BUDGET STATEMENT 2006
BUILDING ON OUR STRENGTHS, CREATING OUR BEST HOME

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ANNEXES

PART I – TAKING STOCK

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 2006 to 31 March 2007.

1.2 The economy grew by 6.4% in 2005, much better than expected. Growth was broad based, with strong performances in both manufacturing and services. EDB attracted $8.5 billion of fixed asset investments in manufacturing, up 3% from 2004, and $2.5 billion in annual total business spending from services, up 11% from 2004. A record number of tourists visited Singapore – around 9 million, boosting the retail industry.

1.3 Most importantly, economic growth has translated into jobs. 110,800 new jobs were created last year, the largest number created in any year since 2000. We have reduced unemployment significantly, to just 2.5% by the end of 2005.

1.4 Our fiscal position is good. I expect a budget surplus of $430 million or 0.2% of GDP for FY2005, slightly larger than I had projected in last year's Budget Statement. This is the result of healthy investment income as well as efforts to contain expenditures.

1.5 The outlook for 2006 is favourable. The US economy continues to grow, underpinned by strong consumption and investment expenditure. The EU economy is expected to improve in 2006 as domestic demand strengthens. China is still growing robustly, having successfully managed the risk of overheating. India is set to continue growing, especially if it deepens its economic reforms. Japan is emerging from deflation, with confidence restored, company balance sheets de-leveraged and the banking system strengthened.

1.6 The Southeast Asian economies are expected to sustain their momentum. Investor confidence is up, as reflected in the regional stock market rallies. In Indonesia, the government has taken major steps to slash fuel subsidies and raise interest rates, and to strengthen its economic team. Domestic demand should remain firm in Malaysia and Thailand, bolstered by consumption and government spending.

1.7 While the overall outlook is good, some downside risks remain. The key risks are posed by the tightness in the oil market and global macroeconomic imbalances. Disruptions in world oil supply could cause prices to spike sharply, while a disorderly unwinding of the US current account deficit could have knock-on effects on financial stability, exchange rates, and trade liberalisation. The frothy housing markets in some of the major economies and the threat of Avian Influenza are also sources of concern.

1.8 Overall, if these risks are contained and the major economies sustain their growth momentum, I expect the Singapore economy to grow by 4-6% in 2006, with inflation in check at 0.5-1.5%. This will support further job creation.

1.9 Our strong performance results not only from a favourable external environment, but also, more importantly, from our efforts to upgrade and restructure the economy. We must press on to adapt to changing economic demands and secure our long-term competitiveness.

1.10 The pace of change worldwide is accelerating, not slowing down. Other countries are also reinventing themselves, and gearing up to compete globally. In the Middle East, for example, the Gulf States are on the move. They are investing in education and infrastructure, attracting foreign investment, building international companies like Dubai Ports and Emirates Airlines, and using their oil and gas revenues to create a sustainable long term basis for growth and development.

1.11 In Singapore, we have embarked on a challenging enterprise – to build a vibrant global city that is a centre for knowledge, talent, and business. We have every prospect of succeeding. We have the drive and talent, the ability to adapt to change, and the resolve to meet and overcome challenges. Our workers, employers and the Government have forged a strong tripartite partnership. Internationally we have a trusted brand name, and a reputation for integrity, quality, and reliability.

1.12 Globalisation favours economies like ours – open, nimble, and enterprising. But it also poses challenges, especially for our older and low-skilled workers whose wages and jobs are under growing pressure. We must do more to help this group of Singaporeans improve their lives, and to support their own efforts to do better for themselves and their children. We must target our assistance to those in need, and make a difference where it counts.

1.13 This Budget will therefore:

i. Support upgrading and restructuring of the economy

ii. Help Singaporeans Move Forward Together

iii. Share the fruits of growth with all Singaporeans through a Progress Package

PART II – UPGRADING AND RESTRUCTURING THE ECONOMY

2.1 Our first priority is to press on with upgrading and restructuring the economy, and create new jobs to replace old ones.

2.2 First, we must become a knowledge hub in Asia. Innovation, enterprise, and R&D will increasingly be the new sources of our growth. We are strengthening R&D efforts in the universities, research institutes, and industry. Our aim is to be a knowledge exchange, a key node in a global network of people and ideas, and a choice location for international events for both for-profit and non-profit organisations.

2.3 Second, we must build on our strengths in manufacturing and services, to promote activities that place a premium on trust, quality and service, not just efficiency and low cost. In manufacturing, we must raise our productivity and skill levels. In services, besides developing existing industries like logistics, info-communication, banking and finance, and tourism, we must seek new opportunities, such as in premier healthcare and education.

2.4 Third, we must support entrepreneurship and help promising local companies to grow into regional and international players.

2.5 Fourth, we must build up our human capital. We will continue to attract global talent who bring in new skills, create new value, and enlarge our economic pie. At the same time, we will invest in education and training, to equip Singaporeans with the skills and mindsets to succeed in a knowledge-based, innovation-driven economy.

2.6 Finally, we must maintain a competitive tax environment to attract investments, reward enterprise and draw talents. Let me touch on each of these areas.

Become a Knowledge Hub

2.7 First, becoming a knowledge hub.

<u>Invest in R&D – Knowledge Creation</u>

2.8 R&D is the foundation upon which we will build Singapore's competitiveness. Just as investment in education builds up our human capital, so will investment in R&D build up our intellectual and knowledge capital base. The Research, Innovation and Enterprise Council (or RIEC) which I chair will spearhead this critical national effort. It will be supported by the National Research Foundation (or NRF) led by Dr Tony Tan. The RIEC will review our overall R&D framework and our R&D plans for three key sectors - the Biomedical Sciences sector, the Interactive and Digital Media sector, and the Environmental and Water Technologies sector.

2.9 R&D requires long-term commitment. To develop new capabilities, we must support projects on a sustained basis, buffering them from the vagaries of year to year budgetary pressures, and judging results over several years. I will establish an R&D Trust Fund, to be administered by the NRF, and will regularly allocate a portion of our budget for this Trust Fund. I aim to inject $5 billion into the Fund over five years and will start with an initial injection of $500 million this year. As worthwhile projects emerge, many of which will be multi-year commitments, we can tap on this fund to support them.

2.10 The R&D Trust Fund, together with MTI's Science & Technology Plan 2010 and MOE's academic research plans, will help raise Singapore's gross expenditure on R&D from 2.3% of GDP in 2004 to 3% by 2010. This will put us on par with the European Union economies and close the gap with world leaders in R&D like the Nordic countries and the US.

2.11 Increased R&D investment will generate more intellectual capital which can be exploited and commercialised. We have already begun to do this. For example, Rolls-Royce and a Singaporean consortium jointly invested US$100 million in developing a commercially viable power system based on fuel cells. The Singaporean companies were able to supply cutting-edge technologies that met the high expectations of Rolls-Royce. Thus Nutek, a local SME that manufactures automated manufacturing systems, used its in-house engineering expertise to improve the production process for fuel cells.

