BUDGET HIGHLIGHTS
Financial Year 2005/2006

Creating Opportunity
Building Community

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PART I
BUDGET HIGHLIGHTS

1 FISCAL PERFORMANCE IN FY2004

1.1 Economic Performance in 2004

The Singapore economy expanded by 8.4% in 2004, much faster than the 3.5-5.5% growth projected when the Budget for Financial Year (FY) 2004 was set out in February 2004. The higher growth rate reflected strong external demand for Singapore's exports and recovery from the impact of SARS. Year-on-year, growth was strongest in the second quarter of 2004, before moderating in the third and fourth quarters.

1.2 Budget Outturn for Financial Year 2004/2005

The revised FY2004 budget position is a smaller deficit of $440 million, compared to a deficit of $1.4 billion estimated at the start of the FY. The improved budget outturn is chiefly the result of lower total expenditure, and an increase in Net Investment Income (NII) contribution. The revised FY2004 revenue and expenditure estimates are summarised in Table 1.

1.3 Operating Revenue

Despite GDP growth being much stronger than expected in 2004, operating revenue was slightly lower ($94 million or 0.3%) than projected at the start of the FY. This is due to lower than expected collections from motor vehicle-related taxes, vehicle quota premiums and Goods & Services Tax (GST) offsetting revenue gains in other areas.

Box Item 1

Is there a Structural Bias towards Surplus Generation?

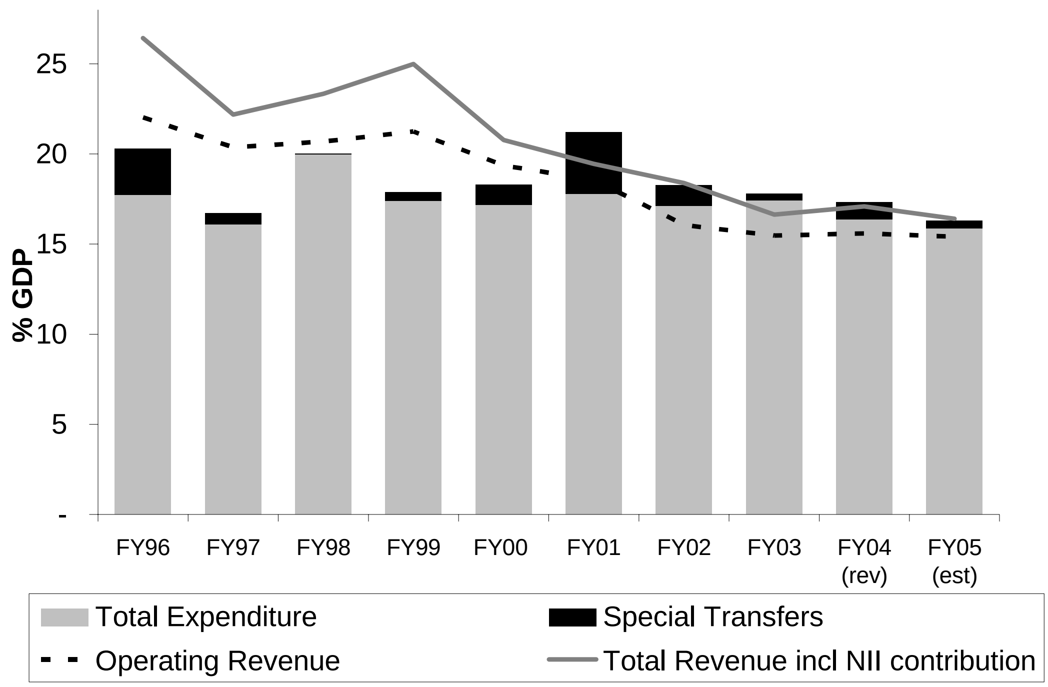
Prior to FY2001, operating revenue (i.e. revenue from taxes, fees and charges) was sufficient to finance Government's total expenditure. Indeed, up till FY2000, operating revenue exceeded total expenditure *plus* special transfers. The budget surplus averaged 2.4% of GDP from FY1996 to FY2000 and the Government was able to build up Singapore's financial reserves.

Post-FY2001, the Government's deliberate efforts to cut taxes, fees and charges have reduced operating revenue from over 20% of GDP in the mid-1990s to about 16% of GDP today, even as total expenditure has remained at about 17% of GDP. There is therefore no longer a structural bias towards budget surpluses, and, as a result, the Government's *primary* balance (that is, operating revenue less total expenditure) has been negative in the last three financial years (FY2002 to FY2004).

The Government would in fact be running persistent budget deficits if not for the Net Investment Income (NII) contribution from past reserves. Under the Constitution, the Government is allowed to use up to 50% of NII for current spending needs and the Government has been doing so.

Singapore's reserves, built up over time, have therefore provided a fiscal buffer that allows the Government to enhance Singapore's competitiveness by lowering taxes, and to respond flexibly via discretionary measures in a cyclical downturn.

Chart 1 **Operating Revenue, NII Contribution and Total Expenditure**



Corporate Income Taxes

Revenue from corporate income taxes and statutory boards' contributions-in-lieu of tax is expected to be $7.7 billion, or 20% higher than in FY2003 and 5.3% higher compared to estimates at the start of the FY. Corporate income tax collections were boosted by the surge in corporate profits on the back of stronger economic growth in 2004 while some of the larger statutory boards also reported higher operating surpluses which would translate to larger contributions.

Table 1 **Fiscal Position in FY2003 and FY2004**

	Actual FY2003	Estimated[@] FY2004	Revised FY2004	Revised FY2004 Compared to Actual FY2003	Revised FY2004 Compared to Estimated FY2004
	$b	$b	$b	% change	% change
OPERATING REVENUE	**25.31**	**27.91**	**27.81**	**9.9**	**(0.3)**
Corporate Income Tax	6.41	7.32	7.71	20.2	5.3
Personal Income Tax	3.86	3.84	3.93	1.6	2.3
Assets Taxes	1.51	1.86	2.09	38.2	12.7
Customs & Excise Taxes	1.90	1.99	2.00	5.3	0.8
Goods & Services Tax	2.96	3.80	3.70	25.1	(2.6)
Motor Vehicle Related Taxes	1.49	1.74	1.37	(7.8)	(21.1)
Vehicle Quota Premiums	1.54	2.18	1.49	(3.1)	(31.3)
Other Taxes	3.37	3.23	3.36	(0.3)	4.3
Other Fees & Charges	1.95	1.85	1.99	2.0	7.6
Others	0.32	0.13	0.17	(46.0)	34.3
Less:					
TOTAL EXPENDITURE	**28.50**	**30.44**	**29.22**	**2.5**	**(4.0)**
Operating Expenditure	19.99	20.86	20.49	2.5	(1.8)
Development Expenditure	8.51	9.58	8.74	2.7	(8.8)
PRIMARY SURPLUS/(DEFICIT)[#]	**(3.18)**	**(2.53)**	**(1.41)**		
Less:					
SPECIAL TRANSFERS	**0.60**	**1.11**	**1.71**	**183.1**	**54.0**
Economic Restructuring Shares	0.60	0.90	0.90		
Top-up to Medisave Accounts of Older Singaporeans	-	0.10	0.10		
Utilities Save Scheme[*]	-	0.01	0.01		
Top-up to Medifund	-	0.10	0.20		
Top-up to Lifelong Learning Fund	-	-	0.50		
Add:					
NET INVESTMENT INCOME CONTRIBUTION	**1.90**	**2.29**	**2.68**	**40.9**	**17.1**
OVERALL BUDGET SURPLUS/(DEFICIT)	**(1.89)**	**(1.35)**	**(0.44)**		

[@] After measures announced in the FY2004 Budget Statement
[#] Surplus/(Deficit) before Special Transfers and Net Investment Income Contribution
[*] Reclassified from operating expenditure wef FY2004

Personal Income Taxes

Compared to corporate income taxes, revenue from personal income taxes is expected to exceed earlier estimates by a more modest $90 million (2.3%). This is because under Singapore's tax system, individuals pay income tax on incomes earned in the preceding calendar year; income growth affects personal income tax collections only after a one-year lag. Hence, it is only in FY2005 that the effects of the strong growth experienced in 2004 will be fully felt on personal income tax collections. On the other hand, companies are required to file their tax returns three months after the close of their financial year based on estimates of their chargeable income for that year; corporate income tax payments are hence subject to a shorter lag.

Asset Taxes

At Budget 2004, collections from asset taxes (i.e. property tax and estate duty) were estimated at $1.9 billion, or $340 million (23%) higher than FY2003 collections, mainly because no new property tax rebates extending into FY2004 were introduced. The revised FY2004 estimate for asset taxes is $2.1 billion, or $240 million (13%) higher than Budget 2004 estimates. This increase is entirely accounted for by higher estate duty collections.

