

PART I – INTRODUCTION

Mr Speaker, Sir

1.1 I beg to move that this Parliament approve the financial policy of the Government for the financial year 1 April 2005 to 31 March 2006.

2004 – Broad based growth and fiscal recovery

1.2 The Singapore economy rebounded strongly in 2004. It grew by 8.4%, one of the fastest in Asia. This was the result of a strong recovery in global demand, supportive monetary and fiscal policies, and our efforts to restructure the economy. The manufacturing sector grew by nearly 14% and the services sector by 7.5%. The growth was broad based. On most indicators – investment commitments, tourist arrivals, consumer confidence – we have bounced back to or exceeded pre-SARS levels. However, a few sectors still lag behind – for instance, the construction industry and small retailers.

1.3 Most importantly, employment has gone up. Last year, the economy created more than 66,000 jobs. The total number of persons employed reached a new high of 2.2 million in December 2004. Job vacancies are at a three year high. Unemployment has also come down: the seasonally adjusted unemployment rate stood at 3.7% in December 2004, compared to 4.6% the year before and 5.5% at the trough of the slowdown.

1.4 Since my last Budget Speech, the Government's fiscal position has improved significantly. Last year I projected a deficit of \$1.35 billion for FY2004. Now our revised position shows a surplus of \$160 million. This is not because operating revenues exceeded our estimate; in fact they came in slightly lower. However, lower spending by ministries and higher Net Investment Income (NII) from our reserves helped to improve the budget position substantially. Members can refer to the new *Budget Highlights* document that will be distributed at the end of the Budget Statement for more details of the revised budget position in FY2004.

2005 – Continued growth and fiscal consolidation

1.5 This year, the US is likely to enjoy steady growth of around 3-3.5%. While the huge US current account deficit poses risks to both the US and the international economy, this is a medium term issue. China's economic growth will moderate from its recent blistering pace, but will still be strong enough to boost the rest of Asia. India, with whom Singapore is negotiating a Closer Economic Cooperation Agreement (CECA), is also continuing to deregulate its economy.

1.6 In Southeast Asia, consumer and business confidence is up. In Thailand, Prime Minister Thaksin Shinawatra is pushing vigorously for economic development and growth. Vietnam's economy will continue to take off and offer new opportunities. With Malaysia, our economic cooperation is intensifying. Indonesia under President Susilo Bambang Yudhoyono is starting to tackle the country's micro- and macroeconomic problems, such as fuel subsidies and the fiscal deficit, and is wooing foreign investments, especially in infrastructure projects.

1.7 There are some downside risks – a sharper than expected downturn in the global electronics industry, another spike in oil prices, or a terrorist incident in the region that shakes confidence – but overall I am cautiously optimistic.

1.8 MTI expects the Singapore economy to grow by 3 to 5% this year. This is a moderate rate of growth compared to 2004 when the economy was still recovering from a low base. But it is in line with our economy's sustainable rate over the medium-term, and will continue to create jobs for Singaporeans.

1.9 The positive economic outlook augurs well for our fiscal position. In FY2005 we project a budget surplus of \$940 million or 0.5% of GDP before taking into account the tax changes and special transfers I will announce later. We expect operating revenues to grow by nearly \$1 billion, or 3.4% over FY2004, to \$28.8 billion. This is due largely to higher personal income tax collection as a result of the higher incomes in 2004. Total expenditure in FY2005 will come in at about \$29.7 billion, just 1.6% higher than in FY2004.

1.10 We again expect total expenditure to exceed our operating revenue – that is, the revenue from taxes, fees and charges. This has been so for the last three fiscal years, and will continue for the medium term. We are able to reduce this deficit substantially and run modest overall budget surpluses only because of the NII contribution. Without it, we would either have to cut back on the level of public services, or raise taxes, fees and charges significantly.

Creating Opportunity, Building Community

1.11 While we remain alert to short-term economic cycles and event risks, we must continue to focus on our longer-term goal of remaking Singapore to meet the challenges of globalisation. This Budget will therefore aim to promote an economy brimming with *opportunity* and to foster a stronger sense of *community* among Singaporeans.

1.12 The best way to make Singapore a land of opportunity is to grow our economy, to generate the resources to realise our aspirations. That requires us to continually adapt to the changing world, upgrading and restructuring

ourselves in order to stay competitive. Only then can we create good jobs, realise our dreams, and provide a better future for our children.

1.13 Singapore is not unique in facing pressures to restructure. In this era, constant change is a necessity for every country. Germany has been, for half a century, a bastion of state welfare. Yet now a socialist government is trying to cut back benefits and reduce wage costs. Even the opposition acknowledges publicly the necessity of this. Angela Merkel, the leader of the opposition Christian Democrat Party recently said, “the discussion now is whether Germany needs more far-reaching reforms. The world around us is changing fast and we cannot afford to stand still. I think more and more people in Germany recognise that we can only maintain our jobs and our prosperity if we can offer conditions to companies comparable to conditions elsewhere.” She is in the opposition. She wants to win elections. But she is saying these hard truths. (*Germany's opposition leader faces foes in own party*, Straits Times, 9 Feb 2005)

1.14 In the United Kingdom, the old left-wing Labour Party has morphed into a left-of-centre new Labour Party. In government, New Labour has pressed on with the structural reforms and market-oriented policies that began under the Conservative government of Margaret Thatcher. As the British Chancellor of the Exchequer Gordon Brown said recently, “in this new global economy there is no escape from uncompetitiveness by resorting to loss-making subsidies, artificial barriers or protectionist shelters. Indeed, in every part of the world, rigidities, inflexibilities and lack of competitiveness ... are now fully exposed in the era of global competition. ... We will only maximise the benefits of globalisation by becoming more efficient, increasing productivity, and pushing ahead with the necessary structural reforms to increase the flexibility of our labour, capital and product markets.” He said this in May last year. They are going for elections in May this year. But this is the truth for them too. (Speech at the CBI Conference on Competitiveness in Europe-Post Enlargement, 12 May 2004)

1.15 In Australia, protectionist policies and labour market rigidities have given way to a bipartisan consensus – beginning with Labour Prime Ministers Bob Hawke and Paul Keating, and continuing with the current Liberal Prime Minister John Howard – that Australia needs to gear up for the knowledge-based competition of globalisation. Tariffs have been cut, taxes lowered, budgets tightened, state-owned businesses privatised, and labour markets made more flexible. Today, the OECD describes Australia as the best performing economy among the rich countries. But the Australians are not sitting still. As John Howard has rightly warned, “the process of economic change and economic improvement is never completed.”

1.16 If other countries can change and adapt, so can Singapore. Our industries have always competed internationally. Our people are used to

constant change and are fully prepared for it. Our unions understand what is at stake, and are working closely with employers and the Government to help workers cope. And we have the resources to invest in our future, and to ease the transition to a more flexible and dynamic economy.

1.17 Economic restructuring is unsettling and painful for the people who are affected. Even as opportunities blossom in the new economy, in financial services, pharmaceuticals, IT, and biomedical sciences, old jobs are lost in declining sectors through retrenchments and cutbacks. Workers have to upgrade their skills and equip themselves for the new jobs that are emerging, but not all will find it easy to do so.

1.18 We must tackle this problem with vigour and realism, and avoid tempting but ultimately self-defeating strategies. Slowing down our restructuring will not work, because we cannot slow down the changes taking place around us. If we put off inevitable changes, we will only fall further behind and make our problem worse. Alternatively, we could try to shield certain sectors of the economy from global competition, in order to protect and reserve jobs for citizens. But as more service industries become globalised and outsourced, our room for doing so will diminish.

