from tax deductions for all revenue expenses incurred during that accounting year. If a business is able to prove that it started trading and incurred revenue expenses even earlier, it will continue to be allowed to deduct these expenses as well.

Revised Overseas Investment Incentive

4. Currently, the Overseas Investment Incentive allows an approved Singapore company to deduct losses arising from the sale of shares or liquidation of an approved overseas investment against its statutory income.

5. To help our companies expand overseas, this incentive has been revised to allow an approved Singapore-based company to defer its income taxes for two years if its approved overseas investment incurs operating losses during the first three years of the approved investment. The revamped incentive will cover new investments made from 1 January 2004.

6. International Enterprise Singapore (IES) will release further details by July 2003.

Annex E – Tax Measures to Help the Manufacturing and Services Sectors

Intellectual Property (IP)

Unilateral Tax Credit Scheme for Royalty Income

1. The current unilateral tax credit scheme eliminates double taxation on certain income received from non-treaty countries, but does not cover royalty income. Royalties remitted from a non-treaty country would not receive any tax credit for the foreign tax and would be subject to Singapore tax, resulting in it effectively being taxed twice.

2. To encourage firms to hold their IP rights in Singapore, the unilateral tax credit scheme will be extended to royalties remitted from all non-treaty countries from YA 2004.

Automatic Writing-Down Allowance for IP Acquisition

3. Companies can currently apply to EDB or IDA for writing-down allowances over a five-year period for capital expenditure incurred in acquiring one of seven classes of IP:

a) Patents;
b) Copyrights and Related Rights;
c) Trade Marks;
d) Registered Designs;
e) Geographical Indications;
f) Layout Designs of Integrated Circuits; and
g) Protection of Confidential Information

4. To increase Singapore's attractiveness as an international IP holding location, writing-down allowances will be granted automatically for capital expenditure incurred in the acquisition of IP on or after 1 November 2003. This is provided the legal and economic ownership of the IP lies with the Singapore company. This concession will last for an initial period of five years.

Tax Deduction for Patenting Costs

5. To encourage more companies to patent their inventions and make Singapore an attractive base for R&D and IP management activities, EDB administers a Patent Application Fund Plus (PAFP) grant scheme, which helps individual inventors and Singapore-based SMEs defray part of the cost of patenting an invention. This scheme will be complemented with a tax deduction for the cost of patenting an invention, provided the invention has not received any PAFP grant and that the legal and economic ownership of the resulting IP lies with the Singapore company. This

incentive will apply to patenting costs incurred on or after 1 June 2003, and will last for an initial period of 10 years.

6. The Economic Development Board (EDB) will release more details by May 2003.

Exemption of Foreign Income Used for R&D

7. In order to increase the level of R&D activity conducted in Singapore or controlled from Singapore, companies in Singapore must have a sustained pool of funds to support such activities. The current stockpile of funds comes in the form of the company's income sourced in Singapore, or debt or equity injections into the company.

8. To increase the stockpile of funds for R&D activities, a new R&D incentive will be introduced from 1 June 2003. Companies under this incentive will be granted tax exemption on foreign source royalties and interest income that are used for R&D purposes only. The incentive will last for an initial period of five years.

9. EDB will release more details by May 2003.

<u>Withholding Tax Exemption for Provision of Information and Digitised Goods</u>

10. The numbers of online information and content providers and the sale of digitised goods are growing with advances in electronic communications. Currently, payments made to a non-resident person for the provision of information and digitised goods are subject to withholding tax.

11. To facilitate the flow of information and digitised goods, payments made by end-users to non-resident persons will be exempted from withholding tax. This will take effect immediately for an initial period of 10 years.

12. The IRAS will release more details by March 2003.

<u>Integrated Industrial Capital Allowance</u>

13. At present, capital allowance deductions are only granted on equipment that is used in a company's own trade or business. There is a rapidly growing trend for corporate groups to concentrate marketing or other high value-added activities in a single centralised company, and have their regional subsidiaries perform other activities.