Customs & Excise Taxes

Customs & excise tax collections were $2.0 billion, an increase of 5.3% and 0.8% from FY2003 and Budget 2004 estimates respectively.

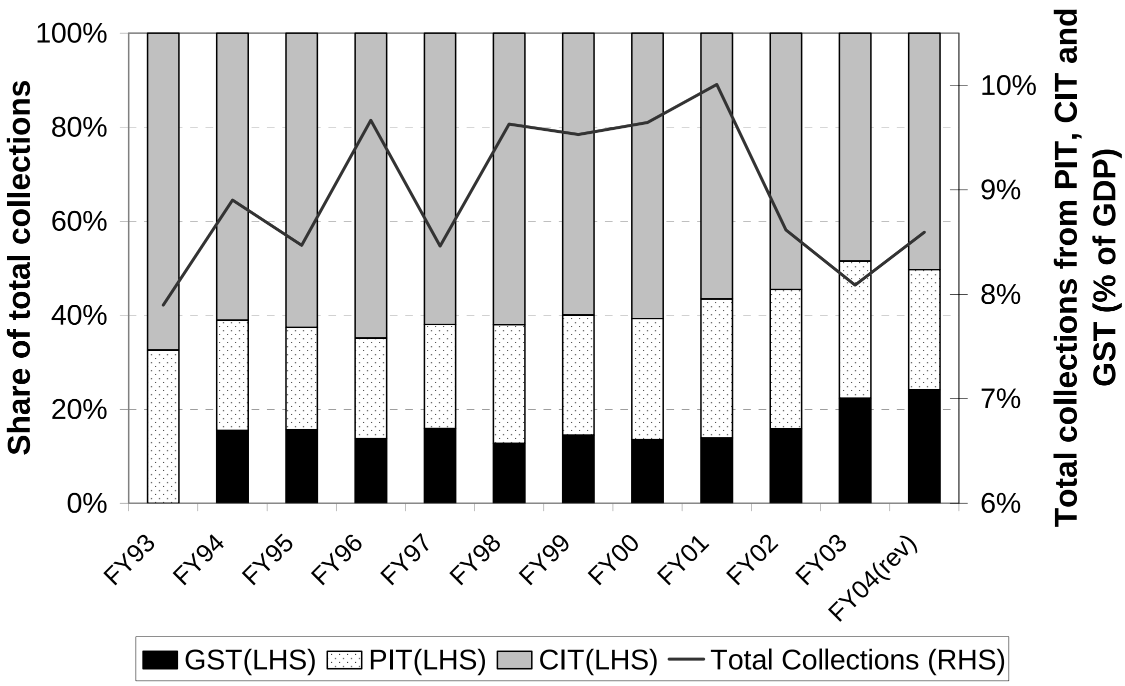
Goods & Services Tax

The Goods & Services Tax (GST) rate was raised from 4% to 5% on 1st January 2004; FY2004 was therefore the first full year where GST was collected at 5% (the GST rate was 4% in the first three quarters of FY2003 and 5% in the last quarter). Full-year GST collections are estimated at $3.7 billion, or $100 million lower than estimated at the start of the FY. GST collections would have been higher if not for a one-off backlog of refunds that were cleared during the FY. Nonetheless, the FY2004 GST collection still represents a significant increase of 25% over the $3.0 billion collected in FY2003. Even after adjusting for the change in the GST rate, FY2004 GST collections were about 6.5% higher than FY2003 collections, reflecting the increase in private consumption expenditure due to stronger economic growth.

Box Item 2
GST as a Source of Government Revenue

Since 1994 when Goods & Services Tax (GST) was introduced at 3%, total revenues raised from GST, personal income tax (PIT) and corporate income tax (CIT) have remained fairly stable at about 9.1% of GDP, or about half of total operating revenue. In 2002, the Government accepted the Economic Restructuring Committee's recommendations to reduce personal and corporate income tax rates to improve Singapore's competitiveness, and raise the GST rate from 3% to 5% to offset the resulting revenue loss. With these changes, collections from GST now make up about one-quarter, compared to about one-sixth in FY1994, of the revenue raised from these three taxes.

Chart 2 **Composition of Tax Collections**



Motor-Vehicle Related Revenues

Motor-Vehicle Related Taxes (namely, the Additional Registration Fee or ARF), and receipts from Vehicle Quota Premiums (i.e. the Certificate of Entitlement or COE premiums) are expected to be $370 million (21%) and $680 million (31%) lower than Budget 2004 estimates respectively. This was due mainly to higher de-registration and correspondingly higher Preferential ARF (PARF) and COE rebates, which dampened the increase in motor-vehicle related revenues from new car registrations.

Other Taxes

Revenue from other taxes (i.e. foreign worker levy, betting taxes and stamp duty) is expected to be $3.4 billion, almost unchanged from FY2003 levels and slightly higher (4.3%) than Budget 2004 estimates.

Other Fees & Charges

Receipts from fees and charges, less vehicle quota premiums, are estimated to be $2.0 billion. This is 2.0% higher than receipts in FY2003 and 7.6% higher than estimated at the start of the FY.

Other Revenues

Other revenues are estimated at $170 million, a fall of 46% from FY2003 and an increase of 34% from the level estimated at the start of the FY.

1.4 Total Expenditure

Total expenditure in FY2004 is estimated to be $29 billion; this is $1.2 billion or 4.0% lower than budgeted for two main reasons.

First, public spending needs have diminished in some areas. In public housing, expenditure was about $200 million lower than budgeted because of lower home ownership activities ($74 million), and lower spending requirements for lift-upgrading ($41 million), Selective En-Bloc Redevelopment ($30 million), and provision of major infrastructure for HDB towns ($45 million). In the area of R&D, the value of public sector grants disbursed has been about $180 million lower than budgeted.

Second, the deferment and delay of several large development projects resulted in sizeable under-spending. These projects include the Circle Line ($87 million), Kallang-Paya Lebar Expressway ($46 million), Boon Lay Extension ($20 million), Phase II of Redevelopment of Changi Prison ($31 million), SMU's city campus ($14 million), and construction of a barrage across the Marina Channel ($40 million).

Since most of the budget savings reflect spending delays and deferrals, the FY2004 expenditure level of 16% of GDP understates Singapore's spending needs going forward. Total government expenditure is expected to be closer to 17% of GDP over the medium-term.

1.5 Special Transfers

As announced in Budget 2004, the Government transferred $100 million to top up the Medifund capital sum and another $100 million to the CPF Medisave Accounts of older Singaporeans. Some $900 million was transferred to the Economic Restructuring Shares (ERS) Trust Fund for the payout of the third tranche of Economic Restructuring Shares (ERS) in 2005. The Government has since committed to additional top-ups of another $100 million to Medifund and $500 million to the Lifelong Learning Fund, both to be undertaken in FY2004.

1.6 Net Investment Income Contribution

Net Investment Income (NII) contribution for FY2004 is expected to be $2.7 billion, or $390 million higher than the Budget 2004 estimate, primarily because of higher interest and dividend income from the Government of Singapore Investment Corporation (GIC).

2 ANALYSIS OF BUDGET 2005

2.1 Budget for Financial Year 2005/2006

The FY2005 Budget is summarised in Table 2.

2.2 Operating Revenue

Operating revenue for FY2005 is estimated to be $29 billion, an increase of $1.0 billion or 3.7% over revised FY2004 estimates. In percentage of GDP terms, operating revenue for FY2005 is 15% of GDP, a slight decrease compared to 16% in FY2004. This is premised on economic growth for 2005 coming in at 3-5%. Operating revenue is expected to remain at 15-16% of GDP in the medium term. The main increases in revenue will come from personal income tax ($520 million), corporate income tax ($200 million) and Goods & Services Tax ($300 million).

Corporate Income Taxes

Corporate income tax collections are expected to increase only marginally by 2.7% (or $200 million) to $7.9 billion in FY2005, reflecting the reduction in the corporate income tax rate from 22% to 20% with effect from Year of Assessment (YA) 2005.

Personal Income Taxes

Personal income tax collections are expected to grow by a larger factor than that for corporate income taxes. The expected collection of $4.4 billion is $520m (13%) higher than in FY2004. As individuals pay tax on income earned in the previous calendar year, the projected increase reflects the strong economic recovery in 2004. The reduction in the CPF contribution salary ceiling from $6,000 to $5,500 on 1st January 2004 has also increased the disposable, and hence taxable, income of employees.

Asset Taxes

With revenue from estate duty, which can vary significantly from year to year, falling by $220 million (74%) from revised FY2004 levels and property tax collections increasing by just $30 million (1.7%), total collections from asset taxes are projected to be $1.9 billion, a decrease of $190 million (8.9%).

Table 2 **Budget for FY2005**

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

♣ Surplus/(Deficit) before Special Transfers and Net Investment Income Contribution
Reclassified from operating expenditure wef from FY2005

Customs & Excise Taxes

Customs and excise tax collections are projected to be $2.2 billion, or 12% higher than the revised FY2004 estimate.