1.19 The best solution is to press on with restructuring, but to give extra help to those who are struggling to keep up, for example older and less educated workers, or workers who cannot find jobs after being retrenched. We should help to tide them and their families over difficult times, and more importantly, equip them with the skills they need to find new jobs.

1.20 We must provide this support in a targeted and sustainable way, working together with community organisations and the people sector. We must not breed a culture of *entitlement*, encouraging Singaporeans to seek Government support as a matter of right, whether or not they need it. Instead, we must foster a culture of *opportunity*, encouraging Singaporeans to see Government support as a chance for them to concentrate on acquiring new skills and jobs, and get back on their feet again.

1.21 Beyond looking after groups affected by restructuring, we want to make sure that all Singaporeans benefit from our success. As we forge ahead, nobody should be left behind. Everyone should have the opportunity to contribute, and should make the effort to do so; and everyone's contribution will be valued. This will be a land of opportunity for all.

1.22 In promoting economic growth and taking care of our social needs, Government plays an important role, by being small but active, lean but capable. The public sector needs to be trim, in order to keep our tax burden light and free up resources for the economy. And the Government must be

effective, directing resources to the most critical areas, and taking initiatives that are essential to our survival, security, and success as a nation.

1.23 The initiatives in this Budget will therefore address three areas:

- i. A Dynamic and Entrepreneurial Economy;
- ii. A Lean and Effective Government; and
- iii. A Caring and Inclusive Society.

PART II – DYNAMIC AND ENTREPRENEURIAL ECONOMY

2.1 Our first priority is to make our economy more resilient and dynamic, and to help private enterprise flourish. We need to do this at three levels. First, we must make the overall environment conducive to business. Companies must be free to compete with one another; entrepreneurs must be able to pursue their visions and build their businesses; and workers must have every incentive to work hard and earn more. This means a free market economy which operates with maximum flexibility and minimum distortions. It also means keeping the tax burden low, and having a competitive tax structure which encourages enterprise and effort, and attracts talent to live and work here.

2.2 Second, we must foster the growth of important sectors of our economy. We have done this very successfully with manufacturing, through the efforts of EDB and JTC, applying judicious tax incentives such as pioneer status and investment allowances. We have also done this for specific service industries such as financial services. The objective is not to protect a sunset industry, but to give an extra push to an industry which has good potential. Our tax incentives are effective because they reward success rather than subsidise failure.

2.3 As our economy restructures and diversifies, services will be an important source of jobs and growth. We therefore need to promote key service industries, particularly those which strengthen our position as a regional hub. We also need to support small and medium enterprises (SMEs), because not only do SMEs employ many workers, but start-up companies are also an important avenue for entrepreneurship.

2.4 And third, we must prepare workers for the needs of the new economy. We want not just an efficient and productive economy, but also a workforce that possesses the skills to hold good jobs. We need to help workers to acquire new skills, paying particular attention to lower skilled, less educated workers. Then they can stay employable as the economy restructures, and earn their fair share of the fruits of growth.

2.5 This Budget contains measures to achieve these three objectives.

Foster a conducive business environment

2.6 A key reason businesses find Singapore conducive is the low tax burden on the economy. The Government's operating revenues are only 16% of GDP, one of the lowest tax burdens in the world. This frees up resources for the private sector to invest and to grow. We have also restructured our taxes, to shift from direct to indirect taxes. The Economic Review Committee had

recommended that we increase the GST from 3% to 5%, and reduce the headline corporate and personal income tax rates to 20%. We have already done this, except for the personal income tax rate, which has only come down to 22%.

Reduce personal income taxes across-the-board

2.7 At last year's Budget, I had deferred the decision to reduce the personal income tax rate further, because of the uncertain economic outlook and our tight fiscal position. I am happy to announce that we are now ready to go ahead.

2.8 I will lower the top personal income tax rate to 20% in two steps: first from 22% to 21% in Year of Assessment (YA) 2006, and then to 20% in YA2007. The marginal tax rates for all the other income brackets will also be reduced, so that all taxpayers will benefit. The new schedule of personal income tax rates for YA2006 and YA2007 is at Annex A. With this change, Singapore will have one of the most competitive personal income tax regimes in the world.

2.9 I have decided to lower the tax rates in two steps for reasons of fiscal prudence. It will also give us a little more revenue over the next two years to implement schemes to help Singaporeans cope with economic restructuring during this crucial period of transition, when the economy is growing but workers are still concerned about their jobs.

2.10 These reductions will save taxpayers more than \$150 million in YA2006, \$310 million in YA2007, and about \$3.3 billion over ten years. They will benefit all tax-paying Singaporeans and make us more attractive to internationally mobile talent.

Develop key engines of the economy

Build on core competencies in manufacturing

2.11 We must continue to build on our strengths in *manufacturing*, which continues to be a key pillar of our economy. Despite fierce competition, we remain one of the best locations in Asia for high value-added manufacturing activities. Last year, we attracted \$8.3 billion in fixed asset investment in manufacturing. China and India have eroded some of our lower end activities, but this has not blunted our core competitiveness as a manufacturing hub. One reason is that MNCs are locating not just their production operations here, but also their regional headquarters, taking advantage of our international connectivity, excellent communications infrastructure and financial services. Even Chinese and Indian companies have established regional headquarters in Singapore.

2.12 Many regional headquarters include a financial and treasury centre (FTC). We will enhance our position as a premier location for regional headquarters by expanding the tax incentive for FTCs. Associated companies of the FTC in Singapore may now qualify as approved network companies. The scope of the qualifying activities and services will be expanded to include Singapore-dollar denominated transactions. The income derived by the FTC from these enhancements will also qualify for the concessionary tax rate, with effect from today.

Leverage on our hub status to grow services

2.13 Our *services* industries have great potential because of our hub status in the Asia-Pacific region, the high quality of our workforce, world-class infrastructure, and a conducive regulatory environment. We have developed a wide range of services – headquarters and professional services, information-communications activities, creative industries, an international financial centre, tourism, and logistics. This has diversified our economy and created many jobs.

2.14 In this Budget I am taking specific measures to grow financial services, logistics, and tourism. All three industries benefit from, and contribute to, Singapore's hub position.

Enhance our status as an international financial centre

2.15 The financial services industry has been transformed over the last decade. We have taken major steps to open up the industry to greater competition, adopt a risk-focused regulatory regime, deepen the talent pool, strengthen the market infrastructure, and encourage leading financial players to hub their regional operations here. These efforts are bearing fruit. We have enhanced and consolidated our position as an international financial centre, with a sound and dynamic banking system, a quiet reputation for wealth management, and liquid and efficient capital markets.

2.16 My measures will focus on promoting wealth management, and deepening and broadening our capital markets. I will just highlight the key changes; MAS will announce the details shortly.

2.17 First, we aim to be a premier *wealth management* centre. Singapore already has a thriving asset management industry, with over 230 firms employing about 1,000 professionals and managing over S\$450 billion of assets. To further grow this industry, we will provide new incentives for specific areas like start-up fund managers and philanthropic trusts.

- A thriving wealth management centre is characterised by a vibrant mix of more established players and start-up fund managers specialising in niche products. To encourage more start-up fund managers to locate in Singapore, I will make it easier for them to qualify for tax exemption under our incentive scheme. Start-up fund managers will have a 12-month grace period before they have to meet the requirement that 80% of the value of their funds must come from foreign investors.
- Organised philanthropic giving is another promising activity to broaden Singapore's wealth management offerings. With rising affluence in Asia, our reputation for stability and our good infrastructure, we are well placed to attract philanthropic trusts to locate here. I will therefore create a new tax incentive to exempt all qualifying foreign charitable trusts from tax on specified income. This will be similar to the treatment under the Scheme for Exemption of Income of Foreign Trusts, but without the restrictions on expenditure levels or where the funds may be spent.