2.12 A safe and reliable environment for the protection of Intellectual Property Rights (IPR) is a critical factor in persuading international companies to base their R&D activities here. Because of our reputation as a trusted partner for businesses, companies and other institutions are creating and hosting their intellectual property in Singapore, assured that their IP will be protected. Global Brands is the exclusive licensing agent for FIFA worldwide and Warner Brothers Consumer Products in Southeast Asia. Last year Global Brands announced the establishment of its global HQ here to manage their IP representation portfolio. BASF, one of the top two chemical companies in the world, is setting up its first R&D laboratory in the Asia Pacific here, to conduct fundamental research in nanotechnology. We must continue to provide a safe IPR environment for such companies.

2.13 We must also take a broader approach to recognising ownership of IP. Multinational corporations based in Singapore often have substantial economic rights in the form of regional control over their IP, although the legal title is held by the foreign parent. We will recognise and incentivise such economic ownership of IP, which is at least as important as legal ownership of IP. I will extend writing down allowances for IP acquisition to these economic (not just legal) owners of IP, on an approval basis. To encourage R&D collaborations, I will also accelerate the write down period for qualifying capital expenditure under cost-sharing arrangements from five years to one year.

Bring the World to Singapore – Knowledge Exchange

2.14 To become a knowledge hub, we must not only be a place for creating knowledge, but also be a centre for exchanging knowledge and ideas, and for people and businesses to network with one another.

2.15 Singapore is well suited for this role. As a society, our ethos is open, cosmopolitan and pragmatic, welcoming towards new ideas, and quick at adapting to a fast changing world. We are well wired up, with 52% of homes having broadband internet access, and nationwide wireless networks to keep us constantly in touch with one another and the world. But we must continue to plan ahead beyond present needs, and keep pace with rapid technological change.

2.16 Other countries and cities are already implementing ultra-high speed broadband and wireless networks. Some are laying fibre to homes, in anticipation of future demand. In today's world, a national broadband network is basic infra-structure and a source of competitive advantage. We will develop a new national broadband network that is much faster than what is available today. It will offer fast, efficient connectivity to all – in schools, in offices and homes, and even on the move. It will help us plug into the global knowledge grid, and stay competitive with other cities. The cost is significant, but we can develop it together with the private sector progressively over several years, adjusting to demand at each stage. MICA will announce more details at the Committee of Supply.

2.17 Singapore must be a place where people, businesses and non-profit organisations from all over the world converge and exchange ideas. Several International Organisations (IOs) and Non-Governmental Organisations (NGOs) are already here. Last year, the World Intellectual Property Organisation (WIPO) set up in Singapore its first office outside the US and Europe. The Singapore office aims to promote intellectual property development and standards throughout Asia. WIPO has held conferences and symposiums here, using us as a platform for knowledge transfer among intellectual property experts. We will attract more IOs and NGOs to locate their headquarters and research work here.

2.18 Hosting international events also creates opportunities for knowledge networking. In 2005, we successfully hosted the International Olympic Committee session, as well as the Global Entrepolis@Singapore event which brought entrepreneurs, venture capitalists and industry captains together. Next month, we will host the first intellectual property diplomatic conference in Asia, where IP policy makers from WIPO member states will negotiate an international treaty concerning trademark laws.

2.19 In September, we will host the largest international financial meeting – the Board of Governors Annual Meetings of the IMF/World Bank Group. More than 16,000 delegates and officials will visit Singapore; they include finance ministers and central bank governors from 184 countries, top financiers, CEOs from the private sector and the international media.

2.20 I spoke at the last National Day Rally about the need to improve our service culture. To prepare for the IMF/World Bank meetings, we will train 28,000 service staff from the tourism industry, to go the extra mile in providing good service. We must work together to provide our visitors and delegates a memorable and outstanding Singapore Experience, so that they return home with eyes opened to the possibilities of Singapore and Asia, and hearts warmed by the graciousness and hospitality of our people.

Build on our Strengths in Manufacturing and Services

2.21 Our second focus is to strengthen our manufacturing and services hub. To do this, we must raise our productivity and build a strong service culture based on quality and trust. WDA, STB and SPRING are launching many initiatives to enhance our services infrastructure, systems and workforce training. These include the development of service competency standards and assessment tools, a national quality scheme to accredit organisations that provide good service, as well as certification and training programmes. The Government will invest $63 million over three years in these programmes.

Manufacturing as a Key Engine of Growth

2.22 Manufacturing remains a key part of our economy, accounting for about a quarter of our GDP. We aim to double our manufacturing output and value added by 2018. We must support it with R&D, create value through innovation, and become a global leader in niche areas.

2.23 Advanced economies like Japan have shown how to sustain their manufacturing edge through higher productivity and innovation. Canon is an example. Canon continues to manufacture cameras in Japan. It replaced its long conveyor belt assembly system with a cell system, where small teams of workers work in cells to assemble a product from start to finish. This is more efficient, because it allows for flexibility in production and workers can see the production process ahead of them. With the cell system, a worker can assemble a digital camera much more quickly.

2.24 We too must upgrade our manufacturing sector. We have made good progress. For example, Seagate, the world's largest hard disk drive company, has vertically integrated its R&D, manufacturing and headquarters functions including intellectual property management in Singapore. Its automated “factory of the future” manufactures various hard disk drives here. Seagate develops and produces its latest generation of 1-inch hard disk drives here. These are used in advanced electronics products such as Creative’s Zen MP3 players.

2.25 Singapore is also home to a strong base of third party contract manufacturers like UMC and Chartered Semiconductor. Presently, tools bought on behalf of their overseas clients but used in Singapore for the manufacturing process attract GST; this is often added to the invoice, making us less cost competitive. To put our contract manufacturers on an equal footing with their counterparts in Taiwan or UK, I will allow the supply of tools used in the manufacture of goods for export to be zero-rated for GST. This change will take effect from 1 April 2006. IRAS will release details later.

<u>Develop a Full-Service Global Financial Centre</u>

2.26 In financial services, we are steadily becoming a full-service global financial centre. *The Banker* magazine has ranked Singapore first as “financial centre of the future”. I will take further measures to promote our wealth management, capital market and treasury activities. I will just highlight the key changes.

2.27 A critical mass of asset managers and advisors is located here, with assets under management fast approaching $1 trillion. To further support growth in the asset and wealth management industries, I will make the following changes:

- First, the Designated Unit Trust scheme will be enhanced to allow other types of funds such as Restricted Authorised Schemes to qualify for the DUT status.

- Second, qualifying domestic trusts and their underlying holding companies will be exempt from tax on their locally-sourced investment income as well as foreign-sourced income, to the extent that it mirrors the tax exemption enjoyed by individuals. Beneficiaries will also enjoy tax exemption on trust distributions made from such income.

- Third, the scope of the Approved Trustee Company scheme and the tax exemption scheme for foreign trusts will be expanded to include a wider range of settlors and beneficiaries of the trusts.

- Lastly, I will introduce a new tax incentive scheme which exempts from tax resident funds with foreign investors.