Goods and Services Tax

GST collections are expected to increase by 8.1% to $4.0 billion in FY2005 as consumption expenditure continues to recover.

Motor Vehicle Related Taxes and Vehicle Quota Premiums

Collections from motor vehicle related taxes are expected to increase by $150 million (11%) to $1.5 billion as the effect of increased de-registrations on the amount of PARF rebates paid out moderates. However, the high value of COE rebates that existing car owners are entitled to, coupled with the prevailing low COE premiums, are expected to depress collections from Vehicle Quota Premiums (VQP). VQP collections in FY2005 are estimated to be $1.4 billion, or $130 million (8.6%) lower than in FY2004.

Other Taxes

FY2005 collections from other taxes are estimated to be $3.4 billion, almost unchanged from revised FY2004 levels. The increase in foreign worker levy collections due to the increase in the levy for skilled workers is expected to be offset by the revenue loss from the reduction in levy for foreign domestic workers.

Other Fees & Charges

Collections from fees and charges, less vehicle quota premiums, are expected to be $2.0 billion, similar to FY2004 levels.

Other Revenues

Revenue from other sources is expected to be $150 million as compared to the revised FY2004 estimate of $170 million.

2.3 Total Expenditure

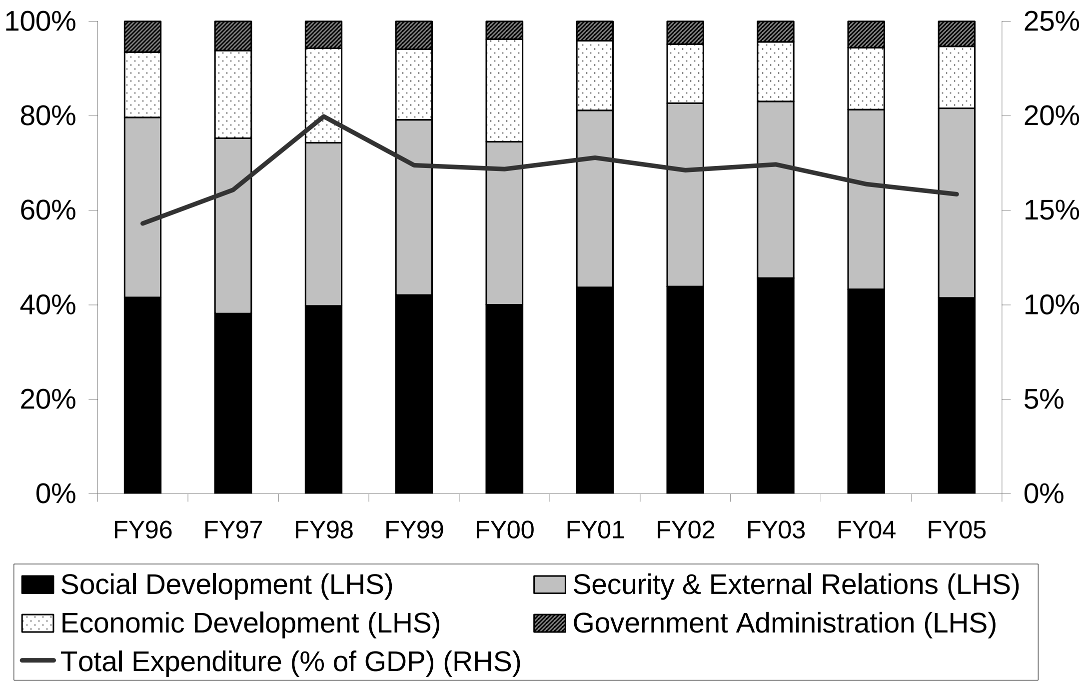
Total expenditure in FY2005 is estimated to be $30 billion, a small increase of $460 million or 1.6% over FY2004. Development expenditure is expected to fall by $730 million (8.4%) while operating expenditure will increase by $1.2 billion (5.8%) compared to FY2004.

The level of government spending is expected to remain relatively unchanged despite the further 3% cut in ministries' total budgets that will be applied from FY2005 onwards. As the cuts are applied on ministries' budget caps expressed as percentages of nominal GDP, the maximum dollar budgets that ministries can request for will continue to increase so long as nominal GDP increases.

Ministries have asked for about $2.0 billion less than they are entitled to in FY2005. Some ministries are making use of available tools for budget flexibility[1] and are spending less now in anticipation of higher spending requirements in the future. Expenditure on infrastructure projects will also slow, due to delays in major projects such as the Circle Line.

Box Item 3
Trends in Sectoral Expenditure

***Chart 3* Total and Sectoral Expenditure**



Total expenditure has ranged between 14% of GDP (in FY1996) and 20% of GDP (in FY1998) over the past ten years, averaging 17% of GDP. The sectoral distribution of spending has remained broadly stable during this period. About 40-45% of total expenditure is devoted to social development, primarily in the areas of education, healthcare and public housing.

Expenditure on security and external relations has been maintained at 35-40%, while expenditure on economic development, which currently makes up 13% of total spending, has fluctuated the most over the years, ranging from 12% to 20% of total expenditure. This reflects the “lumpiness” of major infrastructure projects, such as new MRT lines.

[1] See Section 5 ‘Tools to ensure fiscal sustainability and flexibility’ for details.

Expenditure on government administration continues to take up the smallest share (less than 6% of total spending), reflecting the Government's commitment to remain lean.

2.4 Key Changes in Taxes, Fees and Charges

Budget 2005 saw the announcement of a two-step reduction in personal income tax rates, the introduction of a one-year loss carry-back feature to the corporate tax regime, various incentives to further the development of the financial services, logistics, and tourism sectors, and tax changes to promote philanthropy. The monthly levy for foreign domestic workers was also reduced by $50. These tax changes are expected to cost the Government $150 million in FY2005 and $530 million in the steady state. On the other hand, the increase in levy for skilled foreign workers should yield an additional $82 million in FY2005 while the increase in tobacco duties will yield an additional $160 million.

Table 3 **Key Changes in Taxes, Fees and Charges**

Tax Change	**Estimated Revenue Gain/(Loss) (per annum)**
Reduction in personal income tax rates	($150m) in FY2006 and ($310m) in FY2007
Introduction of 1-year loss-carry back for companies	Notional
Reduction in levy for foreign domestic workers	($90m)
Increase in levy for skilled foreign workers	$82m in FY2005 and $160m thereafter
Lowering betting duty on horse races from 12% of each bet to 25% of the gross betting profits	($25m) in FY2005 and ($100m) thereafter
Increase in tobacco duties	$160m

Box Item 4
Changes in Personal Income Tax

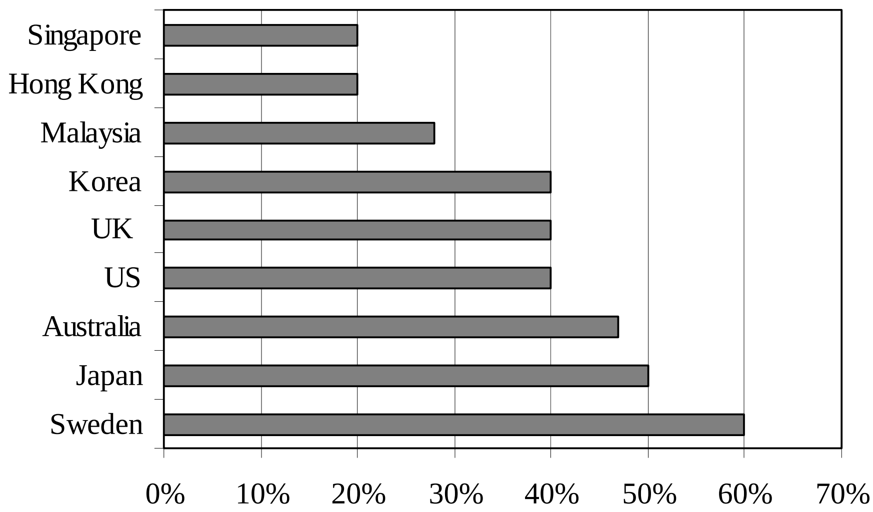
In 2002, the Economic Restructuring Committee (ERC) recommended reducing Personal Income Taxes (PIT) to reward effort, promote entrepreneurship, and attract and retain talent. The Government accepted the ERC's recommendation to reduce the top marginal tax rate to 20%, with corresponding reductions in the other income brackets. In Budget 2002, the top PIT rate was reduced from 26% to 22%, and the income tax bands consolidated from 10 to 7. The next step is taken in Budget 2005, where the top PIT rate will be cut to 21% in Year of Assessment (YA) 2006 and 20% from YA 2007. The new PIT schedule is set out below.