2.18 The second focus is to deepen and broaden our *capital markets*. To deepen our capital markets, we must enhance secondary market liquidity.

- We will encourage more institutions to participate in securities borrowing and lending activities, by conferring a 10% tax rate on the income earned by approved companies, including intermediaries, in securities borrowing and lending arrangements. This 10% tax rate will also apply to income from borrowing and lending local securities.

2.19 To broaden our capital markets, we will continue to encourage the development of Real Estate Investment Trusts (REITs), Islamic financial products, and exchange-traded commodity derivative trading.

- We will strengthen Singapore as the preferred location in Asia for listing REITs. Promoting REITs will help enlarge our capital market, grow our local fund management business, and benefit other areas of the financial sector. While we have made good progress, Australia, Malaysia and Hong Kong are all actively developing their REITs markets. We therefore need to do more.
 - (i). To attract more REITs listings, I will waive stamp duty on the instruments of transfer of Singapore properties into REITs to be listed, or already listed on the SGX, for a five-year period. Most of the qualifying conditions for tax transparency will also be removed.

- (ii). To attract foreign non-individual investors to participate in our REITs market, I will lower the withholding tax on REIT distributions from 20% to 10% for a five-year period.
- Secondly, there has been a surge in demand globally for Islamic financial products in recent years, with global Islamic finance growing by 10-20% annually. To make our tax system more conducive to Islamic financial products, I will remove the double imposition of stamp duties incurred in Islamic transactions which involve real estate. I will also accord payouts from “Islamic” bonds the same concessionary tax treatment that is currently granted to interest arising from conventional financing.
 - Lastly, in recent years, exchanges have increasingly been used as platforms for derivatives trading, because they provide greater price transparency and better risk management. To encourage exchange-traded commodity derivative trading, I will enhance the Commodity Derivative Trading incentive by conferring a 5% concessionary tax rate on qualifying income from exchange-traded commodity derivatives.

Strengthen our position as a logistics hub

2.20 In trading and logistics, our excellent infrastructure and connectivity are key competitive advantages. Companies have established regional distribution hubs here for all kinds of goods, ranging from construction equipment to medical systems, healthcare products, and luxury products. LVMH Fragrances & Cosmetics – distributor of Dior cosmetics among other high-value items – recently set up its Asia-Pacific regional warehouse in Singapore through its logistics service provider SDV. Our strategic location, round-the-clock logistics capacity, and simple customs procedures were key factors that helped LVMH to decide on Singapore.

2.21 Strengthening our logistics services sector will not only entrench our position as an important hub in global trade flows, but also give our export-oriented industries an edge over competitors in other locations, because they can distribute their products more cheaply and quickly to markets all over the world. We will introduce three changes in this Budget to support the growth of our logistics sector.

2.22 First, I will expand the Bonded Warehouse Scheme, under which GST is suspended on goods imported into, and traded within, designated bonded warehouses. We will lift the 80% export percentage requirement for qualifying operators, and provide them greater flexibility in storing and moving goods between pre-approved warehouses. This will improve cash-flow and reduce

administrative costs for logistics companies and other importers of goods. This will take effect from 1 January 2006.

2.23 Second, I have decided to extend the scope of the Approved International Shipping Enterprise incentive to ship leasing companies from today. This will offer shipping companies more flexibility in managing their fleets and help grow our ship financing sector.

2.24 Third, I will widen the scope of the Global Trader Programme (GTP) by extending the existing concessionary tax rates to trades denominated in Singapore dollar transactions from YA2006. This will encourage GTP companies who want to use the Singapore dollar as the transacting currency in their trades to carry out more trading activities here.

Rejuvenate the tourism and retail sectors

2.25 Another services sector we are actively promoting is the tourism and retail trade. The Asia-Pacific tourism market is growing rapidly. The middle classes in China and India are expanding. Their incomes are rising, and they are increasingly travelling abroad. This, plus the emergence of low-cost carriers, presents our tourism sector with new, exciting opportunities.

2.26 But competition for tourists has also increased. Many of our key attractions now also exist in other countries, often on a larger and grander scale. For instance, when the Singapore Zoo built the Night Safari, it was a world's first and became an international success. However, a night zoo – many times larger than ours – has since been developed in Guangzhou, and another night safari will open in Chiang Mai later this year. Their philosophy is anything you have, I will have better. Likewise, when we built our Underwater World in Sentosa, it was one of the few in this part of the world. Today, Shanghai has its Aquaria 21 and Beijing its Tai Ping Yang Underwater World.

2.27 To look at the bright side, these developments show that many of our attractions were trend-setters. Our continued success in tourism lies in constantly coming up with new, innovative offerings to maintain the interest of visitors and enlarge our market share. Only then can we attract more visitors to Singapore – both first-time and repeat, and entice them to stay longer, and spend more.

2.28 First, we need to revitalise the retail, food and beverage and entertainment sectors, to reinforce Singapore's attractiveness as a shopping and lifestyle destination. Orchard Road already enjoys a reputation as a premier shopping district. To build upon Orchard Road's international appeal, the Singapore Tourism Board (STB) will invest \$40 million over three years to enhance its landscape and upgrade its infrastructure. These initiatives will help

improve Orchard Road's accessibility, its street-life, and its 'hip factor', to draw visitors from across the world.

2.29 Second, we need to constantly refresh our appeal to tourists and come up with new and innovative offerings. One way to do this is by attracting investments in flagship concept projects in retail, food & beverage, and entertainment. I will therefore extend the existing Investment Allowance incentive scheme to such projects approved from 1 April 2005 to 31 March 2010.

2.30 Third, we need more world-class events and activities to diversify our offerings. I will therefore grant event companies a concessionary tax rate of 10% for qualifying tourism events approved from 1 April 2005 to 31 March 2010.

2.31 Finally, we have been actively studying the feasibility of an Integrated Resort (IR) in Singapore. The integrated resort will expand our offerings in Singapore and bring in new tourists.

2.32 We have invited interested investors to submit concept plans for the integrated resort project. The concept plans will give us a better sense of what an integrated resort entails, and what economic benefits it is likely to bring. If the investors intend to include a gaming component in the development, i.e. a casino, they will have to adhere to a set of social safeguards. These will restrict access to the casino by Singaporeans, and help to protect our work ethic and social values.

2.33 The signs are that there is serious investor interest in the project. The deadline for submission of concept plans is 28 February. The Government will carefully assess the proposals, and weigh the benefits and consequences of having an integrated resort with a casino. We will consider not only the economic costs and benefits, but also the likely social impact and the intangible consequences of a casino on the ethos of our society. We will also take into account the views that have been expressed in the public debate, for and against. The Cabinet will then make a decision whether to proceed, based on the merits of the issue. This will most likely be within four to six weeks, i.e. by mid-April.

Support small businesses

2.34 Small businesses are the backbone of many economies. They support the MNCs and larger local companies as part of an integrated production network and provide jobs for a large part of the population. They are also often key sources of innovation and buzz. We too must ensure that our SMEs thrive and grow in our competitive economic landscape. I have announced several

measures in previous Budgets to help the SME sector. This year, we will introduce further measures.

2.35 First, we will introduce a package of measures to help revitalise the retailers in HDB estates. Many of them are struggling because of an over-supply of shops (especially in the older HDB estates), changes in the shopping and dining-out habits of Singaporeans, and growing competition from shopping malls and supermarket chains. These trends are likely to persist and grow stronger over time. To help these small businesses in our HDB heartlands, the HDB will implement measures that will help them relocate, restructure and upgrade if they wish to stay in business, or facilitate their exit if they wish to retire. Details of these measures will be announced in the Committee of Supply.