2.28 To encourage the development of our capital market and treasury activities, I will make the following tax changes:

- I will grant tax exemption on foreign-sourced interest and trust distributions received by REITs listed on SGX (known as S-REITS). For S-REITs and their special purpose companies (SPCs) set up to hold overseas non-residential properties, I will also allow recovery of GST incurred on the setting up of SPCs and the acquisition and holding of overseas non-residential properties by SPCs.

- I will expand the Qualifying Debt Securities ("QDS") scheme to cover discount debt securities with tenure of more than one year.

- I will expand the scope of activities qualifying for the Finance and Treasury Centre incentive to include trading and arranging of derivative products, subject to counter-party restrictions.

- I will introduce a 5% concessionary tax rate on clearing income for qualifying clearing members of a Singapore Over-The-Counter (OTC) derivatives clearing facility for five years. This will reinforce our position as a major oil-trading, ship-broking and financial hub.

2.29 To further promote Islamic Financing activities, I will harmonise the tax treatment of four Shariah-compliant financial products with the conventional products to ensure a level playing field with respect to tax.

2.30 To support the growth of the captive insurance industry, which contributes to Singapore's position as an insurance hub, I will grant income tax exemption for approved captive insurance companies, for a period of 10 years.

2.31 A brief description of all the tax changes for the financial sector can be found in Annex A. MAS will release the details shortly.

Grow Dynamic Maritime and Logistics Industries

2.32 In the maritime and logistics industries, our business infrastructure and connectivity are key strengths. We must attract more international ship-owning and ship-operating companies to set up operations in Singapore. This must be supported by a comprehensive range of services which covers the entire maritime and logistics value chain, including financing. To support growth in these areas, I am introducing four changes in this Budget. Details can be found in Annex B.

2.33 First, to encourage the development of ship financing activities in Singapore, I will introduce a Maritime Finance Incentive to grant tax exemption for qualifying income of ship investment vehicles and a 10% concessionary tax rate for qualifying income of ship investment managers.

2.34 Second, to entrench shipping companies in Singapore, I will enhance the Approved International Shipping incentive by allowing companies to renew their incentives for a third period of 10 years, lengthening the maximum period of incentive from 20 years to 30 years.

2.35 Third, to lower the compliance cost for traders enjoying the 10% concessionary tax rate under the Global Trader Programme, I will remove the need for companies to show that the derivative trades are incidental to the physical trades before such income can be treated as qualifying income.

2.36 And finally, I will allow automatic GST suspension for goods removed from Zero-GST warehouses by all those who qualify under the Major Exporter Scheme and Approved Third Party Logistics Company Scheme. This will give them greater flexibility to conduct their business via logistics and warehousing companies.

Build Up New Services

2.37 Beyond our traditional services industries like finance and logistics, we will continue to grow new services industries like education, healthcare, and the creative industries. Our efforts are showing results. In education, we have brought in 16 leading international universities including INSEAD, Duke University, MIT and University of Chicago Graduate School of Business. We have also attracted the first private foreign comprehensive university, the University of New South Wales, which is expected to reach an enrolment of 15,000 students in 15 to 20 years' time.

2.38 In healthcare, foreign patient numbers are growing rapidly – on average 20% per year. In 2005, about 374,000 foreign patients sought medical treatment in Singapore. They come not only from Indonesia and Malaysia, our traditional markets, but increasingly from the rest of Asia, particularly the Middle East. They seek treatment both at private and public sector institutions, attracted by our high medical standards, and reputation for quality and reliability.

2.39 In the creative industries, Singapore is attracting international design companies such as BMW Designworks, digital media firms and media funds. Singapore talents and enterprises are also making their mark abroad. Eric Khoo's film "Be With Me" has won critical acclaim at numerous prestigious international Film Festivals. Singapore's first 3D animated film, "Zodiac, the Race Begins" has been sold to 22 countries after it was showcased at Cannes. To encourage creative talents, I have decided to include industrial design, interactive and digital media as new fields qualifying for the existing tax concessions that exempt 90% of the royalties earned by these creative individuals.

Support Entrepreneurship and Enterprise

2.40 The third area of focus is to support entrepreneurship, help local enterprises grow into global players and ease regulatory restrictions so as to promote enterprise.

2.41 Our efforts to encourage entrepreneurship are seeing some results. According to the 2005 Global Entrepreneurship Monitor report, Total Entrepreneurial Activity (TEA)[1] in Singapore increased from 5% in 2004 to 7% in 2005, still modest but encouraging. More budding entrepreneurs – be it from the ITEs, polytechnics or universities – are taking the plunge to start their own businesses.

2.42 For example, ten years ago Crestar Education Group first ventured into China and set up a nursery school for the expatriate community in Suzhou, where Singapore was helping to build an industrial park. Today, Crestar has 19 kindergarten centres throughout China, including Shanghai, Beijing, Shenzhen, Changzhou and Dalian.

Support Local Enterprises Going Global

2.43 Local enterprises aspiring to become international players can tap on a range of assistance to realize their potential for growth and internationalization. One measure to help SMEs is EnterpriseOne, a multi-agency initiative which will be launched later this month. The EnterpriseOne Portal is the primary channel to provide business information and government e-services. The portal is supported by a hotline and Enterprise Development Centres (EDCs) such as the Association of Small and Medium Enterprises (ASME), offering business advisory services. Customised initiatives such as the Local Enterprise and Association Development (LEAD) programme, will encourage industry associations to take the lead in developing enterprise competitiveness in their respective industries. MTI will elaborate on these schemes in the Committee of Supply.

Reduce the Regulatory Burden on Local Enterprises

2.44 One way to help entrepreneurs and businesses is to reduce the weight of regulation. Regulations raise invisible but damaging costs. Many laws require individuals, businesses and other private entities to retain records for substantial periods. For example, the Companies Act and the Income Tax Act require records to be kept for seven years. I regularly hear requests to shorten these record-keeping requirements, as businesses find them burdensome and costly.

[1] Total Entrepreneurial Activity is the sum of those individuals who are involved in the start-up process and those individuals who are active as owner-managers of firms less than 42 months old.

2.45 We have valid reasons to require records to be kept for a sufficiently long period. They may be useful as evidence in civil and criminal cases. Sometimes, international treaties oblige us to require the retention of documents for certain periods. Nevertheless, we should seek to lighten the burden on businesses wherever possible.

2.46 An inter-ministry team has reviewed the record-keeping requirements prescribed in our many pieces of legislation. I have decided to reduce the record-keeping period in 17 statutes, generally to five years. The details can be found in Annex C.

Grow our Human Capital

2.47 To become a knowledge hub and a centre for enterprise, we must continue to attract global talent. Management guru Peter Drucker has called knowledge workers "the single biggest factor for competitive advantage in the next 25 years."[2] Google, one of the most innovative firms in the world, takes Drucker's words to heart. To generate a continuous stream of new ideas, it systematically looks for the most talented programmers and computer scientists in the world, knowing that smart businesses must – to use Drucker's words - "strip away everything that gets in their knowledge workers' way".