Table 4 **New PIT Schedule**

Chargeable Income ($)		Current Marginal Tax Rates	New Rates With Effect In YA2006	New Rates With Effect From YA2007
From	To			
0	20,000	0%	0%	0%
20,001	30,000	4%	3.75%	3.5%
30,001	40,000	6%	5.75%	5.5%
40,001	80,000	9%	8.75%	8.5%
80,001	160,000	15%	14.5%	14%
160,001	320,000	19%	18%	17%
> 320,000		22%	21%	20%

With these changes in PIT rates, Singaporean taxpayers will save $150 million in FY2006 and $310 million in FY2007, the savings increasing every year as incomes rise and taxpayers move to higher income tax brackets. A taxpayer in the lower quartile (25th percentile) will pay 13% less in taxes; the median taxpayer will pay 11% less; and the 75th percentile taxpayer will pay 7% less. The cumulative cost of the PIT changes will amount to an estimated $3.3 billion over ten years. But the reductions will cement Singapore's position as having one of the most competitive and attractive tax regimes in the world (see Chart 4).

Chart 4 **Top Marginal Personal Income Tax Rates**



2.5 Special Transfers to Help Singaporeans

The Finance Minister also announced various special transfers to help Singaporeans:

- *To help students access educational opportunities*
  - $50m of top-ups to the Edusave accounts of all eligible primary and secondary school students

- *To help Singaporeans, especially the elderly, cope with rising healthcare costs*
  - $320m of top-ups to Singaporeans' Medisave Accounts (tiered in favour of the elderly) – this will help all Singaporeans cope with higher MediShield premiums
  - A $100m top-up to Medifund – funded from the FY2004 Budget

- *To enhance the retirement savings of older workers who face deeper reductions in employer CPF contribution rates*
  - $80m of top-ups to the Special/Retirement Accounts of Singaporeans aged 50 and above

- *To help HDB households cope with their utility bills*
  - $62m of new Utilities-Save rebates for households living in one- to five-room HDB flats

- *To enhance support for social assistance programmes*
  - A $250m injection to the new Community Care Fund

- *To enhance skills-retraining for workers*
  - A $500m top-up to the Lifelong Learning Fund – funded from the FY2004 Budget

2.6 Budget Position

After Special Transfers of $820 million and Net Investment Income Contribution of $1.9 billion, the estimated outturn for FY2005 is a budget surplus of $210 million (0.11% of GDP).

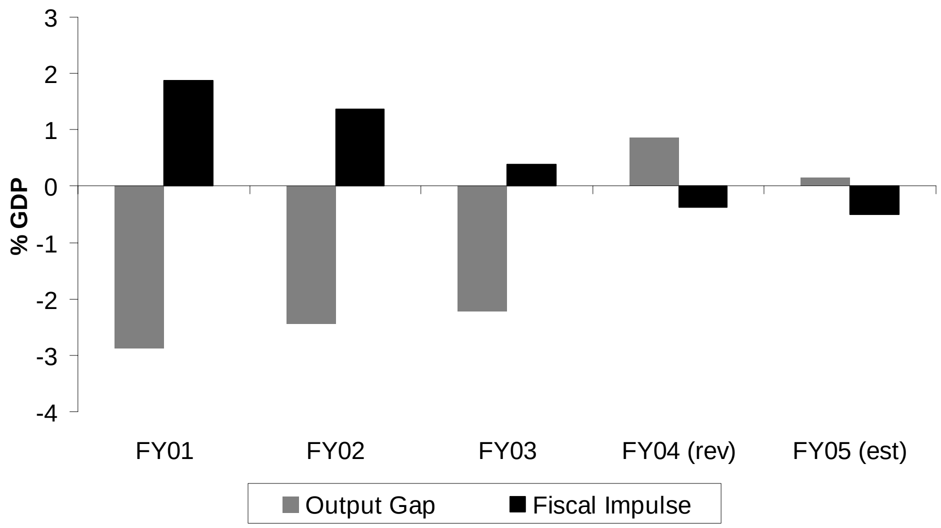
Box Item 5

Macroeconomic Effects of Recent Fiscal Policy

The macroeconomic impact of the Budget may be assessed through the *fiscal impulse* (FI) measure, which estimates the initial stimulus to aggregate demand arising from fiscal policy during a given period. It focuses on the *change* in fiscal stance from year to year. A positive FI indicates a more expansionary fiscal stance compared to the previous year, while a negative FI indicates a less expansionary (or more contractionary) stance than the year before.

Chart 5 shows that fiscal policy has been appropriately counter-cyclical in recent years, with the fiscal impulse in opposite direction to the output gap (which measures the excess of actual GDP over potential GDP). When the output gap is positive (i.e. the economy is at risk of overheating with rising cost pressures), a negative fiscal impulse is appropriate from a macroeconomic perspective because it means that fiscal policy is exerting a contractionary or cooling effect on the economy. Conversely, when the output gap is negative (i.e. the economy has excess capacity), a positive fiscal impulse is appropriate because it means that fiscal policy is expansionary and helping to stimulate the economy.

***Chart 5* Fiscal Policy has been Countercyclical**



In FY2002, the economy was below potential (i.e. facing a negative output gap) for the second consecutive year. Even though the financial year closed with the Government running a small budget surplus of $190 million, fiscal policy was more expansionary than in FY2001 (the FY2002 FI was positive at 1.4% of GDP), largely reflecting the injection that the 1st tranche of ERS provided to the economy. With the output gap still negative in FY2003, the Government ran a budget deficit of $1.9 billion. The FI was 0.4% of GDP, indicating an expansionary fiscal stance relative to FY2002.

At the start of FY2004, the Government estimated a budget deficit of $1.4 billion. With revised expenditure $1.2 billion lower than budgeted, fiscal policy has begun to shift back to neutral, with a mildly negative FI. This is appropriate given that the economy has recovered to its potential. In 2005, the economy is expected to grow at 3-5%, remaining at or slightly above potential. The estimated FI for FY2005 is slightly negative, essentially reflecting the withdrawal of government stimulus.

PART II
FEATURE ARTICLES

3 WHO HAS BENEFITED FROM THE GST OFFSET PACKAGE?

3.1 Background

To help individuals and households cope with the increase in the GST rate from 3% to 5%, the Government announced a GST offset package in the FY2002 Budget comprising $3.6 billion of Economic Restructuring Shares (ERS), service and conservancy charge (S&CC) rebates, and rental rebates. Singaporeans who pay personal income tax would also benefit from the cuts in personal income tax rates effective from Year of Assessment (YA) 2003. Taken together, the GST offset measures and the personal income tax savings were expected to be greater than the additional GST payable by most households for at least 5 years.

Subsequently, as a result of the economic downturn, the two percentage point increase in the GST rate was phased in over two years instead of being implemented all at once on 1st January 2003, as originally intended. The GST offset measures remained unchanged, and the ERS, S&CC and rental rebates were disbursed as originally scheduled.

3.2 Evaluation of Distributional Impact

The Ministry of Finance used the representative sample of Singapore households captured in the 2002/03 Household Expenditure Survey to assess how these tax changes and relief measures have affected households. The results are summarised in Table 5 below.

The analysis shows that the GST offset package, together with the personal income tax savings enjoyed by tax-paying individuals, fully covered for at least five years the additional GST payable by more than 90% of households living in 1- to 5-room HDB flats, and more than 80% of households living in executive flats and private housing.

The new personal income tax brackets and rates that took effect from YA2003 and the further changes from YA2006 and YA2007 will yield greater savings for higher-income households living in executive flats and private housing. On average, these households will save more from the reduction in personal income tax rates than they will pay in additional GST.

Lower-income households will see a net increase in their tax burden as they benefit less from the personal income tax cuts. Hence, the offsetting benefits (ERS, S&CC rebates, rental rebates) were deliberately tiered in favour of lower-income households. They will ensure that, for at least five years, the large majority of lower-income households will not be worse-off because of the GST rate increase. While not perfect, housing type is a good proxy of household income –

average household income per capita increases with HDB flat size and is also significantly higher for households living in private housing.

Table 5 provides details of the additional GST payable, income tax savings and offsetting benefits over five years, computed on a per capita basis, for households living in the various housing types.