2.36 Second, we will provide tax relief for small businesses to help them cope with cash-flow problems, especially in a cyclical downturn. Our corporate tax system already allows companies to carry forward business losses to offset future tax liabilities. In other words, if you lose money this year, you can carry the loss forward and you can offset it against the profit you make next year. So next year, you can reduce the tax you have to pay. For large companies, this is usually adequate support as they have the reserves and the cash-flow to weather a few years of losses. But for small businesses, next year may be too late. Small businesses, however, lack financial ballast and are likely to run into cash-flow problems quite soon even if the businesses are viable over the longer term. Loss carry-forward may not help them in a timely way. Smaller companies have often asked for a loss carry-back feature in our corporate tax system to help them cope with downturns, and position them for growth when the economy recovers. In other words, if they paid tax last year, and they lose money this year, can they recompute and claim back some of what they paid last year? And we decided to agree to that.

2.37 To provide more timely relief for small companies, I have decided to allow a one-year loss carry-back for corporate taxes, subject to a cap of \$100,000 in losses. The losses can be carried back for one year, and any losses that exceed this limit can still be carried forward. This will take effect from YA2006. Details of the one-year loss carry-back feature can be found in Annex B.

2.38 Third, we will help SMEs by lowering the cost of doing business with the Government. For example, suppliers who currently quote or tender for government business need to pay an annual fee of \$320 per account to subscribe to GeBIZ, the government's e-procurement portal. Many SMEs have complained that this adds to their cost. I am pleased to announce that with effect from 1 April 05, all suppliers will have one account free when they subscribe to GeBIZ. This will benefit all GeBIZ suppliers, especially the 88% who only have one account, practically all of whom are SMEs. I hope to see

more suppliers come forward to participate in government procurement projects.

Enhance the capabilities of our workers to secure good jobs

2.39 The third pillar of a dynamic and entrepreneurial economy is a skilled workforce. As our economy restructures, we must make sure that our workers are able to do the jobs which will become available. We have brought the unemployment rate back down below 4%, and will strive to reduce it further. This will not be easy, as unemployment in developed countries is typically 5% or higher. We must therefore make an extra effort to help Singaporeans get jobs and stay employed.

Top up Lifelong Learning Fund

2.40 First, we will ensure that every vulnerable worker has adequate resources for retraining – to keep himself employable and to cope with economic restructuring. To support our initiatives for worker re-skilling and upgrading, the Government will provide a \$500 million top-up to the Lifelong Learning Fund, to be funded out of the FY2004 budget. The top-up will increase the size of the fund to \$2 billion, nearer our target of \$5 billion. It will also raise the annual interest income of the fund by \$20 million to \$80 million, allowing the Workforce Development Agency (WDA) to embark on more programmes and intensify its efforts to help job seekers.

Re-design jobs and re-skill workers

2.41 Second, we will retrain workers to equip them with relevant skills, and re-design jobs where possible to ensure that our workers can take on these jobs. I have previously announced the Re-Employment Assistance Programme (or REAP). REAP will help less-skilled job seekers transit successfully into new jobs and avoid falling into long-term unemployment. Our vulnerable workers will benefit from REAP's two components: first, a nation-wide effort to re-design jobs, combined with training to help workers take up the re-designed jobs; and second, a financial support scheme to encourage job seekers to take up and stay in new jobs. REAP targets to assist at least 15,000 job seekers within a two-year period.

Fine-tune foreign worker policy

2.42 Third, we will fine-tune our foreign worker policies. By allowing a controlled inflow of foreign workers, we indirectly create more jobs for Singaporeans. Foreign workers sustain many sectors of our economy. Without them, many activities would not be viable in Singapore – our factories would

be short of workers, we would have no wafer fabrication plants, our financial services sector would not have enough skilled professionals, and virtually every sector would run short of IT personnel. In all these cases, foreign workers help to create jobs for locals. But we have to manage the numbers: too many foreign workers and we depress wages of Singaporeans; too few and we choke industry's growth. We need to find the right balance, and constantly review and refine our foreign worker levies and rules.

2.43 We reduced the skilled foreign worker levy substantially during the economic downturn, to help companies cut costs and tide over the crisis. We raised this levy back up modestly in July last year – from \$30 to \$50. It was a very small step. With the economy recovering, it is timely to gradually restore the levy to a more realistic level. MOM will therefore raise the skilled foreign worker levy from \$50 to \$80 with effect from 1 July 2005, and further to \$100 from 1 January 2006.

2.44 At the same time, we need to adjust the rules for employing foreign workers. We presently operate a complex combination of quotas and levies, coupled with limited administrative discretion. Many companies have told us that the rules are too rigid. For example, they often cannot seize new business opportunities which require more workers, because they cannot find Singaporean workers and yet cannot employ more foreign workers because they have reached the dependency ceiling. We need a price-based mechanism which is more transparent and efficient. Companies which urgently need more foreign workers should be able to get them, by paying a higher levy. And if the overall numbers grow too rapidly, we should be able to tighten up on the supply simply by raising the levy. Then foreign workers will go to companies which can use them most productively and we will get the best use from the foreign workers here.

2.45 We will therefore allow companies in both the manufacturing and services sectors who urgently need more foreign workers to employ more of them beyond the present dependency ceiling, up to a higher limit but at a higher levy, which we will initially set at \$500. Companies which are below the present dependency ceiling will not be affected. This will give companies more operational flexibility, and encourage them to expand their operations here. MOM will announce the details later.

2.46 These changes to the foreign worker levy and rules should not increase the number of foreign workers here. Their purpose is to increase flexibility for companies, not to loosen the overall limits on foreign workers. We will monitor closely the impact of the new rules on foreign worker numbers, and make further adjustments if necessary.

Opportunity is for people and businesses to create

2.47 Mr Speaker, the measures I have outlined will help develop a dynamic and entrepreneurial economy, and a skilled and adaptable workforce. But Government can only put in place the enablers. Ultimately, it is the private sector that creates wealth. The success of our efforts to transform our economy depends on businesses creating and seizing new opportunities, and people daring to take risks in pursuit of their ideas. It is not the role of Government to pursue specific business opportunities; but rather to create a conducive environment and the right incentives, and then let the private sector forge ahead.

PART III – LEAN AND EFFECTIVE GOVERNMENT

3.1 Mr Speaker, Sir, the Government plays a key role in creating opportunity and building community. It provides the preconditions for economic growth, ensures that citizens are equipped to look after themselves and their families, and fosters a sense of belonging which makes us a society. Achieving these objectives requires a Government that is not only lean and efficient, but also capable and effective – making the right strategic decisions, anticipating change, and meeting new challenges flexibly and innovatively.

A lean and efficient public sector

3.2 Every dollar which the government spends has first to be earned. The lighter the burden of government, the better the economy will perform, and the more the people can enjoy the fruits of their efforts.

3.3 Therefore as far as possible, the public sector should minimise the resources that it requires. It must continually seek efficiency gains, minimise waste, find more cost-effective ways to deliver services, and benchmark itself against the best private sector practices. These imperatives are familiar enough to the private sector, especially in this age of intense competition. But they apply equally to the public sector, even though its bottom line is often more intangible.

3.4 Singapore has one of the most efficient public sectors in the world. But we cannot stay still. We need to continually raise productivity, do more with less, and restructure as needs and priorities change. Let me review our progress in these areas over the past year.