14. To accommodate this business model, an Integrated Industrial Capital Allowance incentive will be introduced from 1 March 2003. Under this incentive,

companies will be allowed to claim capital allowance deductions on equipment which they own wholly, but are used by their subsidiaries outside Singapore.

15. This incentive is part of a package of measures under an "Integrated Industrial Initiative". Companies can apply to EDB for this incentive, which will last for an initial period of 10 years.

16. EDB will release the details of the Integrated Industrial Capital Allowance incentive by March 2003.

Upfront Land Premium for Leased Land

17. Currently, tax deductions are granted for the upfront land premium paid by a lessee in respect of a designated lease for the construction or use of a building on JTC or HDB industrial land, provided the lease tenure is not more than 30 years long. This restriction was imposed at a time when it was unlikely for lessees to have upfront premium scheme terms exceeding 30 years for an industrial land.

18. To encourage companies to undertake investments in Singapore for longer periods of time, the current 30-year lease tenure restriction will be lengthened to a 60-year limit with effect from YA 2004.

Private Wealth Management

19. The development of world-class trustee and custodian services in Singapore is integral to Singapore's development as a wealth management centre. To support this thrust, the following changes will be implemented.

Income Tax Exemption for Foreign Trusts

20. Tax exemption is currently only granted on the income of foreign trusts administered by Approved Trustee Companies (ATCs). To encourage trust companies that are not ATCs to take on more global trust business from Singapore and provide assurance to trust clients that tax exemption will not cease the moment a trustee company falls out of the ATC scheme, income tax exemption will be extended to foreign trusts administered by all trust companies in Singapore, and not just those administered by ATCs. This measure will come into effect from YA 2004.

Exclusion List for Investments and Income

21. The existing lists of designated investments and specified income under the ATC scheme will be replaced with an exclusion list instead. This approach will ensure that new financial products will be covered under the scheme, in view of the frequency with which new financial products are introduced.

22. MAS will announce further details by June 2003.

Alignment of Qualifying Conditions for Income Tax Exemption and Zero-rating

23. International services are currently zero-rated for GST purposes. Trustee services provided to a foreign trust are considered as international services and are zero-rated if they meet a certain set of conditions. However, the conditions on what constitutes a foreign trust for GST purposes are different from that for income tax purposes. For ease of compliance, the set of conditions for zero-rating in respect of trustee services provided to foreign trusts will be aligned to that in the Income Tax Regulations. The proposed change will come into effect from 1 June 2003.

Extension of GST Relief to Trust Administration Services

24. Currently, trustee services provided by a Singapore trust company to a foreign trust are zero-rated. GST relief in respect of trustee services will be extended to services provided by a Singapore trust company to a foreign trust of which it is not the trustee. This will increase the competitiveness of Singapore trust companies serving as management and administration hubs for offshore trusts. This change will come into effect from 1 June 2003.

Approved Marine Hull and Liability Insurer Scheme

25. The Approved Marine Hull and Liability Insurer Scheme currently provides tax exemption for income derived by approved marine hull and liability insurers from writing offshore marine hull and liability insurance business for a period of 10 years. The scheme is administered by MAS. To encourage the development of marine insurance expertise in Singapore, the scheme will be extended to cover income derived from writing onshore marine hull and liability insurance business as well.

26. Therefore, with effect from YA 2004, approved marine hull and liability insurers will enjoy tax exemption on the following:

a) underwriting income derived from writing both onshore and offshore marine hull and liability insurance business; and
b) dividends and interest from outside Singapore, gains from sale of offshore investments and interest from ACU deposits. Exemption will only be given if these are derived from investing onshore and offshore marine hull and liability insurance business income or shareholders' funds used to support onshore and offshore marine hull and liability insurance business.