Table 5 **Benefits for Households (2003 to 2007)**

House Type / **Per capita ($) (over 5 years)**	**1-room HDB**	**2-room HDB**	**3-room HDB**	**4-room HDB**	**5-room HDB**	**Exec HDB**	**Private**
Income Tax Savings[2] (A)	92	122	595	642	1,013	1,494	4,581
Additional GST Payable[3] (B)	553	658	861	875	1,121	1,308	1,891
Net increase/(decrease) in tax payable (C) = (B) - (A)	461	536	266	234	108	(186)	(2,691)
Rental and S&CC rebates[4] (D)	851	619	280	169	121	0	0
Economic Restructuring Shares[5] (E)	1,217	1,145	1,083	958	950	897	653
Total benefits (F) = (D) + (E)	2,068	1,765	1,363	1,127	1,071	897	653
Net benefits (G) = (F) – (C)	1,608	1,229	1,097	893	964	1,083	3,344
Number of years of additional GST payable covered by benefits[6] (H) = (G/(B/4.5))	13.1	8.4	5.7	4.6	3.9	3.7	8.0

Notes

1 Household incomes and expenditures are estimated based on the 2002/03 Household Expenditure Survey (HES) conducted by the Department of Statistics (DOS).
2 Income tax savings are computed by comparing the personal income tax payable under the tax structures applicable from YA2003 onwards with the income tax payable under the YA2002 tax structures.
3 Additional GST payable over 5 years due to the increase in the GST rate to 4% in 2003 and 5% in 2004.
4 S&CC and rental rebates announced during the FY2002 Budget.
5 Average ERS per capita received by households from 2003 to 2005. All males above 21 and below 55 years are assumed to be active NS-men qualifying for the additional shares.
6 Additional GST payable (B) includes one year (2003) in which GST was paid at 4%. The additional GST paid in 2003 is approximately half of that paid in a full year at which GST is 5%.

4 SHOULD SINGAPORE SWITCH TO A CURRENT YEAR BASIS OF TAX ASSESSMENT?

4.1 Background

The Ministry of Finance (MOF) conducted a public consultation exercise from 15th September to 30th October 2004 to obtain views on whether the Government should switch from the preceding year (PY) basis of income tax assessment to a current year (CY) basis of assessment.

Under a CY basis of assessment, tax is payable on income earned by individuals and companies in the course of the year, instead of being based on income earned in the previous year, as is the existing practice.

MOF considered the switch to a CY system for two reasons: at the macroeconomic level, CY basis enhances the automatic stabilisation effects of the tax system; at the microeconomic level, it helps taxpayers better manage their cash-flow by matching their tax payments with incomes. However, the Government was also aware that a CY system may increase compliance costs for taxpayers, which may outweigh the macroeconomic and cash-flow benefits. The aim of the public consultation exercise was therefore to establish whether the compliance costs and implementation challenges were so significant as to negate the benefits of a CY system.

4.2 Key Considerations

The MOF public consultation paper discussed the advantages and disadvantages of CY assessment. Most countries that introduced CY assessment had done so to improve the effectiveness of income tax collection. In Singapore's context, however, the reasons for considering CY assessment were to bring about a better matching of taxpayers' incomes and tax expenditures, and to enhance the effectiveness of the tax system as a fiscal stabiliser.

Under the existing PY assessment, a taxpayer is required to pay taxes computed according to the preceding year's income, even though the taxpayer may have received a wage cut in the current year due to a recession. In contrast, under CY assessment, individuals will pay tax based on their current incomes. Accordingly, the tax liability will adjust automatically to the level of the individual's wages. Hence, an individual will pay higher taxes when his wages increase, but lower taxes when his wages decrease. Similarly for companies, tax liabilities will be higher when their profits rise, while no tax is payable when losses are incurred. A CY system is therefore more responsive to changes in economic conditions and the income of taxpayers.

When the above effects are aggregated at the macroeconomic level, a CY basis of assessment will enhance the income tax system as a tool for stabilising the economy. If CY assessment were adopted, income tax collections during a recession year would be less than that under the PY system. In other words, CY assessment would lead to a smaller contraction in disposable incomes (i.e. after-tax income) than PY assessment during a recession year. Higher disposable incomes would translate to higher consumption and investment levels, providing greater counter-cyclical support to the economy during the downturn. Similarly, when the economy is growing above potential, a CY basis of assessment would be more effective in dampening the increase in disposable incomes to exert an appropriately cooling effect on the economy. In contrast, a PY basis of assessment could potentially accentuate the swings of the economic cycle.

4.3 Feedback from Consultation Exercise

From the public consultation exercise, MOF received a total of 64 submissions from individuals, and 14 submissions from companies. The responses were very helpful in the ministry's evaluation of the proposal to shift to a CY basis.

In addition to the public consultation exercise, MOF held separate focus group discussions with employees, self-employed persons, small and medium enterprises, tax accountants of multi-national companies, tax agents and members of the Singapore Business Federation to gather views on whether to switch to a CY basis of assessment and if so, how best to design a CY system.

Respondents who supported the CY basis agreed that CY assessment will allow better matching of their incomes and tax expenditures, and hence help with cash-flow management. The respondents also appreciated the macroeconomic benefits of a CY system.

However, there were many respondents who had concerns with the shift to a CY basis. First, some felt that CY assessment would introduce uncertainty over the amount of tax payable, since the tax to be paid for the year would be based on an *estimate* of the current year's income. In contrast, under today's PY system, tax is assessed on the known income of the previous year.

Second, some respondents argued that they would face significant difficulties in estimating their incomes under a CY system because of year-to-year volatility from contract, project or commission work, or the trend towards an increasing proportion of the variable component in total remuneration. They were concerned that penalties might be imposed on erroneous estimates and that the refunds for excess tax payments would not be made in a timely fashion. They also pointed out that the option of estimating current year's income based on previous years' income trends would weaken the stabilisation benefits of the CY system.

Third, respondents were concerned with the higher compliance costs associated with regular, periodic filing of tax returns over the course of the tax year (if this was chosen as the alternative to estimating current income). For businesses, their accounting profits might not match actual cash flow as it was common practice for them to provide credit terms to their customers. A CY system could create difficulties for them if they have to pay tax on income booked but not yet received.

Fourth, some respondents claimed that they relied on their end-of-year bonuses to pay their taxes as otherwise they would be financially-stretched on a month-to-month basis. Under CY assessment, tax is usually withheld from employees' monthly wages; this could reduce their take-home pay and flexibility in managing their finances. Employers cited administrative costs as an objection to having to withhold taxes from the monthly salaries of their employees.

Fifth, many respondents commented that a CY system represented a loss in the time value of money which they now enjoy under the PY system. Respondents felt that as the majority of taxpayers will enjoy rising incomes over time, the tax deferral under today's PY system is a real – though small – benefit.

4.4 Evaluation

MOF gave serious consideration to the feedback on whether to proceed with a switch to the CY basis, and after careful deliberation of the pros and cons of the switch, decided not to implement CY assessment at this stage.

Most countries that introduced CY assessment made the change to bring forward or improve the effectiveness of income tax collection. Our motivation for considering CY assessment is quite different. Our tax administration is already very efficient and there is little need to switch to CY assessment for the purpose of improving tax collection. Rather, as mentioned above, our reasons for considering a CY assessment are to enhance the automatic stabilisation effects of the tax system, and to help taxpayers better manage their cash-flow by matching tax payments and incomes.

MOF acknowledged that the implementation of the CY assessment could increase the compliance burden of the tax system, cause uncertainty for some taxpayers, and reduce cash-flow flexibility for others. While these concerns are not insurmountable, the benefits of CY are not significant enough to warrant a switch at this time. The macroeconomic stabilisation benefits of CY assessment are small and accrue to the economy as a whole, while its compliance costs are borne by individual taxpayers. This is mainly because only the top third of our workers pay income taxes. Most of them are not liquidity-constrained and should be able to adjust their consumption in line with changes to their disposable incomes. Similarly, most companies provide for their tax liabilities and are unlikely to constrain their investments significantly when disposable incomes decline.

Second, the cash-flow management advantage of CY assessment benefits a small group of taxpayers who may be less disciplined in their financial matters or who suffer income volatility, but the costs of the switch have to be borne by the majority who may not need this help. The majority of taxpayers would typically experience stable or rising incomes; they also face lower risks of unemployment at this point in time, and are unlikely to realise significant benefits from a switch to CY assessment.

Nonetheless, going forward, the reasons for adopting CY basis could become more compelling if economic volatility increases and more individuals experience frequent changes in their income levels.

5 TOOLS TO ENSURE FISCAL SUSTAINABILITY AND FLEXIBILITY

In recent years, the Ministry of Finance (MOF) implemented a budgetary framework – known as the Block Budget framework – aimed at ensuring fiscal sustainability, providing certainty and flexibility to ministries, and promoting the efficient allocation and use of resources.

5.1 Block Budgets – Establishing Limits and Maximising Discretion

Block Budgets are the basic building blocks of Singapore's budgetary framework. Under the framework, ministries' budgets are capped at a fixed percentage of nominal GDP. Their budgets therefore adjust in line with the state of the economy. As the caps are fixed as a percentage of GDP, ministries' absolute dollar budgets will continue to increase each year, as long as the economy grows instead of contracting.

Block Budgets *establish limits* on the spending by each ministry and by Government as a whole. Importantly, these limits are directly tied to Singapore's economic performance which is also the key determinant of the Government's revenues. By tying ministry budgets to GDP, MOF ensures that the Government spends only as much as it expects to collect in revenues on a sustained basis.