Further Budget Cut of 3%

3.5 Last year, I announced a permanent 2% cut in the budget caps of all ministries except MINDEF. I am happy to report that the ministries have generally been able to absorb this cut, while fulfilling their missions and maintaining service levels. To keep up the discipline for ministries to economise and to raise productivity, I will apply another 3% cut in the budget cap of each ministry, again except MINDEF. This makes a total reduction of 5% in their budget caps. However, Ministries will still enjoy an increase in absolute dollars in their budgets this financial year. This is because ministries' block budgets are set as a percentage of nominal GDP, which has increased significantly. MOF believes that by cutting waste and operating more efficiently, ministries can live within these caps without compromising service levels.

Economy Drive and Cut Waste Panel

3.6 The Economy Drive initiatives implemented by public agencies in FY2004 produced nearly \$500 million of savings. A good example of a project that has both saved money and improved service is MINDEF's shared services centre. This was set up in April 2003 to provide services ranging from pre-enlistee services to finance, human resource and training services. The centre employs 530 staff, servicing a customer base of 85,000 active personnel as well as another 300,000 NSmen and 65,000 employers for NS payment matters. The shared services centre has transformed the way MINDEF performs common administrative services, and created new value and convenience for its customers. By bringing together the various services into a single centre, MINDEF has improved service standards, and saved or avoided \$4 million in costs in the first one and a half years.

3.7 We plan to roll out to the rest of the public sector this idea of aggregating common services. We should centralise the common administrative support services of different ministries. Public sector agencies are already aggregating their demand for common goods and services to get better prices. For instance, 30 public sector agencies recently aggregated their demand to procure their electricity supply for 2005 and will realise savings of \$8 million.

3.8 The Government's Economy Drive is supported by the Cut Waste Panel, which receives feedback and suggestions from the public. To date, the Cut Waste Panel has received over 3,100 suggestions and agreed with 85% of them. One writer had suggested that monthly CPFIS statements were too frequent and should be reduced. The CPF Board has therefore started to issue such statements every six months, saving nearly \$0.5 million a year. Such suggestions help to keep the public sector efficient and on its toes, and I encourage the public to submit more.

Best Sourcing and Public Private Partnerships

3.9 To stay lean and efficient, the public sector must continually examine which services it should deliver itself, and which ones are better outsourced to the private sector. Under the Best Sourcing initiative, the Government will market-test non-core functions, and outsource those that the private sector can deliver more cost-effectively, so that the Government can focus on its core functions.

3.10 So far 2.4% of non-core functions in the public sector have been market-tested. These functions include IT infrastructure services in the CPF Board, valuation of industrial properties in IRAS, and the provision of survey services under JTC. Of the 82 projects that have been market-tested, 52 were

eventually contracted out, resulting in \$57 million worth of contracts for the private sector and \$9 million in annual savings for the public sector.

3.11 This is just a very modest start. In FY2005, public sector agencies will be encouraged to market-test more non-core functions so that by the end of the fiscal year, at least 20% of non-core functions in the public sector will have been market- tested. The agencies will ensure that Best Sourcing does not affect the smooth delivery and quality of these services. They will also work closely with the unions to give public officers affected by outsourcing as much early notice as possible. The affected officers will be offered redeployment if possible, or else released on equitable terms. They will be treated fairly, not just to keep up the morale of other officers, but also to fulfil our moral obligation to those who have served loyally and well, often for many years.

3.12 The Public Private Partnership (PPP) initiative is an extension of the Best Sourcing concept. PUB recently awarded a PPP deal to the private sector to design, build and operate the new Ulu Pandan NEWater Plant. Other PPP projects we are exploring include the development and operation of a new Incineration Plant and an Integrated IT platform for Trade and Logistics. We expect to close these PPP deals in FY2005. The public sector is also studying the use of PPP for other large projects, such as the new Sports Hub and new student housing and ancillary facilities at the National University of Singapore. The Government will consider the PPP approach for new infrastructure projects where the private sector can add value.

An effective government

3.13 The Government must deliver services efficiently, but efficiency alone is not enough. The Government must ensure that its policies are effective – by implementing the right policies, and devoting resources to the right priorities. This means consulting widely on its policies, adopting the right regulatory approaches, and responding flexibly to new challenges.

Consult actively on public policies

3.14 Consultation and feedback are essential to formulating successful public policies. Wherever possible, the Government will consider the views of those affected by its policies, and those who have expert knowledge of the matter.

3.15 For example, MOF recently conducted a public consultation on whether to move to a current year basis of assessment for income tax. Under the current year basis of assessment, income tax is payable on income as it is earned, instead of being based on income earned in the previous year, which is the practice today.

3.16 MOF felt that there were macroeconomic as well as cash-flow benefits to making the switch. With current year assessment, when earnings go down, income tax payments will go down at the same time, rather than one year later. This would provide fiscal support to the economy in a downturn, while helping companies and individuals with their cash-flow. However, many respondents in the public consultation exercise highlighted the administrative burden and compliance costs of the proposed system. In view of this, the Ministry re-examined the benefits of its proposal against these costs, and concluded that it was not worth the imposition on businesses and individuals to restructure the tax system in this way. MOF has therefore decided not to implement the current year basis of assessment at this stage. More details of how MOF came to this decision can be found in the *Budget Highlights* document.

3.17 Feedback is an important part of policy *formulation*, and not just for fine-tuning policy *implementation*. The public consultation on whether we should have a current year basis of assessment highlighted issues and concerns that helped MOF to assess the overall benefits and costs of the proposal. It has strengthened the MOF's intention to test new ideas with the public as a matter of practice, so as to design better policies.

3.18 However, a commitment to consult and seek feedback does not mean government by referendum. Government decisions cannot always be guided by popular preference or straw polls, nor should they be swayed by organised interest groups. The Government must always decide based on an objective and well-informed assessment of whether a particular course of action is in the long term interests of Singaporeans. And this is as true of current year assessment of income tax as it is of whether we should have a casino. This is a responsibility which the Government cannot abdicate.

Adopt a risk management approach to regulation

3.19 An important way in which Government can promote enterprise is by easing its regulatory restrictions. In the first cycle of rules review, which will be ending soon, we reviewed almost 9,600 rules, of which we deleted 1,200 and simplified another 2,300. So I think now it is time for us to start the cycle and begin again, because this is a task which we have to do repeatedly. Often the key is to take a perspective of *managing* risks instead of trying to *eliminate* them. Let me give an example. Previously, all employment pass holders had to undergo X-ray checks for tuberculosis every two years when they renewed their employment passes. MOH reviewed the number of cases of tuberculosis infection detected by these checks and decided that we could stop screening at renewal without compromising public health. This has saved the public as well as the Government both cost and inconvenience.

Respond flexibly to new challenges

3.20 We also need to respond flexibly to new challenges to be effective. For example, under the block budget system, a ministry's budget is set as a percentage of GDP, and reviewed every 3-5 years to ensure that the caps move in line with changing needs and priorities. The block budget system gives the ministry a greater degree of certainty, and allows it to plan on a multi-year horizon. The trade-off, however, is less flexibility for the Ministry of Finance to respond promptly to changing priorities and needs.

3.21 To remedy this, MOF extracts from ministries' budgets a "productivity dividend" tied to the national productivity growth rate. It pools these dividends into a Reinvestment Fund. Ministries can bid for financing from this fund to launch innovative projects and develop new capabilities. This way we can re-prioritise and re-allocate resources across ministries from year to year, while still preserving the advantages of the block budget system.

3.22 In FY2005, about 50 projects will receive funding from the Reinvestment Fund. One is the Ministry of Health's HealthConnect pilot project, which will use IT to link up healthcare providers – such as restructured hospitals, polyclinics and GPs – to treat patients in a patient-focused manner. This will make our healthcare system more efficient, reduce costs for patients, and improve their quality of care.