2.48 Singapore must be a place where global talent with diverse backgrounds and cultures want to live, work and play. George Lucas set up Lucasfilms' first and only studio outside US in Singapore partly because of our cosmopolitan appeal. When the studio opened in October last year, its first batch of 35 animators came from 19 nations, including Panama and Ecuador. We will continue to develop new attractions such as the Integrated Resorts and the Singapore Flyer, to make ours an interesting, lively and fun "City-in-a-Garden".

2.49 Besides attracting talent, we are also investing in our own people. We are providing our students with opportunities, from the primary up to tertiary level. Our schools are striving to develop critical thinking skills and creativity in our students. We are reshaping the education landscape to allow greater diversity and bring out the best in every young Singaporean. We are opening up more curriculum options for them, including new 'O' and 'A' levels subjects, and Elective Modules for those in the Normal courses. A new school for the Arts is being set up, adding to our specialised schools in sports, and science and mathematics. Our students have more choices than ever before.

2.50 A sizeable number of our students go to the polytechnics, including many who have done well enough to qualify for places in the junior colleges. Our secondary schools will do more to cater to students who can benefit from some exposure to applied education while still in secondary schools. Some schools will

[2] *Google: Ten Golden Rules*, Newsweek, 2 Dec 2005

partner our polytechnics to introduce new applied subjects such as electronics and digital media as electives. We will also allow students to be directly admitted into polytechnics based on their talents and abilities, just as we have allowed direct admission into junior colleges and secondary schools.

2.51 We are also investing more in our universities. The Government aims to have 25% of each primary one cohort enrolled in publicly-funded universities by 2010, up from the 21% in 2002. To fund the additional places and invest in new physical infrastructure, MOE will allocate an additional $2 billion to the university sector over the next five years, or an average of $400 million each year. By then, Government investment in our three publicly-funded universities is expected to reach $1.9 billion annually, or 1% of GDP.

Maintain a Competitive Tax Environment

2.52 Finally, we must continue to keep our taxes low, to keep our business environment competitive, and spur enterprise and entrepreneurship. *Singapore cannot have a high tax, high spending model*. The Scandinavian countries do this, but in quite different circumstances. We are much more reliant than they are on foreign investments and talent. We must compete for these against many other countries, in the region and beyond. Our own people and businesses are also more mobile, and can easily move out of Singapore in search of lower taxes elsewhere. Our policy choices are therefore much more tightly constrained.

2.53 Our strategy therefore is to pursue low taxes and tight expenditures. A light, predictable, and efficient tax regime will promote growth, which in turn will boost revenues and ensure sufficient resources for our needs. After the major tax restructuring in the last five years, our main taxes are at about the right levels, although this does not mean that we will never need to adjust our taxes or increase spending. I will touch on each of our main taxes in turn.

Personal Taxes

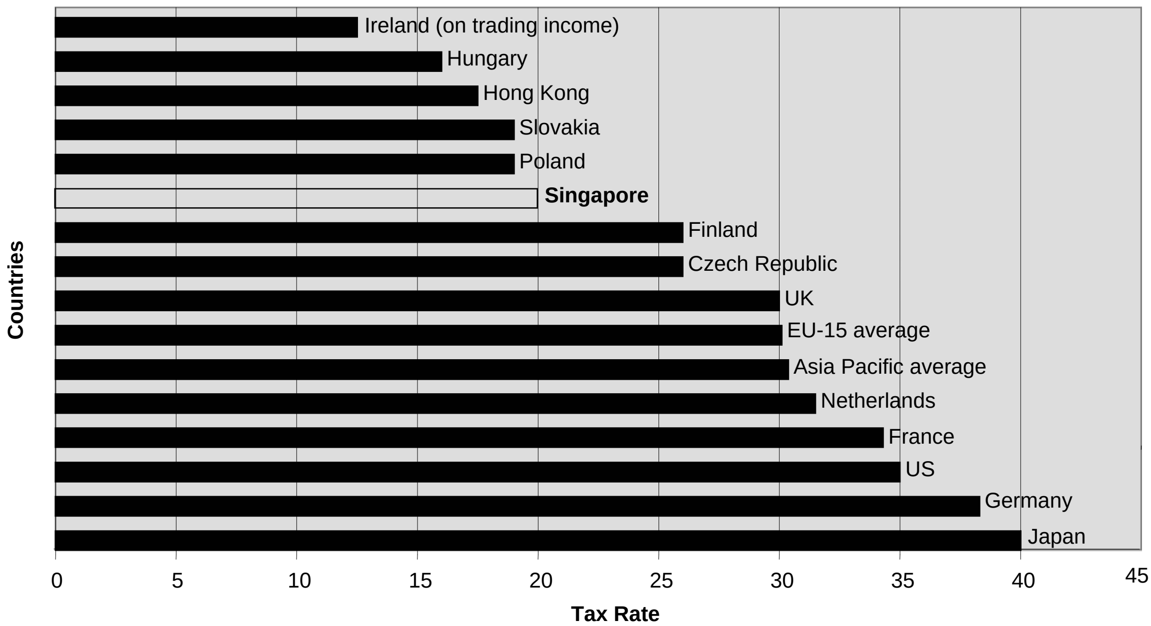
2.54 Our personal income tax rates are already lower than those in most other countries. The top rate is 21%, reducing to 20% from Year of Assessment 2007. As announced in my Budget Statement last year, the marginal tax rates for the other income brackets will also be reduced, so that all taxpayers will benefit.

2.55 Besides lowering the rates, we have made significant changes in our personal income tax system to attract talent. In Budget 2002, I accepted the Economic Review Committee’s recommendation to create a new class of taxpayers called the “Not-Ordinarily Resident” taxpayers. The response has been encouraging. Over 2002 and 2003, there were 2,800 successful applicants for NOR status. We will review the scheme periodically to ensure that it remains effective.

Corporate Taxes

2.56 We have also reduced our corporate tax rate significantly. Corporate taxes are coming down in many countries, particularly in Europe. Ireland has adopted a two-tier tax rate system: 12.5% for trading income, and 25% for non-trading income. Many Central and Eastern European economies, hungry for foreign investments, have flat taxes which are around 20%. Some are even lower – Slovakia and Poland have cut their rates to 19%, and Hungary has reduced its rate to 16%.

Chart 1. Corporate Income Tax Rates (2005)



2.57 Our *headline* corporate tax rate at 20% is one of the lowest in the region, coupled with what is effectively only a 5% rate for the first $10,000 of chargeable income, and 10% for the next $90,000, as well as zero tax for start-ups for the first three years of incorporation. Even more importantly, our *effective* corporate tax rate is highly competitive. Recently, a Canadian think-tank, the C.D. Howe Institute, carried out a cross-country study of the effective tax rate, i.e. the tax payable as a percentage of the pre-tax return on capital. Of the 36 countries surveyed, Singapore had the lowest effective tax rate, even below Ireland and Hong Kong. Our effective tax rates for the manufacturing and services sectors are 5.8% and 6.6% respectively. For now, therefore, I see no need to reduce the corporate tax rate further.