Block Budgets also *maximise discretion* by giving ministries greater autonomy and flexibility in managing their financial resources. The key premise is that ministries are better-placed than MOF to decide how best to allocate their resources to fulfil their roles and achieve their desired outcomes. Line-item budgeting invariably suffers from the problem of information asymmetry, as the Treasury will never be able to know as much about the real spending requirements as the agencies it provides funding to. Under block budgeting, ministries are now given maximum discretion to allocate resources between their various functions as long as their total expenditure lies within their pre-determined blocks.

Ministries are then held accountable for how well they have achieved their desired outcomes rather than how much they have asked for or spent. By moving away from line-item budgeting, ministries now have greater certainty as to the budgets they can expect to receive. They can therefore plan with a longer-term perspective, removing the uncertainties associated with annual budgeting.

Under the Block Budget framework, ministries also have three *budgeting flexibilities* to better manage their cash-flow:

- *Advances*. Ministries can request for up to 10% more than their current year budget allocation by borrowing against future years' budget. An interest will be charged on the advances to ensure that borrowing occurs only when necessary. Advances have to be paid back in annual instalments or in full within 3 years.

- Carry-forwards. Conversely, ministries can decide at the beginning of the year to carry forward any amount from their current year's Block Budget that is not needed in the current year. It then has the flexibility to use this expenditure carried forward for up to 3 years into the future, subject to the availability of funds. Unused carry-forwards lapse after 3 years.

- Rollovers. Furthermore, to curtail end-of-year expenditure binges on non-essential items, ministries are allowed to rollover unutilised funds at the end of the year, subject to a maximum of 5% of their current year budgets, to be used in the following year. This 5% limit is consistent with the "95% marksmanship rule", or the expectation that ministries should utilise at least 95% of their allocated budget. Otherwise, they would be over-stating their budget requirements, thereby denying resources for other meaningful programmes.

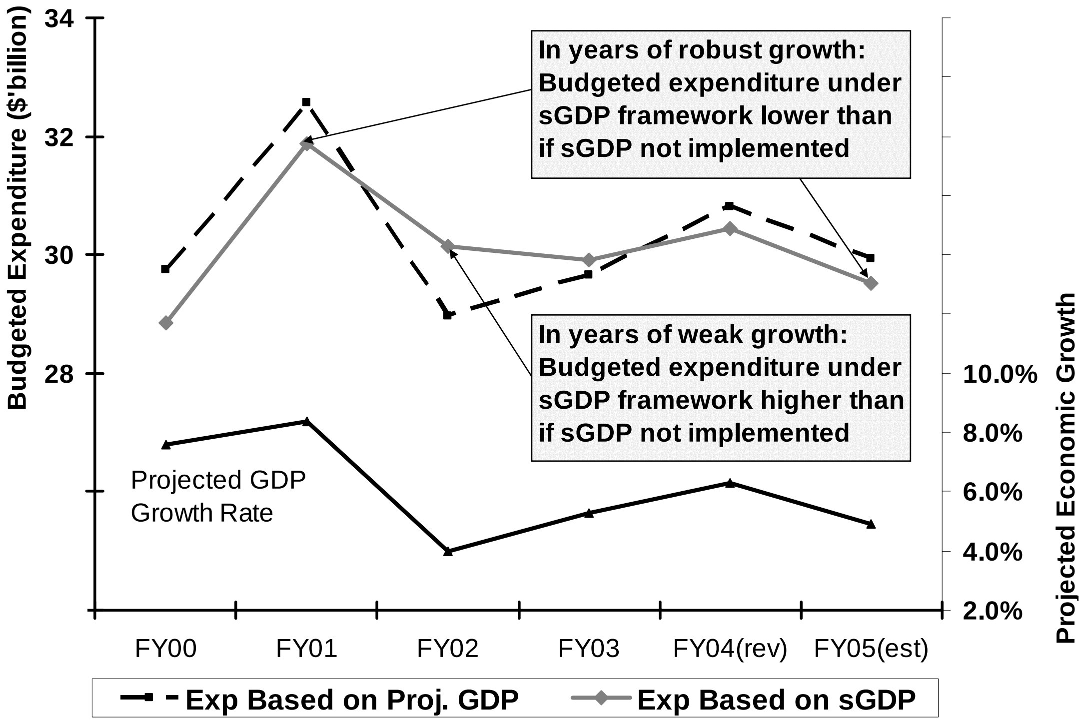
The Block Budget caps are re-negotiated between MOF and each ministry every three to five years.

5.2 Smoothened GDP – Stabilising Spending over Economic Cycles

Setting the Block Budget caps as a percentage of the projected GDP for the year would mean that the dollar budgets received by ministries would be larger if the economy is expected to perform well and smaller if it is expected to be weak or contracting. This would be pro-cyclical, or put another way, government spending would be exacerbating the swings in the economy.

Therefore, when fixing the ministry's budget cap as a percentage of GDP, MOF uses the concept of a *smoothened GDP* (sGDP), which is an "average" measure of GDP based on three years of historical GDP and three years of projected GDP. Chart 6 illustrates the primary purpose of the sGDP framework, which is to smooth expenditure over the business cycle. In years where the economy is expected to perform strongly, the sGDP framework ensures that spending is less than what it would have been if based purely on the annual projected GDP. Conversely, in years where economic performance is expected to be weak, more will be spent under the sGDP framework than if budget caps were tied to annual projected GDP. The sGDP framework has thus been effective in providing some counter-cyclical stabilisation for the economy since it was adopted in FY2003.

Chart 6 **How sGDP Framework Provides Stability in Spending**



5.3 Reinvestment Fund – Allocating Resources to New Initiatives

Over time, new needs arise, priorities change, and budgets have to be re-allocated; this is a particular challenge in a tight fiscal environment. To create flexibility for re-allocation, MOF extracts from each ministry a certain percentage of its operating budget and pools these funds into a central Reinvestment Fund (RF). Ministries are then invited to bid for funding for new and worthwhile initiatives from this RF. The proposals are selected based on their innovativeness, cost-effectiveness, and how well they support the Government's strategic objectives for the future. The percentage extracted from ministries' budgets is pegged to the national productivity growth rate and hence called "productivity dividends" (PDs). The rationale for the PD is that ministries' productivity in carrying out their existing functions should grow at least as fast as the rest of the economy.

The Reinvestment Fund is primarily a tool to re-allocate resources at the margins; over time, more resources will be allocated to areas of greater priority. If larger-scale re-prioritisation is needed, MOF will work with individual ministries to make the necessary adjustments. If necessary, MOF may also impose a discretionary budget cut on ministries' block budgets to "right-size" public spending. In 2004 and 2005, ministries' block budgets were cut by 2% and 3% respectively. But ministries continued to receive more dollar budgets than previous years because of rising GDP levels.

Table 6 **Some Reinvestment Fund Initiatives in FY2004 and FY2005**

	Initiatives Funded	Amount Supported
FY2005	Addressing structural unemployment and sharpening the competitive edge of local workers	$10m
	Chinese Language Fund	$10m
	Establishment of SCDF specialised training centre	$41m
	Development of critical training facilities in Police Tactical Training Centre	$47m
	Development of response capability to handle a dirty bomb incident	$12m
	Implement radiographic scanners at checkpoints	$16m
	Enhancement to Orchard Road Thematic Zone, as part of the Rejuvenating Orchard Road initiative	$40m
	Health Connect Pilot (to improve delivery of primary healthcare at the community level)	$5m
	Multi-language way-finding project (to help foreign visitors find their way around in their own languages)	$10m
FY2004	Drug Rehabilitation Centre (DRC)	$6m
	Recurrent Grant for kindergartens and financial assistance scheme for pre-school education	$23m per year
	SPED schools for children with autism	$3m-$5m per year
	NUS High School for Math and Science	$43m
	Design Singapore Initiative (to establish Singapore as Asia's leading hub for design excellence)	$48m
	Media 21 (to grow the media industry)	$65m