3.23 Another project that will receive Reinvestment Funding this year is STB's multi-language way-finding project, which will help visitors from Indonesia, China, and Japan find their way around in their own languages. Over time, the project will tie together all tourist facilities into a single network for navigation, providing greater convenience for visitors and making us a more attractive tourist destination.

PART IV – CARING AND INCLUSIVE SOCIETY

4.1 Mr Speaker, Sir, beyond economic opportunity and a capable government, it is ultimately a sense of community that makes us truly a nation. We must be a society that is harmonious and united, caring and inclusive.

4.2 As Singaporeans, we have a shared responsibility to help the less fortunate members of our community. The better-off must help the poor and disadvantaged – the sick, the elderly, the disabled, and the unemployed. In many developed countries, the state takes on this responsibility, but this is invariably financed by high taxes and levies on businesses and those who are working. Our social compact is rather different. It is based on personal responsibility, with the family and community playing key roles in supporting people through difficulties. The state will provide a safety net, but it should be a last resort, not a first resort, and should focus on the minority who need help the most. We thus avoid state welfare, which will erode our incentive to achieve and sap our will to strive. Our social compact enables us to keep taxes low, and lets people keep the fruits of their labour and businesses the rewards of their enterprise. And when we do well and have budget surpluses, we can distribute some of them back to Singaporeans.

4.3 Singaporeans are a generous people. The outpouring of support in the wake of the recent tsunamis disaster is testimony to this. We must strengthen this sense of social responsibility – of helping those less fortunate than ourselves. The Government will make it easier for individuals, businesses and civic groups to take an active role in helping others. We will continue to target our financial assistance at the truly needy, and ensure that lower-income Singaporeans and their children have the opportunities to move up in society. Social mobility is a cornerstone of our social compact.

4.4 We also want to be an inclusive society, where people feel they have the opportunities to actively contribute and make a difference. Valuable contributions can come from talents in the arts, sports, or social work arenas, and need not be purely economic in nature. Everyone, including the disabled and elderly, has something to offer, and should be encouraged to live up to his or her potential.

4.5 I intend to distribute some of the projected budget surplus this year back to Singaporeans to foster a caring and inclusive society. This Budget will:

- help Singaporeans cope with changes;
- encourage savings for retirement;
- support families; and
- promote community involvement and philanthropy.

Help Singaporeans cope with changes

Top-ups to Edusave Accounts

4.6 First, helping Singaporeans cope with changes, beginning with education. The young are the future of our country. We invest heavily in them, especially in their education, because we rest all our hopes on them, to inherit this country and take it to greater achievements. To develop our young, I will make a special, one-off top-up of \$100 to the Edusave account of every eligible primary and secondary school student. This is over and above the Edusave contributions given annually by the Government. This top-up will cost the Government \$50 million.

Top-ups to Medisave Accounts

4.7 Second, Medisave. Many Singaporeans are very concerned about healthcare costs. Our healthcare financing framework – based on a combination of savings, insurance, and government subsidy – is fundamentally sound. It has enabled the vast majority of Singaporeans to have access to good, affordable healthcare, while keeping national healthcare spending low. But we need to constantly adjust it, so that Singaporeans can continue to afford good healthcare as our population ages and medical costs increase.

4.8 The Ministry of Health is revamping MediShield, to give better coverage for large hospital bills. This means raising MediShield premiums, as well as raising the deductibles which the patients will have to pay out of their own Medisave. Most Singaporeans can afford the premium increases, which will not exceed \$135 per year. However, some may face difficulties, especially older Singaporeans whose premium increases are larger and who are no longer working. The NTUC has asked the Government to consider topping up the Medisave accounts of Singaporeans, to help them adjust to the new premiums. And I am happy to say we will do so.

4.9 The Government will give Medisave top-ups to adult Singaporeans. It will pay between \$50 and \$350 into each Medisave account, depending on age. Older Singaporeans will receive larger top-ups. Members can see the figures on the screen. If you are 60 and above, you get the largest top-up (\$350). The quantum of the top-up will be enough to cover at least two years of premium increases. This top-up will cost the Government \$320 million.

Table 1: Schedule of Medisave Top-Ups

	Age as at 1 Jan 2005			
	21-39	40-49	50-59	60 and above
Top-Up Quantum	\$50	\$100	\$250	\$350

Top-up to Medifund

4.10 Third, the Government will be injecting another \$100 million into the Medifund, to build it up from \$1 billion today to the target fund size of \$2 billion, as I have already announced. This will help lower-income Singaporeans or older people who are not covered by MediShield, to meet their healthcare expenses. This will be funded out of the FY2004 Budget.

Top-ups to CPF Special/Retirement Accounts of older Singaporeans

4.11 Fourth, we will top up the CPF accounts of older Singaporeans. This group has made many contributions to building today's Singapore. Now, many of them are doing less well as they have lower skill levels, earn less, and have more difficulty finding new jobs when they lose their existing jobs. The deeper cuts in the CPF contribution rate for those aged 50 to 55 will also have an impact on the retirement finances of this group.

4.12 To help older Singaporeans aged 50 and above save more for their retirement needs, I will top up the CPF Special or Retirement Accounts of Singaporeans aged 50 and above by \$100. This will cost the Government \$80 million.

Utilities Save Scheme

4.13 Fifth, we will provide more support to lower-income households. I have decided to top up the utilities accounts of households under the Utilities Save Scheme. Households in 1- and 2-room HDB flats will enjoy \$200 in rebates in 2005; those living in 3-room HDB flats will get \$100 in rebates; those living in 4-room HDB flats \$80; and those living in 5-room HDB flats \$60. The rebates will be paid in two instalments in July 2005 and January 2006. They will cost the Government \$62 million.

Top-up to the ComCare Fund

4.14 Sixth, the ComCare Fund. As I have previously announced, the Government will create a ComCare Fund, starting with \$500 million, with a target size of \$1 billion. This fund represents our commitment to do more for needy Singaporeans, to ensure that nobody will be left behind. The income will be used to fund three activity groups: ComCare Self-Reliance to help needy families get back on their feet; ComCare Grow for children from needy families, especially for their educational and social needs; and ComCare EnAble for senior citizens and others who need longer term assistance such as the disabled.

4.15 A ComCare Supervisory Committee will be set up to formulate new programmes and streamline existing schemes. It will be chaired by Mrs Yu-Foo Yee Shoon, Minister-of-State in the Ministry of Community Development, Youth and Sports. The Committee will also include Mayors of CDCs and leaders of VWOs. ComCare intends to work through CDCs and in

collaboration with VWOs, to ensure that help reaches the needy, so that any Singaporean in genuine need will know where to go to for help.

Encourage savings for retirement

Increase CPF voluntary contribution cap and tax relief cap for the self-employed

4.16 To encourage Singaporeans to save more for their retirement, we will make changes to the CPF contribution and the tax relief caps. With immediate effect, the CPF voluntary contribution cap will be raised to, and aligned with, the mandatory contribution cap of 17 months of the CPF salary ceiling. Similarly, the contribution rates will be aligned with the actual contribution rate of 33%.

4.17 I will also raise the tax relief cap on voluntary CPF contributions by the self-employed to align it with the tax relief cap for employees. This will take effect from YA2006. These measures send an important signal to self-employed individuals that they too must take active steps to put aside enough for their medical needs through Medisave contributions and set aside more retirement savings in their CPF accounts.