2.58 Tax rates form just one part of a competitive tax infrastructure. Our wide network of Agreements for the Avoidance of Double Taxation (DTAs) also gives companies based in Singapore a strong advantage. We currently have 50 tax treaties, covering almost all our major economic partners. Last year, we secured favourable capital gains tax provisions from India under the Singapore-India DTA. Together with the Comprehensive Economic Cooperation Agreement (CECA) with India, this makes Singapore a very attractive springboard for investments into India. We are currently in negotiations with several other countries, including China, and will keep up efforts to expand and update our present network of tax treaties.

2.59 In Budget 2003, I introduced the foreign-sourced income tax exemption (or FSIE) regime to facilitate repatriation of income and investments into Singapore. Some companies which engaged in substantial economic activities overseas have found themselves unable to meet the qualifying rules for this tax exemption. To encourage companies to remit their foreign income, I will grant tax exemption on foreign income that is disqualified from the FSIE regime, if they are remitted under specific scenarios or circumstances. IRAS will be releasing details.

2.60 To facilitate share-based compensation schemes, I will grant deductions to employee stock options granted through treasury shares. As we move to a more flexible wage system, companies are increasingly linking employee remuneration to the performance of the company by granting stock options or direct share awards. In some cases, companies may incur costs to buy back their own shares which are then held as "treasury shares" before being used to fulfil the stock option or share award obligations. Since share-based compensation also forms a part of staff costs, I have decided to grant a tax deduction to companies that have incurred actual outlay for the employee stock options and other share-based compensations. This will take effect from Year of Assessment 2007.

2.61 To encourage more MNCs to locate their holding functions in Singapore, I have decided with immediate effect to exempt from tax any gains by approved holding companies on the disposal of shares in subsidiaries, if they own at least 50% of the shares for a period of not less than 18 months. Further details can be sought from the EDB who will administer this scheme.

2.62 We will also continue to provide more clarity and certainty in our tax rules. We have introduced an Advanced Ruling system with effect from 1 January this year, which allows taxpayers to seek binding rulings from IRAS.

2.63 We will provide businesses with more guidance on transfer pricing issues. Tax authorities around the world are stepping up efforts to combat companies' efforts to shift profits through transfer pricing. As more of our companies expand overseas, they must be aware of these transfer pricing risks. To help them, IRAS will provide guidance on applying the arms-length principle, and assistance in resolving disputes with foreign tax authorities on transfer pricing issues. More details will be released by IRAS next week.

2.64 We will also rationalise the administrative conditions for businesses to claim Industrial Building Allowances (IBA). Details of these changes, to be implemented for buildings purchased on or after 1 January 2006 are summarised in Annex D.

2.65 To make our business environment more flexible, we introduced the Limited Liability Partnership (or LLP) business structure. To date, more than 1,000 LLPs have been formed. We have received suggestions to extend to these partnerships the incentive schemes that are currently available to companies. As a principle, we award tax incentives based on whether the business brings in new activities or creates new value for Singapore, regardless of its business structure. Hence I am prepared to allow tax incentives to be awarded also to partnerships. We will start on a scheme by scheme basis, and consider broader-based implementation after further study. This will help attract new investors and grow the financial and other industries.

2.66 To capture the true value-added of insurance services and reduce the business costs of general insurers, I am allowing them GST claims in two circumstances. First, insurers will be able to claim GST based on the tax fraction of the cash indemnities paid to non-GST registered policyholders under contracts that are subject to GST. Second, insurers will be allowed to claim GST on expenses incurred on their policyholders' passenger cars, for example, repairs. These changes will be effective from 1 January 2007 onwards.

Goods and Services Tax

2.67 The GST is an important and stable source of revenue. At 5%, our GST rate is among the lowest in the world. Because we have minimal exemptions, we have kept the overall rate low and spread the tax burden widely and fairly among the different goods and services consumed in Singapore. The result is low compliance costs, minimal economic distortions, and sustained revenues.

2.68 Some have suggested lowering GST rates on particular classes of goods or services, such as food. The purpose is ostensibly to help the poor, but this is not an effective way to do so. Most of the revenue lost from such concessions goes to higher income households, who spend much more on most items than poorer households, including necessities like food. A better approach to help the poor is through focussed programmes targeted at them, such as rebates on Service & Conservancy Charges (S&CC), rentals, or utility charges. This indeed is the Government’s approach.

Assets Taxes

2.69 Our two major assets taxes are property tax and estate duty. For *property tax*, I have decided to remove the property tax surcharge. This was introduced in 1974 to discourage foreigners from owning landed properties. It is no longer needed as we now regulate property ownership by foreigners through the Residential Property Act and most of these landed properties have been divested. This change will take effect on 1 July 2006.

2.70 There has been a lively debate on *estate duty*, with Singaporeans speaking up on both sides of the issue. One recent letter to the Straits Times Forum set out cogently the rationale for the estate duty. I quote: “Many feel that estate duty is, in fact, the most moral of taxes. The individual himself is not affected by the tax, by definition – he is dead when it is levied. Thus its impact during the wealth-development phase of an individual’s life is less distorting than other forms of taxation. The development of wealthy dynastic elites carries with it the risk that meritocracy will degenerate into oligarchy as the elites define and control the measures of merit.”

2.71 Indeed, this is the reason why we have retained estate duty all these years. We want every citizen to succeed in life because he has worked for it, and not because he has inherited wealth. An intergenerational tax levied upon those who inherit wealth helps to re-balance opportunities with each passing generation.

2.72 Against these merits, we must weigh the shortcomings of our estate duty system, which critics have highlighted. The exemption limit of $9 million for residential properties is much higher than the $600,000 limit for all other assets. This biases investment choices and results in very narrow coverage, with only the top 3% of estates paying estate duty. The collection is modest – on average about $70 million per year, though no Finance Minister will sniff at this sum. More fundamentally, even if we fix these specific weaknesses, we cannot stop people from avoiding estate duty through creative estate planning. And Singaporeans probably know a lot more about estate planning after the Straits Times published an article on “6 best ways to avoid death tax”!

2.73 Several jurisdictions have abolished estate duty in recent years, including Australia, Malaysia, New Zealand and Hong Kong. In Singapore, any change must preserve our tax revenue and maintain the principle of taxing wealth. The Ministry of Finance is studying the matter carefully, in the context of our overall regime of assets taxes. We should reach a conclusion by the next Budget.

<u>Other Taxes</u>

Additional Registration Fee (ARF)

2.74 Let me briefly touch on some of the other major taxes. First, there will be no further reduction in ARF in this Budget. We have significantly lowered the upfront cost of owning cars. Today, a medium-sized car costs about half of what it did eight years ago. Congestion is under control, with the help of the ERP system. We will continue to monitor the situation, but for now there is no need to reduce ARF further.

Tobacco and liquor duties

2.75 I seriously considered raising *tobacco duties*, but have reluctantly decided against it because we are already seeing revenues declining, not because people are smoking less but because smuggling has gone up. On *liquor duties*, there will be no changes for now because we have largely rationalised them.