APPENDICES

APPENDIX 1

TOTAL ESTIMATED RECEIPTS FOR FY2005 BY OBJECT CLASS

Account Code	Revenue Item	Actual FY2003	Estimated FY2004	Revised FY2004	Estimated FY2005	Change over FY2004	
		$	$	$	$	$	%
B00	TAX REVENUE	21,501,153,156	24,570,537,000	24,158,297,000	25,366,331,000	1,208,034,000	5.0
B10	INCOME TAX	10,270,992,784	11,671,697,000	11,630,968,000	12,351,375,000	720,407,000	6.2
B11	Corporate and Personal Income Taxes	9,783,158,349	10,408,000,000	10,225,000,000	11,117,250,000	892,250,000	8.7
B12	Statutory Boards' Contribution	487,834,435	1,263,697,000	1,405,968,000	1,234,125,000	-171,843,000	-12.2
B20	ASSETS TAXES	1,511,992,807	1,855,000,000	2,090,000,000	1,905,000,000	-185,000,000	-8.9
B21	PROPERTY TAX	1,330,202,092	1,800,000,000	1,800,000,000	1,830,000,000	30,000,000	1.7
B211	Private properties	1,094,215,632	1,577,917,000	1,590,409,000	1,626,659,000	36,250,000	2.3
B212	Statutory boards	234,979,018	221,134,000	209,201,000	203,101,000	-6,100,000	-2.9
B219	Other properties	1,007,442	949,000	390,000	240,000	-150,000	-38.5
B22	ESTATE DUTY	181,790,716	55,000,000	290,000,000	75,000,000	-215,000,000	-74.1
B221	Estate duty	181,790,716	55,000,000	290,000,000	75,000,000	-215,000,000	-74.1
B30	CUSTOMS AND EXCISE TAXES	1,900,858,775	1,866,864,000	2,002,213,000	2,239,417,000	237,204,000	11.8
B31	EXCISE DUTIES	1,883,657,955	1,847,246,000	1,982,110,000	2,218,671,000	236,561,000	11.9
B311	Petroleum products	386,968,200	444,124,000	393,788,000	447,213,000	53,425,000	13.6
B312	Tobacco	742,679,830	692,998,000	786,835,000	942,845,000	156,010,000	19.8
B313	Liquors	340,448,808	341,451,000	360,062,000	371,058,000	10,996,000	3.1
B314	Motor vehicles	413,555,353	368,670,000	441,419,000	457,549,000	16,130,000	3.7
B318	Other excise duty	5,765	3,000	6,000	6,000	0	0.0
B32	CUSTOMS DUTIES	17,200,820	19,618,000	20,103,000	20,746,000	643,000	3.2
B323	Liquors	14,559,953	17,752,000	17,433,000	17,985,000	552,000	3.2
B329	Other customs duties	2,640,866	1,866,000	2,670,000	2,761,000	91,000	3.4
B40	MOTOR VEHICLE TAXES	1,485,761,065	2,151,331,000	1,370,471,000	1,516,894,000	146,423,000	10.7
B401	Additional registration fees	765,539,115	1,374,591,000	577,685,000	715,185,000	137,500,000	23.8
B402	Road tax	650,247,450	673,774,000	686,368,000	693,231,000	6,863,000	1.0
B403	Special tax on heavy oil engines	66,540,776	99,055,000	102,852,000	104,892,000	2,040,000	2.0
B404	Non-motor vehicle licences	2,576,456	2,727,000	2,749,000	2,777,000	28,000	1.0
B405	Passenger vehicle seating fees	70	1,000	1,000	1,000	0	0.0
B406	Conversion Premium	857,199	1,183,000	816,000	808,000	-8,000	-1.0
B50	GST	2,956,769,318	3,800,000,000	3,700,000,000	4,000,000,000	300,000,000	8.1
B60	BETTING TAXES	1,524,121,384	1,491,000,000	1,506,000,000	1,464,000,000	-42,000,000	-2.8
B601	Betting and sweepstake duties	1,277,311,189	1,246,000,000	1,241,000,000	1,191,000,000	-50,000,000	-4.0
B602	Private lottery duties	246,810,196	245,000,000	265,000,000	273,000,000	8,000,000	3.0
B70	STAMP DUTY	742,873,872	630,000,000	760,000,000	798,000,000	38,000,000	5.0
B701	Stamp duty	742,873,872	630,000,000	760,000,000	798,000,000	38,000,000	5.0
B80	SELECTIVE CONSUMPTION TAXES	168,572,304	169,000,000	163,000,000	164,000,000	1,000,000	0.6
B802	Water conservation tax	168,572,304	169,000,000	163,000,000	164,000,000	1,000,000	0.6
B90	OTHER TAXES	939,210,846	935,645,000	935,645,000	927,645,000	-8,000,000	-0.9

Appendix 1 - continued

Total Estimated Receipts for FY2005 by Object Class

Account Code	Revenue Item	Actual FY2003	Estimated FY2004	Revised FY2004	Estimated FY2005	Change over FY2004	
		$	$	$	$	$	%
C00	FEES AND CHARGES	3,492,148,297	3,607,824,000	3,481,948,000	3,340,051,000	-141,897,000	-4.1
C10	LICENCES AND PERMITS	2,229,725,686	2,416,151,000	2,219,906,000	2,120,471,000	-99,435,000	-4.5
C11	Environment	290,183,493	297,530,000	289,856,000	294,656,000	4,800,000	1.7
C12	Home Affairs	107,303,605	75,402,000	75,813,000	75,474,000	-339,000	-0.4
C13	Housing and Properties	76,466,485	77,962,000	164,598,000	171,795,000	7,197,000	4.4
C14	Medical and Health	1,925,987	1,236,000	1,233,000	2,040,000	807,000	65.5
C15	Commerce	32,715,852	18,801,000	18,808,000	19,044,000	236,000	1.3
C16	Transport and Communication	1,693,764,363	1,916,443,000	1,641,521,000	1,510,312,000	-131,209,000	-8.0
C17	Customs	24,534,715	25,980,000	24,277,000	16,621,000	-7,656,000	-31.5
C19	Others	2,831,186	2,797,000	3,800,000	30,529,000	26,729,000	703.4
C20	SERVICE FEES	334,894,657	346,394,000	349,474,000	336,411,000	-13,063,000	-3.7
C21	Admission Charges	2,088,332	1,379,000	1,369,000	1,096,000	-273,000	-19.9
C22	Environmental Fees	188,810,176	192,096,000	185,092,000	187,592,000	2,500,000	1.4
C23	Fire and Police Services Fees	17,953,362	19,968,000	22,110,000	20,844,000	-1,266,000	-5.7
C25	Inspection & Certification Fees	8,843,750	4,005,000	3,800,000	3,971,000	171,000	4.5
C27	Professional Services Fees	64,118,404	65,616,000	59,465,000	60,554,000	1,089,000	1.8
C28	Schools and Institutions Fees	30,869,933	39,894,000	40,761,000	41,745,000	984,000	2.4
C29	Others	22,210,699	14,783,000	36,877,000	20,609,000	-16,268,000	-44.1
C30	SALES OF GOODS	133,986,967	113,339,000	164,494,000	137,014,000	-27,480,000	-16.7
C32	Publications	3,109,108	2,580,000	2,420,000	2,333,000	-87,000	-3.6
C33	Commercial Goods	79,676,328	67,116,000	74,575,000	77,679,000	3,104,000	4.2
C34	Search and Supply of Information	952,756	901,000	952,000	955,000	3,000	0.3
C39	Stores and Other Goods	50,248,775	42,742,000	86,547,000	56,047,000	-30,500,000	-35.2
C40	RENTAL	573,839,589	526,650,000	529,855,000	546,818,000	16,963,000	3.2
C41	Residential Properties	405,992,708	359,491,000	387,742,000	387,507,000	-235,000	-0.1
C42	Local and Overseas Quarters	703,151	825,000	990,000	877,000	-113,000	-11.4
C43	Premises for Businesses	51,643,959	46,608,000	43,561,000	44,557,000	996,000	2.3
C44	School Premises	1,248,878	1,104,000	1,252,000	1,295,000	43,000	3.4
C49	Other Premises	114,250,893	118,622,000	96,310,000	112,582,000	16,272,000	16.9
C50	FINES AND FORFEITURES	138,871,146	126,010,000	134,557,000	127,322,000	-7,235,000	-5.4
C51	Court Fines and Forfeitures	44,870,686	44,436,000	48,312,000	47,220,000	-1,092,000	-2.3
C52	Traffic Fines	27,939,460	30,378,000	30,545,000	30,491,000	-54,000	-0.2
C53	Composition Fines and Penalties	7,216,093	3,151,000	5,644,000	5,857,000	213,000	3.8
C59	Other Fines and Penalties	58,844,907	48,045,000	50,056,000	43,754,000	-6,302,000	-12.6
C60	REIMBURSEMENTS	20,637,221	19,078,000	24,457,000	21,838,000	-2,619,000	-10.7
C61	Recovery of Costs/Expenses	4,914,526	4,694,000	6,536,000	5,095,000	-1,441,000	-22.0
C62	Reimbursement for Services	3,066,000	3,038,000	3,038,000	3,600,000	562,000	18.5
C63	Secondment/Loan of Staff	5,713,205	4,936,000	7,577,000	6,213,000	-1,364,000	-18.0
C69	Others	6,943,490	6,410,000	7,306,000	6,930,000	-376,000	-5.1
C90	OTHER FEES AND CHARGES	60,193,031	60,202,000	59,205,000	50,177,000	-9,028,000	-15.2
J00	OTHERS	321,329,732	129,148,000	173,415,000	145,931,000	-27,484,000	-15.8