Relax the CPF Minimum Sum topping up criteria

4.18 To encourage Singaporeans to set aside savings for their parents and non-working spouses, I will also liberalise the criteria for CPF members to make top-ups to the Retirement Accounts of their parents and non-working spouses aged 55 and above. Currently, to do a top-up, a member must have a regrossed CPF balance of more than twice the prevailing CPF Minimum Sum. Additionally, the member's net balances in his Ordinary and Special Accounts must be more than twice the prevailing Minimum Sum cash component. CPF Board will now allow an individual to top up his parents' or spouse's account as long as the net balances in his Ordinary and Special Accounts, including amounts withdrawn for investments, are more than 1.5 times the prevailing Minimum Sum. The limit on the amount of top-ups that can be received will also be enhanced. Details will be released by CPF Board later.

Simplify Supplementary Retirement Scheme

4.19 For those who wish to set aside additional savings outside of CPF, I will simplify the rules on the contribution caps of the Supplementary Retirement Scheme or SRS. Instead of capping the amount of SRS an individual can contribute at his income level and having separate caps for employees and the self-employed, we will now apply a common absolute cap of 17 months of the prevailing CPF salary ceiling. This will take effect from YA2006. This will

allow Singaporeans who earn below the CPF income ceiling and those who are self-employed to contribute more to their SRS accounts.

Support families

4.20 The family is the basic building block of society. In my National Day Rally speech last August, I announced a comprehensive package of measures to support marriage and parenthood. In this year's Budget, I will enhance the Baby Bonus Scheme to make it more flexible for parents, and help families offset the costs of better quality maids.

Enhance the Baby Bonus Scheme

4.21 Many parents have told me that they appreciate the changes we made to the Baby Bonus Scheme last year, when we extended it to the first and fourth child, and to disburse the cash gift over two, instead of six, years. They also suggested more ways the scheme could be made more flexible. Parents said that they liked the co-savings element of the Baby Bonus, but indicated that they are sometimes not able to save up to the maximum of \$1,000 for the second child or \$2,000 for the third/fourth child every year. They wanted flexibility to save more in years when they can afford to, and to use the co-savings in more ways for their child's educational and developmental needs.

4.22 We agree with this feedback. I have decided to liberalise the co-savings portion of the Baby Bonus, so as to encourage parents to save more for their children's developmental needs. Parents can now choose to save more in one year and less in another, subject to the total co-savings limit for six years.

4.23 Presently the Baby Bonus co-savings can be used for infant care, child care and kindergarten. I will widen the permitted uses to include health insurance and early intervention programmes for children with special needs. The details of these and other enhancements to the Baby Bonus Scheme will be announced at the Committee of Supply.

Reduce the foreign domestic worker levy

4.24 Maids are a great help to families which have young children or elderly parents to look after. To raise the average quality of maids working in Singapore, MOM has instituted higher entry requirements and raised the minimum age for maids. But better maids will cost more. To offset the higher wages, the Government will lower the monthly foreign maid levy for all employers by \$50 with effect from 1 April 2005. This will save employers \$600 per year and will cost the Government \$90 million. MOM will announce the details later. The concessions in the foreign maid levy to support marriage and parenthood which I announced at last year's National Day Rally will continue to apply on top of the reduced maid levy.

Promote community involvement and philanthropy

4.25 Taking care of the less able and less fortunate should not be the sole preserve of the Government. A culture of volunteerism and philanthropy will strengthen our collective social responsibility and build stronger community bonds. The Government recognises the good work of our non-profit organisations and people sector in helping Singapore become a land of opportunity for all. We will put in place a package of incentives to encourage more Singaporeans to come forward to volunteer, set up new charities or give to charitable purposes.

Recognise sports as a “charitable purpose”

4.26 First, I will expand the definition of “charitable purposes”. Currently, the Government recognises four broad charitable purposes for charity status:

- the prevention and relief of poverty;
- the advancement of education;
- the advancement of religion; and
- other purposes beneficial to the community.

4.27 I have decided to recognise the advancement of sport as a fifth charitable purpose, where the sport advances the health of individuals. Because this recognises the importance of sports in promoting a healthy lifestyle for all, we will only extend it to sports that require physical skill and exertion. Qualifying sports groups will be eligible for income tax exemption from YA2006.

Recognise explicitly “other purposes beneficial to the community”

4.28 Second, I will explicitly recognise as charitable purposes several purposes that we now group under “other purposes beneficial to the community”, to encourage the groups undertaking these activities, as well as encourage Singaporeans to donate to these groups. The purposes are:

- the advancement of health;
- the advancement of citizenship or community development;
- the advancement of the arts, heritage or science;
- the advancement of environmental protection or improvement;
- the relief of those in need by reason of youth, age, ill-health, disability, financial hardship or other disadvantage; and
- the advancement of animal welfare.

Grant double tax deduction for donations with naming opportunities

4.29 Third, to encourage more charitable giving among individuals and corporations, I will equalise the tax treatment of donations between those that involve naming opportunities and those that do not. At present, donations with naming opportunities get single tax deduction instead of double tax deduction. So if you fund a school hall, you will get double tax deduction. If later on, your name is attached to it, after-tax deduction comes back. I do not think we have to calculate so nicely and precisely. From YA2006, we will grant double tax deduction for all donations to Institutions of a Public Character (IPCs) and other approved beneficiaries made on or after 1 January 2005, whether or not they involve naming opportunities. We hope this will encourage more donors to come forward, to give larger donations, and to cultivate lasting relationships with the beneficiaries they have lent their names to.

Extend Computer Donation Scheme to IPCs

4.30 Fourth, there is a computer donation scheme today to encourage IT research and training in our educational and research institutions and to develop IT literacy for all. Donations of computer hardware and software to approved institutions under this scheme are granted double tax deduction. I will extend this Scheme to all IPCs for donations made on or after 1 January 2005, to encourage IPCs to improve their administration and manage their programmes more effectively through the use of IT.

Other tax changes

Higher excise duty on tobacco

4.31 Let me touch briefly on other tax changes. No budget is complete without some mention of sin taxes. Smoking contributes to nearly 2,500 deaths annually in Singapore. To curb smoking especially among younger Singaporeans, I have decided to further raise the excise duties on all tobacco products with effect from today. For instance, excise duty on cigarettes will go up from \$293 per 1,000 sticks to \$352 per 1,000 sticks. The new duties for tobacco products are at Annex C. This rise in duties is expected to increase revenues by \$158 million.

Changes to horse betting duty

4.32 The Government will change the horse betting duty from 12% of each bet to 25% of gross betting profits – that is, bets less winnings paid out. This will allow the Singapore Turf Club to offer better odds and lower prices to their customers to compete more effectively with illegal gambling operators. The UK has made similar changes to their horse betting duties, for the same

reasons. I should add that this change is totally unrelated to the issue of whether to have a casino in Singapore.

Greater scope of relief from stamp duties

4.33 We will also change the rules to provide a greater scope of relief from stamp duties. Currently, prospective property buyers are generally required to pay for stamp duties even when their sale and purchase agreements are subsequently aborted. To provide relief to bona fide aborted transactions, the Government will now remit the stamp duties paid except for a charge of \$50 to cover administrative costs. In addition, I have also decided to remove the requirement for transferee companies to be tax residents in order to qualify for stamp duty relief, and to extend the relief to include the transfers of mortgages. These new measures will take effect immediately.

New relief for estate duty

4.34 Lastly, death duties. The Government will introduce a new relief in estate duty for deaths in quick succession. When individuals die within a short period of time of each other, and the assets pass from one to another, these assets are currently taxed on each death. This is an added burden on bereaved families. For deaths from 1 Jan 2006, the Government will allow the estate duty paid on the earlier death to be deducted from the estate duty payable on the same assets assessed in the beneficiaries' subsequent deaths. The relief will start at 100% if the deaths occur within six months of each other, graduating to the full estate duty payable if the deaths are more than two years apart.