Slot machine taxes

2.76 There will be no changes to our *gambling taxes*. But I will change the basis of *slot machine taxes.* Hitherto, slot machines have been taxed at 30% of deemed turnover. This turnover is estimated based on the amount of coins in the cash box. So we restrict machines to paying a maximum of 200 coins per win, in order that there will be more coins in the cashbox and therefore more taxes to collect! These rules were put in place in the 1950s but slot machine technology has clearly moved on since then, as has the theory of taxation. I will therefore change the basis of taxation to 12% of actual turnover (which is equivalent to 30% of deemed turnover), and remove the 200 coin payout limit.

Fiscal Sustainability

2.77 Up till 2001, we enjoyed regular budget surpluses due to strong and stable economic growth, buoyant revenues, and favourable demographics. The environment has changed. Economic growth has become tougher and more volatile, we have lowered our tax rates substantially, and new spending priorities have emerged. Our operating revenues alone are no longer able to meet total expenditures. But with Net Investment Income Contribution, we are able to balance the budget over the business cycle.

2.78 Our major taxes are at about the right levels. Going forward, I do not foresee major changes on the revenue front. However, new spending needs, in the areas of healthcare, education and training, and R&D, will put pressure on our public finances. We must therefore continue to keep government lean, so that we can fund new spending priorities. I will highlight two measures we are taking in this area.

2.79 First, the Centre for Shared Services (CSS) will be up and running by May 2006, to deliver selected human resources and finance processing activities to government agencies. It will help us achieve greater efficiency through economies of scale and streamlining of procedures. I expect annual cost savings of 15% in operating expenditure on these services when operations have stabilised.

2.80 Second, we will continue to exercise tight control on headcounts in the public sector, and ensure that every post is fully justified. Since the introduction of the Manpower Management Framework (MMF) in July 2004, we have achieved an overall 2.9% reduction in headcount, mainly through re-organising existing functions, with some help from natural attrition. I have decided to continue with the MMF cuts until FY06, followed by a headcount freeze for three years. But we will continue to make exceptions for new functions so that agencies can meet emerging needs.

[RECESS]

PART III – HELPING SINGAPOREANS MOVE FORWARD TOGETHER

3.1 Mr Speaker, Sir, this Government's approach has consistently been to grow the economy and ensure that all citizens enjoy the fruits of growth. As Singapore prospered, incomes went up across the board. At the same time, the Government has heavily subsidised public housing, education and basic healthcare, to ensure that even the poorest citizens get a fair start in life, and a stake in Singapore's success.

3.2 Our Home Ownership Scheme has made Singapore a home-owning society. Even the lowest 20% of the population have substantial home equity – an average of $138,000 per household. This is no small achievement, unimaginable in any other country. Our schools and post-secondary institutions provide high quality education to all. Every student has the opportunity to do well and rise to the top, regardless of family background, and many have done so. Our healthcare system delivers good and affordable medical care to rich and poor alike.

3.3 Moving ahead, we will need to augment this broad-based approach with a more targeted one. We can be confident that our economy will do well, and that incomes of skilled and knowledge workers will continue to rise. But the incomes of unskilled workers will be under pressure. Globalisation is stretching out our income distribution. This is happening in countries all over the world, as hundreds of millions of workers from India and China enter the global workforce. It is happening even in India and China, between the cities and villages and within the cities themselves.

3.4 We can either slow down our upgrading and restructuring by erecting barriers to protect our companies and workers, or we can press on with restructuring. Slowing down is not a solution, as the economy will stagnate and incomes will fall across the board, worsening our problems. Instead we must continue restructuring, adapting to the global economy and taking full advantage of market forces to grow our own economy and generate the resources to help those affected by globalisation. But our measures to help this group must be targeted, sustainable, and supportive of our work ethic.

3.5 Let me elaborate. First, we will focus our assistance more closely on the lower-income groups, so as to make a difference to those whose needs are greatest. When there are surpluses to share, we will also give more to these groups. We have already been doing this with schemes such as the Service & Conservancy

Charge (S&CC) rebates, rental rebates, and Utilities-Save rebates. But we will do more, in a more systematic way.

3.6 Second, we will design assistance measures to encourage recipients to work and get ahead through their own efforts, rather than free-ride on state support. We must avoid the pitfalls of Western-style state welfare. It is expensive, wasteful, and ultimately unsustainable. But more damagingly, it creates a mindset of entitlement and dependency, erodes the work ethic, and saps economic vitality.

3.7 Third, as we introduce new schemes, we must experiment, adapt and feel our way forward. Whatever scheme we introduce, over time people will adapt their behaviour to gain maximum advantage from it, leading to unforeseen and unintended consequences. We have seen this happen even when the amounts involved are quite modest, such as with the Economic Downturn Relief Scheme a few years ago. So, we should avoid creating permanent schemes unless we are very confident of how they will work. Instead, we should experiment with new schemes, see how they work out, and adjust and improve as we gain experience.

3.8 Fourth, we must always maintain fiscal discipline. We must ensure we have the resources to fund the schemes we introduce, and not make reckless commitments without considering how to pay for them. This prudence is what has distinguished Singapore from many other countries which spent on social programmes beyond their means, resulting in heavy debt burdens, high inflation, and loss of confidence in the currency and in the government's economic management. We must never allow this to happen here.

3.9 Finally, we need to involve the community and grassroots network in this social effort. They know the ground well and can assess where the needs are greatest. The schemes launched under ComCare are a good example of how community leaders can help us to target and deliver assistance for the needy. ComCare supports a wide range of schemes and projects carried out by grassroots organisations and voluntary welfare organisations (VWOs), and in the year since it was launched, has helped thousands of needy households. As ComCare activities are growing, I have decided to top up the ComCare Fund by another $100 million, increasing the capital sum of the Fund from $500 million to $600 million.

3.10 Consistent with this framework, we have set up many panels and committees to brainstorm ideas on how to provide greater help to the needy and vulnerable. These include the Ministerial Committee on Low Wage Workers, the Tripartite Committee on Employability of Older Workers and the Committee on Ageing Issues, which have all published their reports. The Government accepts their recommendations and will work with all partners and stakeholders to implement them.

3.11 The most major recommendations were from the Ministerial Committee on Low Wage Workers, chaired by Minister Ng Eng Hen, which proposed a comprehensive plan to help this group of workers, comprising six pillars. The overarching principle guiding the Committee's approach is Workfare rather than Welfare. The best way to help people is to help them to find work, so that they can take care of themselves and their families. The Government fully endorses this principle. Let me now outline the Government's response to each of the six pillars.

Expand Job Opportunities

3.12 Our first priority is to expand job opportunities, so that low wage workers can find better and higher-paying jobs which they are able to do.

Job Re-creation Programme

3.13 We will step up the Job Re-creation Programme (JRP) to cover more sectors and more workers. NTUC and WDA have already made good progress in re-designing jobs and creating viable career progression paths for low wage workers. We have seen good results in sectors like landscaping, security, cleaning, healthcare, education, shipbuilding, public transport, and retail. Last year, 7,200 jobs were targeted for job re-creation, and 4,600 job seekers were matched to these re-created jobs.