Appendix 1 - continued

Total Estimated Receipts for FY2005 by Object Class

Account Code	Revenue Item	Actual FY2003	Estimated FY2004	Revised FY2004	Estimated FY2005	Change over FY2004	
		$	$	$	$	$	%
L00	INVESTMENT AND INTEREST INCOME	6,137,160,577	6,869,722,000	7,245,780,000	6,683,571,000	-562,209,000	-7.8
L10	INTEREST	1,901,068,343	1,720,023,000	1,813,205,000	1,904,213,000	91,008,000	5.0
L11	Interest on Investments	1,894,430,217	1,711,640,000	1,810,219,000	1,898,781,000	88,562,000	4.9
L13	Interest on Bank Accounts	6,638,126	8,383,000	2,986,000	5,432,000	2,446,000	81.9
L20	DIVIDENDS	1,983,072,418	3,019,193,000	3,433,046,000	2,882,674,000	-550,372,000	-16.0
L40	INTEREST ON LOANS	2,253,019,817	2,130,506,000	1,999,529,000	1,896,684,000	-102,845,000	-5.1
M00	CAPITAL RECEIPTS	2,497,895,726	1,604,612,000	2,164,247,000	3,312,742,000	1,148,495,000	53.1
M10	Sales of Land	1,870,071,279	1,603,590,000	2,038,697,000	3,310,436,000	1,271,739,000	62.4
M20	Sales of Capital Goods	24,201,447	1,022,000	3,046,000	2,306,000	-740,000	-24.3
M30	Other Capital Receipts	603,623,000	...	122,504,000	...	-122,504,000	-100.0
	TOTAL RECEIPTS	33,949,687,489	36,781,843,000	37,223,687,000	38,848,626,000	1,624,939,000	4.4

APPENDIX 2

TOTAL ESTIMATED RECEIPTS FOR FY2005 BY CATEGORY AND HEAD OF EXPENDITURE

Code	Head of Expenditure	Operating Revenue: Tax Revenue	Operating Revenue: Fees and Charges	Operating Revenue: Others	Operating Revenue: Total	Investment & Interest Income	Capital Receipts	Total Receipts
		$	$	$	$	$	$	$
B	Attorney-General's Chambers	...	378,000	...	378,000	...	...	378,000
C	Auditor-General's Office	...	3,600,000	...	3,600,000	...	...	3,600,000
E	Judicature	...	100,559,000	...	100,559,000	...	...	100,559,000
I	Ministry of Community Development and Sports	...	16,972,000	...	16,972,000	...	...	16,972,000
J	Ministry of Defence	...	40,320,000	...	40,320,000	140,000	9,000	40,469,000
K	Ministry of Education	...	37,334,000	...	37,334,000	...	...	37,334,000
L	Ministry of the Environment	164,000,000	585,320,000	...	749,320,000	...	...	749,320,000
M	Ministry of Finance	23,685,437,000	146,966,000	145,931,000	23,978,334,000	6,682,044,000	959,000	30,661,337,000
N	Ministry of Foreign Affairs	...	7,651,000	...	7,651,000	425,000	1,338,000	9,414,000
O	Ministry of Health	...	13,344,000	...	13,344,000	...	...	13,344,000
P	Ministry of Home Affairs	...	128,608,000	...	128,608,000	...	...	128,608,000
Q	Ministry of Information, Communications & the Arts	...	12,295,000	...	12,295,000	...	...	12,295,000
R	Ministry of Law	...	462,723,000	...	462,723,000	962,000	3,310,436,000	3,774,121,000
S	Ministry of Manpower	...	61,755,000	...	61,755,000	...	...	61,755,000
T	Ministry of National Development	...	188,982,000	...	188,982,000	...	...	188,982,000
U	Prime Minister's Office	...	8,016,000	...	8,016,000	...	...	8,016,000
V	Ministry of Trade and Industry	...	4,196,000	...	4,196,000	...	...	4,196,000
W	Ministry of Transport	1,516,894,000	1,521,032,000	...	3,037,926,000	...	...	3,037,926,000
	Total	25,366,331,000	3,340,051,000	145,931,000	28,852,313,000	6,683,571,000	3,312,742,000	38,848,626,000

APPENDIX 3

REVENUE CLASSIFICATION AND CODING SYSTEM

Operating Revenue is budgeted and monitored in terms of accounts under cost centres. To facilitate the monitoring and analysis of revenue collection, related revenue accounts under each cost centre are grouped into objects, objects into object groups, object groups into object classes, and object classes into object categories. For example,

Level	*Example*	*Code*
(1) OBJECT CATEGORY	Tax Revenue	B00.000
(2) OBJECT CLASS	Customs and Excise Taxes	B30.000
(3) OBJECT GROUP	Excise Duties	B31.000
(4) OBJECT	Petroleum Products	B31.100
(5) ACCOUNTS	Gasoline	B31.101

2 There are 3 object categories (Tax Revenue, Fees and Charges and Others) for Operating Revenue.

3 The Tax Revenue category comprises 9 object classes, *viz* Income Tax, Assets Taxes, Customs and Excise Taxes, Motor Vehicle Taxes, Goods and Services Tax, Betting Taxes, Stamp Duty, Selective Consumption Taxes and Other Taxes. The Fees and Charges category comprises 7 object classes, *viz* Licences and Permits, Service Fees, Sales of Goods, Rental, Fines and Forfeitures, Reimbursements and Other Fees and Charges.

4 Further details of the Codes and titles of the various revenue object groups, object classes and object categories are given in the table at end of this Appendix.

Appendix 3 - continued

Revenue Classification and Coding System

OBJECT CODES AND TITLES

Object Category	Object Class	Object Group	Title

OPERATING REVENUE

B00	TAX REVENUE		
	B10	INCOME TAX	
		B11	Corporate and Personal Income Taxes
		B12	Statutory Boards' Contributions
	B20	ASSETS TAXES	
		B21	Property Tax
		B22	Estate Duty
	B30	CUSTOMS AND EXCISE TAXES	
		B31	Excise Duties
		B32	Customs Duties
	B40	MOTOR VEHICLE TAXES	
	B50	GOODS AND SERVICES TAX	
	B60	BETTING TAXES	
	B70	STAMP DUTY	
	B80	SELECTIVE CONSUMPTION TAXES	
	B90	OTHER TAXES	
C00	FEES AND CHARGES		
	C10	LICENCES AND PERMITS	
		C11	Environment
		C12	Home Affairs
		C13	Housing and Properties
		C14	Medical and Health
		C15	Commerce
		C16	Transport and Communication
		C17	Customs and Excise
		C19	Others

Appendix 3 - continued

Revenue Classification and Coding System

Object Codes and Titles

Object Category	Object Class	Object Group	Title
C00	Fees and Charges – continued		
	C20	SERVICE FEES	
		C21	Admission Charges
		C22	Environment Fees
		C23	Fire and Police Service Fees
		C24	Hire of Equipment Charges
		C25	Inspection and Certification Fees
		C26	Medical and Health Fees
		C27	Professional Services Fees
		C28	Schools and Institutions Fees
		C29	Others
	C30	SALES OF GOODS	
		C32	Publications
		C33	Commercial Goods
		C34	Search and Supply of Information
		C39	Stores and Other Goods
	C40	RENTAL	
		C41	Residential Properties
		C42	Quarters
		C43	Premises for Businesses
		C44	School Premises
		C49	Other Premises
	C50	FINES AND FORFEITURES	
		C51	Court Fines and Forfeitures
		C52	Traffic Fines
		C53	Composition Fines and Penalties
		C59	Other Fines and Penalties

Appendix 3 - continued

Revenue Classification and Coding System

Object Codes and Titles

Object Category	Object Class	Object Group	Title
C00	Fees and Charges – continued		
	C60	REIMBURSEMENTS	
		C61	Recovery of Costs/Expenses
		C62	Reimbursement for Services
		C63	Secondment/Loan of Staff
		C69	Others
	C90	OTHER FEES AND CHARGES	
J00	OTHERS		
	J10	Financial Receipts	
	J20	Loan Related Receipts	
	J30	Exchange Adjustments	
L00	INVESTMENT AND INTEREST INCOME		
	L10	INTEREST	
		L11	Interest on Investments
		L13	Interest on Banks Accounts
	L20	DIVIDENDS	
		L21	Government-owned Companies
		L22	Statutory Boards
		L29	Other Investments
	L30	INCOME FROM PROPERTIES	
		L31	Overseas Properties
	L40	INTEREST ON LOANS	

Appendix 3 - continued

Revenue Classification and Coding System

Object Codes and Titles

Object Category	Object Class	Object Group	Title
OTHER RECEIPTS			
M00	CAPITAL RECEIPTS		
	M10	SALES OF LAND	
		M11	Private Bodies
		M12	HDB and JTC
		M13	Other Public Bodies
		M19	Other Land Sales
	M20	SALES OF CAPITAL GOODS	
		M21	Sale of Assets
	M30	OTHER CAPITAL RECEIPTS	
		M31	Other Capital Receipts