Table 2: Estate duty relief for deaths in quick succession

For successive deaths occurring within	Estate Duty Relief
≤ 6 months	100%
7-12 months	75%
13-18 months	50%
19-24 months	25%
> 24 months	0%

PART V – CONCLUSION

Revised FY2004 and FY2005 Budget Position

5.1 Mr Speaker, Sir, this Budget will benefit all Singaporeans. It will provide \$1.3 billion of help to groups which need and deserve help, especially those who are finding it hard to keep up with the structural changes. This Budget will also save taxpayers more than \$150 million in FY2006 and \$310 million in FY2007.

5.2 Taking into account the top-up to the Lifelong Learning Fund which will be funded from the FY2004 Budget, the revised position for FY2004 is an overall deficit of around \$440 million. As for the FY2005 budget, after taking into account the Special Transfers and the tax changes I have announced, we now project a reduced overall budget surplus of around \$210 million, or 0.1% of GDP. It is a modest surplus because we are taking deliberate steps to ensure that all Singaporeans can continue to afford good healthcare, enhance the retirement finances of older workers, and provide more help to lower-income Singaporeans. These measures reflect our resolve that vulnerable or needy Singaporeans will not be left behind as a result of economic restructuring, and that the fruits of our progress will be shared by all. More details of the revised fiscal positions for FY2004 and FY2005 may be found in Annex D and the *Budget Highlights* document.

Building our home together

5.3 Mr Speaker, Sir, this Budget aims to build an economy with abounding opportunities, and a society with a deep sense of community.

5.4 Opportunity means not just good jobs, affordable housing, quality education, and adequate healthcare, but also making Singapore the best home for raising families, and opening up the space to pursue our dreams and aspirations. Opportunity is not possible without a thriving economy that adapts and changes with the global environment. Hence our constant striving to restructure and diversify our economy, our untiring efforts to boost competitiveness, and our relentless emphasis on training and skills upgrading.

5.5 A sense of community is what ultimately makes us a nation – forged by shared experiences, inspired by a common vision, and bound by a collective resolve to help one another. Restructuring brings adjustment pains to many segments of our population. We must help them so that they too will share in the fruits of economic opportunity.

5.6 This Budget will foster economic restructuring, enhance Singapore's competitiveness as a place for talent and enterprise, build new strengths in the

services sector, and create more jobs for Singaporeans. But it is not only about growing our economy. This Budget will also deliver more help to groups facing particular difficulties – older workers who are experiencing deeper CPF cuts, the less-skilled who are finding it hard to be re-employed even as the economy recovers, and all Singaporeans who are concerned about rising healthcare costs.

5.7 Remaking our economy and our society is not just the task of Government. Success ultimately depends on the values, attitudes, and the collective actions of all Singaporeans. It is individual creativity, individual excellence, and individual passion that will sustain us as a vibrant people with an enterprising economy. And it is acts of kindness and compassion in a community bound together in a social compact that makes us care for each other and support the vulnerable – this way we will become a caring and inclusive society.

5.8 I ask everyone to join me in building a nation which offers opportunity and hope to all, and a society where every citizen belongs. Together we will build a Singapore that all of us will be proud to call home.

5.9 Mr Speaker, Sir, I beg to move.

**Annex A - Schedule of Personal Income Tax Rates for YA2006 and
YA2007**

Chargeable Income band	Current marginal tax rates	Marginal tax rates for YA2006	Marginal tax rates for YA2007
\$0 – \$20,000	0.00%	0.00%	0.00%
\$20,001 - \$30,000	4.00%	3.75%	3.50%
\$30,001 - \$40,000	6.00%	5.75%	5.50%
\$40,001 - \$80,000	9.00%	8.75%	8.50%
\$80,001 - \$160,000	15.00%	14.50%	14.00%
\$160,001 - \$320,000	19.00%	18.00%	17.00%
> \$320,000	22.00%	21.00%	20.00%

Annex B - Key Features of Loss Carry-back

Currently, Singapore's corporate tax regime allows companies to either carry forward their unutilised capital allowances (CAs) and trade losses to offset future incomes (i.e. loss carry-forward) *or* transfer these unutilised CAs and trade losses to related companies (i.e. group relief). However, these schemes may not provide adequate or timely support to smaller businesses that run into cash flow problems, particularly during a cyclical downturn.

2. To address the needs of smaller businesses, a one-year carry-back of current year unutilised CAs and trade losses will be introduced with effect from Year of Assessment (YA) 2006. The main features of the scheme are:

- a) Only current year unutilised CAs and trade losses will be allowed to be carried back for one YA immediately preceding the YA in which the CAs were granted or the trade losses incurred.
- b) An aggregate amount of \$100,000 of current year unutilised CAs and trade losses can be carried back.
- c) The carry-back system will be available to all businesses, including sole proprietors and partnerships.
- d) The current requirements for carry-forward of unutilised CAs and trade losses will similarly apply when these amounts are carried back i.e. the substantial shareholding and the same business tests.
- e) The carry-back will be given on due claim.
- f) In line with their exclusion from the loss carry-forward and group relief schemes, Section 10E companies will be disallowed from carrying back their losses and CAs.

3. IRAS will provide more details on the implementation of loss carry-back by June 2005.

Annex C – Current and New Excise Duties for Tobacco Products

HS Code	Product Description	Current Duty Rate (per kg)	New Duty Rate (per kg)
24022010	Beedies	151	181
24039950	Smokeless tobacco	151	181
24039960	Ang Hoon	151	181
24011010	Not stemmed/stripped, Virginia type, flue-cured	250	300
24011020	Not stemmed/stripped, Virginia type, Not flue-cured	250	300
24011030	Not stemmed/stripped, Others, flue-cured	250	300
24011090	Not stemmed/stripped, Others, not flue-cured	250	300
24012010	Wholly stemmed/stripped, Virginia type, flue-cured	250	300
24012020	Wholly stemmed/stripped, Virginia type, not flue-cured	250	300
24012030	Wholly stemmed/stripped, Oriental type	250	300
24012040	Wholly stemmed/stripped, Burley type	250	300
24012050	Wholly stemmed/stripped, flue-cured	250	300
24012090	Wholly stemmed/stripped, others, not flue-cured	250	300
24013010	Tobacco Stems	250	300
24013090	Other Tobacco Refuse	250	300
24031021	Blended tobacco, for cigarettes	250	300
24031029	Not blended, for cigarettes	250	300
24021000	Cigars, Cheroots	293	352
24029010	Cigars, Cheroots of tobacco substitutes	293	352
24031011	Pipe/blended tobacco	293	352
24031019	Other Pipe/blended tobacco	293	352
24031090	Other tobacco cut	293	352
24039100	Tobacco Extracts and essences	293	352
24039930	Manufacturing tobacco substitute	293	352
24039940	Snuff	293	352
24039990	Other Manufacturing tobacco	293	352

HS Code	Product Description	Current Duty Rate (per kg)	New Duty Rate (per kg)
24022090	Cigarettes	\$0.293 per stick if less than 1g; every additional 1g or part thereof at \$0.293	\$0.352 per stick if less than 1g; every additional 1g or part thereof at \$0.352
24029020	Cigarettes of tobacco substitutes	\$0.293 per stick if less than 1g; every additional 1g or part thereof at \$0.293	\$0.352 per stick if less than 1g; every additional 1g or part thereof at \$0.352

Annex D - Budget for FY2004 and 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-ups 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-ups 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.