Approved Third Party Logistics (3PL) Company Scheme

27. Third party logistics companies undertake vendor-managed inventory operations where they import and hold goods belonging to foreign principals, and

deliver the goods to local customers only upon instruction by the foreign principals. The presence of 3PLs in Singapore is in line with the ERC's vision of developing Singapore into a leading global integrated logistics hub. Their presence will also provide an important supporting role for local manufacturers.

28. To support the business needs of 3PLs, qualifying 3PLs will be allowed to import goods belonging to them or foreign principals without payment of GST. Under this new scheme, 3PLs can also move goods to their customers who are under the Major Exporter Scheme (MES), and other qualifying 3PLs under the same scheme, without charging GST. GST will be charged only on goods that are released into the local market for consumption. This will result in cost savings in terms of interest and administrative costs for 3PLs, since most of their imports are eventually re-exported.

29. To be eligible for the new scheme, the proportion of exports and supplies to MES customers and other qualifying 3PLs must exceed 50% of the total supplies made by the 3PLs. The scheme will be effective from 1 January 2004.

30. The details of the scheme will be announced by the IRAS in June 2003.

<u>Improved Global Trader Programme</u>

31. To strengthen our competitiveness vis-à-vis the regional trading hubs, the Global Trader Programme (GTP) will be enhanced and expanded as follows:

Tiered GTP Concessionary Tax Regime

32. The current 10% GTP concessionary tax rate will be replaced by a tiered concessionary tax rate to make the scheme more attractive. Under the enhanced GTP, an approved global trading company would be granted concessionary tax rates of 5% and 10% on qualifying offshore trading incomes, depending on the company's turnover and business spending.

Medium-Sized Global Trading Companies

33. With globalisation and market liberalisation, companies are likely to establish decentralised procurement and distribution operations. To seize this opportunity to attract high-growth globalising companies to use Singapore as a springboard for their trade between Asia and the rest of the world, the GTP will be expanded to include high-growth and medium-sized trading companies as 'qualifying global trading companies' under the GTP scheme.

34. The changes will apply from 28 February 2003. IES, which administers the scheme, will announce more details by April 2003.

Tax Holiday for the Singapore Commodity Exchange

35. The Singapore Commodity Exchange (SICOM) was granted a five-year tax holiday when it was first established in 1994. In 1997, the tax holiday was extended for an additional five years to support the growth of SICOM. This incentive has enabled the Exchange to build up its reserves and improve on its trading infrastructure. This has helped SICOM successfully develop into a global rubber futures trading centre.

36. In order to meet the challenges of global competition and the emergence of other exchanges in the region, SICOM must continue to improve on its facilities and strengthen its financial reserves. SICOM will be granted another five-year tax holiday with effect from YA 2004.

Use of Submarine Cable Capacity

37. Submarine cable systems are a crucial element in the international connectivity provided by the broadcasting and telecommunications industries. Currently, payments made to a non-resident for the use of submarine cable capacity are subject to a 15% withholding tax. To encourage broadcasting and telecommunications operators to provide international connectivity, payments for the use of capacity on submarine cable operated by non-resident persons will be exempt from withholding tax. The exemption will take immediate effect for an initial period of five years.

38. To boost our local broadcasting and telecommunications industries, payments for Indefeasible Rights of Use for submarine cable systems will also be granted a writing-down allowance over the period of use. This will take effect from YA 2004.

Annex F - Overseas Talent Recruitment

1. Under the Double Tax Deduction (DTD) for Overseas Talent Recruitment Scheme introduced in 1998, employers can claim DTD for:

a) recruitment and relocation costs incurred in hiring P1 talent from abroad;
b) relocation costs for hiring P2 talent from abroad; and
c) recruitment and relocation costs for hiring returning Singapore citizens and permanent residents of standing equivalent to P employment pass holders.

2. The amount of DTD that employers can claim has been enhanced to take into account expenses that employers may incur in relocating the employees' family members to Singapore. The current and revised caps are shown in the table below.