3.14 WDA and NTUC will ramp up the JRP. They target to re-create 10,000 jobs a year. To support these efforts, the Government will allocate $40 million over three years.

ADVANTAGE!

3.15 We will give extra help to older workers who find it harder to learn new skills and find jobs, through the ADVANTAGE! scheme. This was a recommendation of the Tripartite Committee, but it complements the proposals of the Low Wage Workers Committee. The ADVANTAGE! scheme will help employers adopt practices which will maximise the strengths of older workers. These include adopting employment practices that do not discriminate by age, moving away from seniority-based wage structures, and re-employing retiring workers. WDA will set aside $30 million over two years for this scheme.

Higher Skills for Better Jobs

3.16 Our second strategy is to equip low-wage workers with the necessary skills to take on better and higher-paying jobs.

Workforce Skills Qualifications System

3.17 The Workforce Skills Qualifications (WSQ) system, developed by WDA, will provide training and skills progression pathways for workers, enabling them to progress from a certificate, to an advanced certificate, to a professional diploma, and maybe even graduate certificates or diplomas. WDA will allocate $100 million over three years to develop the WSQ system for the major industry sectors. The system will include setting up institutions that deliver high quality adult worker training. The first such institution, the Singapore Institute of Retail Studies, has been jointly set up by WDA and Nanyang Polytechnic.

3.18 We will invest another $30 million over three years as part of WSQ to help 45,000 low wage workers improve generic skills such as problem-solving and communication, as well as English, numeracy and IT literacy, to make them more employable. We will also provide an additional $4 million every year to make training more accessible to SMEs and workers involved in contract or sub-contract employment arrangements.

Top-up to Lifelong Learning Fund

3.19 To ensure adequate support for our workers to re-train and re-skill themselves, I have also decided to top up the Lifelong Learning Fund by $100 million to $2.1 billion.

Social Support to Enable Work

3.20 Our third strategy is to provide more social support for low-income families so that the parents can go out to work. This will help the family become more self-sufficient, and impart to the children the right social values on the importance of work.

Work Support

3.21 MCYS will put in place a new Work Support programme, which will include assistance such as higher childcare and student care subsidies. Further details will be announced at the Committee of Supply.

Creating Hope for the Future

3.22 Our fourth strategy is to create hope for the future, to ensure that the children do better than their parents, and can help lift their parents out of poverty instead of inheriting their problems. We will invest more in the education of children from low-income families, to help them become school-ready and work-ready.

Raise Income Thresholds for Financial Assistance Scheme

3.23 First, we will ensure that education remains affordable for all, even the poorest. Currently, about 15,000 students benefit from our Financial Assistance Scheme. Their school fees and 50% of their standard miscellaneous fees are waived. They also receive free textbooks at the primary and secondary level and a bursary at the Junior College/Centralised Institute level. We will raise the household income thresholds for this scheme, and also enhance the benefits it offers.

More Support for Kindergarten and Childcare

3.24 Next, we will provide more support for kindergarten and childcare, to help children from needy families to become “school-ready”. The Kindergarten Financial Assistance Scheme will help with the start-up cost of sending their child to kindergarten. We will also enhance childcare subsidies for the first and second child under the Centre-based Financial Assistance for Childcare scheme.

Raise Income Threshold for Edusave Merit Bursary

3.25 The Edusave Merit Bursary is targeted at students from lower middle-income families who have performed in the top 25% of their level and stream. Since 1995, we have maintained the household income threshold at $3,000. I have decided to increase the income threshold to $4,000 so that an additional 17,000 students can benefit from the bursary.

Invest in Vocational Training

3.26 To help our youth acquire employable skills, we will invest more in vocational training. As a start, MOE and ITE will enhance and upgrade the programme at the Vocational Training Centre to customise it to students’ learning styles, and help equip them with relevant skills for life-long learning. More details will be announced at the Committee of Supply.

Expand HOPE

3.27 The Home Ownership Plus Education (HOPE) scheme encourages young, low-income families to limit themselves to at most two children, so as to give these children the best chance of success. Presently, HOPE is only open to couples if both have no more than two ‘O’ level passes. We will relax this to include parents without post-secondary qualifications, and also slightly older couples who despite having post-secondary education, still earn low incomes after working for some years. However, we will maintain the rule that the couple must have no more than two children to be eligible for HOPE.

Rewarding Work

3.28 Our fifth strategy is to reward work, so that everyone is encouraged to continue working, rather than rely on state welfare. Some of our assistance to low-income earners should therefore depend on their efforts to work. The Low Wage Workers Committee has recommended a Workfare Bonus for older and lower-income workers. I will elaborate on such a scheme later.

Additional CPF Housing Grant

3.29 Through the Government's home ownership scheme, we have helped many Singaporeans to become homeowners, and to have a valuable asset which can help see them through their retirement. Currently, all families who buy similar flats enjoy the same subsidy, regardless of whether they are well off or poor. But other things being equal, lower-income families buying a flat should receive bigger subsidies. We will do so in two ways – by giving them an additional CPF Housing Grant, and providing them with more affordable housing options.

3.30 The additional housing grant will be paid into the CPF Ordinary Accounts of HDB flat buyers. The grant will be on top of existing housing subsidies. In line with the *Workfare* principle, at least one of the flat buyers must have been working for two years prior to the flat purchase to qualify for the grant. First-timer citizen households with monthly incomes of up to $3,000 will be eligible, whether they are buying new or resale HDB flats. The grant ranges from $5,000 to $20,000. Households with a monthly income of up to $1,500 will receive the maximum grant of $20,000. We will extend the grant to households earning between $1,500 and $3,000, but at a lower quantum. This will cover 40% of first-time buyers, or an estimated 6,000 households annually.

3.31 $20,000 is a substantial sum. It is 20% of the selling price of a 3-room flat, purchased from HDB. It will be an even larger fraction of the price of a 2-room flat, which the Low Wage Workers Committee has recommended that HDB build for sale. The additional CPF Housing Grant will cost the Government $75 million a year.

Table 1.
Additional CPF Housing Grant for First-Timer Lower-Income Households

Monthly household income	Grant
Not exceeding $1,500	$20,000
$1,501 – 2,000	$15,000
$2,001 - 2,500	$10,000
$2,501 – 3,000	$5,000

Affordable Housing Options

3.32 Our objective is to enable 90% of households to own their own homes. While most Singaporeans can afford at least a 3-room flat, a small group earning around $1,000 per month have difficulties doing so, and therefore cannot benefit fully from the home ownership subsidies. The 2-room flats to be built for sale will provide more affordable housing options for this group of low-wage workers. MND will release more details during the Committee of Supply.

Sharing in the Nation's Progress

3.33 Finally, the Low Wage Workers Committee has recommended that we give more to lower-income Singaporeans when we share the fruits of the nation's progress because they face greater challenges coping with the rising cost of living and will appreciate special help during periods of economic downturn. The Government accepts the recommendation and I will now elaborate on what I will do in this Budget.

PART IV – A *PROGRESS* PACKAGE

4.1 Mr Speaker, Sir. We want to make Singapore the best home for all Singaporeans. This is a home where everyone has a place and a purpose, where opportunities abound, and where growth and prosperity is for all to share.