<table>
<tr><th rowspan="2">Description</th><th colspan="2">P1 Employment Pass (or equivalent)</th><th colspan="2">P2 Employment Pass (or equivalent)</th></tr>
<tr><th>Current Cap</th><th>Revised Cap</th><th>Current Cap</th><th>Revised Cap</th></tr>
<tr><td>Relocation expenses for employee</td><td rowspan="3">$15,000 (includes recruitment expenses)</td><td>$15,000 (includes recruitment expenses)</td><td rowspan="3">$5,000</td><td>$5,000</td></tr>
<tr><td>Relocation expenses for spouse</td><td>$5,000</td><td>$5,000</td></tr>
<tr><td>Relocation expenses for unmarried children under the age of 21 years</td><td>$2,500 per child (maximum of 2 children)</td><td>$2,500 per child (maximum of 2 children)</td></tr>
<tr><td>Total cap per employee</td><td>$15,000</td><td>$25,000</td><td>$5,000</td><td>$15,000</td></tr>
</table>

3. The total deduction an employer can claim for qualifying expenses incurred has been revised from $150,000 to $275,000.

4. The revised caps apply to qualifying expenses incurred on or after 28 February 2003.

Annex G – Current and New Excise Duties for Liquors

HS Codes	Product Description	Current Excise Duties	New Excise Duties
21069062	Alcoholic preparations to be used as raw material, for the manufacture of alcoholic beverages, in other forms	$74 per kg	$82 per kg
21069065	Composite concentrates of alcoholic preparations, for the manufacture of alcoholic beverages, in other forms	$74 per kg	$82 per kg
22041000	Sparkling wine	$13 per litre	$10.40 per litre
22060020	Sake (rice wine)	$48 per litre of alcohol	$59 per litre of alcohol
22060040	Shandy of an alcoholic strength by volume exceeding 0.5% but not exceeding 1%	$1 per litre	$0.80 per litre
22060050	Shandy of an alcoholic strength by volume exceeding 1% but not exceeding 3%	$1.20 per litre	$1.30 per litre
22089010	Medicated samsoo of an alcoholic strength by volume not exceeding 40%	$36 per litre of alcohol	$53 per litre of alcohol
22089020	Medicated samsoo of an alcoholic strength by volume exceeding 40%	$36 per litre of alcohol	$53 per litre of alcohol
22089030	Other samsoo of an alcoholic strength by volume not exceeding 40%	$36 per litre of alcohol	$53 per litre of alcohol
22089040	Other samsoo of an alcoholic strength by volume exceeding 40%	$36 per litre of alcohol	$53 per litre of alcohol
22089050	Arrack and pineapple spirit of an alcoholic strength by volume not exceeding 40%	$40 per litre of alcohol	$55 per litre of alcohol
22089060	Arrack and pineapple spirit of an alcoholic strength by volume exceeding 40%	$40 per litre of alcohol	$55 per litre of alcohol
33021020	Odoriferous alcoholic preparations of a kind used for the manufacture of alcoholic beverages, in other forms	$74 per kg	$82 per kg

Annex H - Current and New Excise Duties for Tobacco Products

HS Codes	Product Description	Current Excise Duties (per kg)	New Excise Duties (per kg)
24011010	Tobacco leaf, not stemmed/stripped, Virginia type, flue-cured	$150	$210
24011020	Tobacco leaf, not stemmed/stripped, Virginia type, not flue-cured	$150	$210
24011030	Tobacco leaf, not stemmed/stripped, other type, flue-cured	$150	$210
24011090	Tobacco leaf, not stemmed/stripped, other type, not flue-cured	$150	$210
24012010	Tobacco leaf, partly or wholly stemmed/stripped, Virginia type, flue-cured	$150	$210
24012020	Tobacco leaf, partly or wholly stemmed/stripped, Virginia type, not flue-cured	$150	$210
24012030	Tobacco leaf, partly or wholly stemmed/stripped, Oriental type	$150	$210
24012040	Tobacco leaf, partly or wholly stemmed/stripped, Burley type	$150	$210
24012050	Tobacco leaf, partly or wholly stemmed/stripped, other type, flue-cured	$150	$210
24012090	Tobacco leaf, partly or wholly stemmed/stripped, other type, not flue-cured	$150	$210
24013010	Tobacco stems	$150	$210
24013090	Other tobacco refuse	$150	$210
24021000	Cigars, cheroots & cigarillos containing tobacco	$210	$255
24022010	Beedies	$70	$115
24022090	Cigarettes (*28 Feb – 30 Jun 2003)*	$210	$255 per kg
24022090	Cigarettes (*1 Jul 2003 onwards)*	$210	25.5¢ per stick if less than 1g; every additional 1g or part thereof at 25.5¢
24029010	Cigars, cheroots & cigarillos of tobacco substitutes	$210	$255
24029020	Cigarettes of tobacco substitutes (*28 Feb – 30 Jun 2003)*	$210	$255 per kg

HS Codes	Product Description	Current Excise Duties (per kg)	New Excise Duties (per kg)
24029020	Cigarettes of tobacco substitutes (*1 Jul 2003 onwards)*	$210	25.5¢ per stick if less than 1g; every additional 1g or part thereof at 25.5¢
24031011	Blended tobacco, packed for retail sale	$210	$255
24031019	Other tobacco, packed for retail sale	$210	$255
24031021	Blended tobacco, for cigarette making	$150	$210
24031029	Other tobacco, for cigarette making	$150	$210
24031090	Other cut tobacco	$210	$255
24039100	"Homogenised" or "reconstituted" tobacco	$210	$255
24039930	Manufactured tobacco substitutes	$210	$255
24039940	Snuff	$210	$255
24039950	Smokeless tobacco, including chewing and sucking tobacco	$70	$115
24039960	Ang hoon	$70	$115
24039990	Other manufactured tobacco	$210	$255

Annex I – Valuation of Motor Vehicles

1. Currently, the value of a motor vehicle is assessed to be the price it would normally fetch between independent buyers and sellers in an open market. This method of valuation, which is based on the ***Brussels Definition of Value (BDV)***, generally includes the following expenses in arriving at the taxable value of a motor vehicle:

a) *'Transaction value'*: The price paid or payable for a vehicle by a buyer (e.g. motor trader) to a supplier on a CIF basis. CIF refers to the cost of goods plus insurance and freight charges.

b) *'Handling charge'*: The handling expense for transferring a vehicle from the conveyance carrier onto land if the vehicle arrives by air or sea. Handling charges are imputed as 1% of the vehicle's CIF value.

c) *'Agency uplift'*: Expenses for advertising, promotion, warranties, as well as showroom and warehousing costs. Generally, agency uplift is estimated as a percentage of a vehicle's invoice price. This percentage is generally reviewed on an annual basis.

2. The value of a vehicle, commonly known as its 'open market value' or OMV, is computed as follows:

Value of a vehicle	=	Transaction value + Handling charge + Agency uplift

3. The ***Customs Valuation Code (CVC)*** is an alternative method of valuation that is endorsed by the WTO, and increasingly used by many countries. This method generally assesses the value of a motor vehicle based on its transaction value.

4. With effect from 1 April 2003, the basis for valuing motor vehicles in Singapore will change from the ***BDV*** to the more widely-accepted ***CVC***. The new valuation method will apply to those vehicles where excise duties are paid on or after 1 April 2003.

5. As a result, the Additional Registration Fee (ARF) and excise duty payable for most vehicles are expected to decrease by at least 3 to 5%. This reduction in taxes arises because the 'handling charge' and 'agency uplift', which are included under the BDV, will no longer be added to the value of a vehicle under the CVC. For a typical 1,500 cc car with an assessed open market value or OMV of $15,000 under the BDV, a 5% saving in tax amounts to about $1,100.

6. Generally, the reductions in ARF and excise duty will be greater for cars with higher uplifts. Cars with higher uplifts will generally be those with higher marketing, warranties, showroom and warehousing costs relative to the volume of cars sold.