4.2 The Government has made a practice of periodically sharing its budget surpluses with Singaporeans. In 2001, we distributed New Singapore Shares (NSS) to every citizen. In 2003, we gave Economic Restructuring Shares (ERS) to offset the increase in the Goods and Services Tax (GST). And in difficult times, we have cushioned the impact on lower-income Singaporeans through rebates and assistance measures. We have also made many CPF top-ups to help older

Singaporeans meet their retirement and healthcare needs. Taking all these measures together, the Government has shared nearly $8 billion of surpluses with Singaporean individuals and households in the past five years (FY01-FY05). We will continue to share surpluses in an equitable way so that all citizens benefit from the nation's progress.

4.3 After the last general election in 2001, we ran budget deficits for several years. We now have a modest budget surplus in FY2005 and project another surplus (before Special Transfers) for FY2006. We also have some capital receipts from our Statutory Boards, as well as investment income from the transition year of 2001, a portion of which accrued to the current government when it took office. Thus we have managed to accumulate some reserves over this term of Government. In view of the good economic performance last year and the positive outlook, I have decided to share part of these surpluses with Singaporeans this year.

4.4 I will call this surplus sharing initiative the *Progress Package* (**Pr**oviding **O**pportunities through **G**rowth, **Re**making **S**ingapore for **S**uccess). This is a package for everyone, but it aims to achieve specific social objectives. It will benefit all Singaporeans, because everyone contributed to our economic restructuring efforts and should now share in the fruits of growth. However, I will weight it more towards the lower-income groups, in line with our philosophy that we should progress together as one people. Low-wage workers will receive more, to reward them for their efforts and encourage them to be self-reliant. I will also give more to older workers and retirees; they are most affected by the dislocation and uncertainty of economic restructuring, and most worried about medical costs and retirement expenses. They have made significant contributions to building today's Singapore; we must not forget their efforts. I will set aside something for education, because children are our hope for the future. And finally, we must also remember the sacrifices of the generations of NSmen who have safeguarded our security over the past 40 years, and enabled us to build a stable and prosperous Singapore.

Share the Fruits of Growth with all Singaporeans

<u>Growth Dividends</u>

4.5 First, I will distribute Growth Dividends to all adult citizens. The Growth Dividends differ from previous surplus sharing schemes like the New Singapore Shares (NSS) and Economic Restructuring Shares (ERS) in two respects. Previously, we gave NSS and ERS in the form of shares, on which Singaporeans could earn dividends over time if they did not encash their shares. Many chose to encash their shares early instead of waiting for the dividends, despite the attractive interest rates. I have therefore decided to distribute the Growth Dividends in the form of cash which can be collected immediately upon allotment.

4.6 Second, those who are less well-off will receive more Growth Dividends. The amount that a person receives will depend on two factors: his income and his wealth.

4.7 His income will be assessed by the Inland Revenue Authority of Singapore (IRAS). We will use what IRAS calls Assessable Income (AI). Those earning not more than $24,000 per year will get more. I have decided on $24,000 as the cut-off as this is roughly the median income for Singaporean workers.

4.8 I will use the Annual Value (AV) of his property, as assessed by IRAS, as a proxy for his wealth. Those living in properties with AV less than or equal to $6,000 will get more. $6,000 will cover all those who live in 1, 2, and 3-room HDB flats and almost everyone who lives in a 4-room HDB flat. At the top end, those living in properties with AV of more than $10,000, which are the larger private properties, will get a smaller amount.

<u>Table 2. Structure of Growth Dividends</u>

<table>
<tr><th></th><th>Annual Value of Home $6,000 or less</th><th>Annual Value of Home more than $6,000 and up to $10,000</th><th>Annual Value of Home more than $10,000</th></tr>
<tr><td>Annual Assessable Income $24,000 or less</td><td>$800</td><td>$600</td><td rowspan="2">$200</td></tr>
<tr><td>Annual Assessable Income more than $24,000</td><td>$600</td><td>$400</td></tr>
</table>

4.9 If your property has an AV of $6,000 or less and you earn $24,000 or less a year, you will qualify for the largest quantum of $800. If you live in a property with AV more than $10,000, you will get $200. From time to time lower-middle income Singaporeans remind me that they too need a helping hand, as they earn only slightly more than the lower-income groups but often just miss out on our social safety nets. I understand their concerns. This is why the highest quantum of $800 will cover 45% of the population, not just the lower-income but also the lower-middle income earners.

4.10 Singaporeans can look forward to receiving their Growth Dividends on 1 May 2006. The Growth Dividends are expected to cost the Government $1.4 billion.

Reward Low-Wage Workers for Work

Workfare Bonus

4.11 Second, I will give a one-off Workfare Bonus to older, lower-income workers.

4.12 As recommended by the Low Wage Workers Committee, the Workfare Bonus will target the lowest 20% of income earners aged 40 and above. But to be fair to those who earn slightly more, the Government has decided to give the Bonus also to those up to the 30th income percentile, or a monthly income of up to $1,500, provided they live in properties with Annual Value (AV) of not more than $10,000. This will cover most older low-wage workers living in HDB flats. Between 300,000 and 400,000 Singaporeans will benefit from the Workfare Bonus.

4.13 The Bonus quantum will depend on an individual's income. The Committee had recommended a one month bonus for those earning up to $900 and half a month bonus for those earning more than $900 up to $1,200. I have decided to be a bit more generous. Nearly all full-time workers earn more than $400. Those earning more than $400 and up to $900 will therefore receive $1,200. Those earning more than $900 to $1,200 will get a bonus of $800, while those earning more than $1,200 to $1,500 will get $400. There may be a few regular workers who earn $400 or less a month. These exceptional cases will receive a bonus of three months of their income. To help workers save for their longer-term healthcare needs, 10% of the Workfare Bonus will be set aside and credited into the Medisave account.

4.14 The Workfare Bonus is a reward for regular and productive work. The Bonus will be split into two portions. Eligible workers who have worked continuously for at least six months in 2005 will receive the first portion of the Bonus on 1 May 2006. If they continue to work for at least six consecutive months in 2006, they will be paid the second portion of the bonus on 1 May 2007. The bonus for each year will depend on their average monthly income for the period they had worked in that year. The Government will set aside $400 million for the Workfare Bonus.

Table 3. Structure of Workfare Bonus

Average Monthly Income	Bonus to be paid on 1st May, 2006 and 2007*
$400 and below	1.5 months salary with minimum bonus of $75
Above $400 to $900	$600
Above $900 to $1,200	$400
Above $1,200 to $1,500	$200

* Bonus to be paid in 2006 for working at least 6 continuous months in 2005 and to be paid in 2007 for working at least 6 continuous months in 2006.

Help Lower-Income Households

Utilities-Save Scheme

4.15 Third, to help lower-income households cope with living expenses, I have decided to extend the Utilities-Save rebates for another year. Households in 1- and 2-room HDB flats will continue to enjoy $200 in rebates in FY2006; 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 cost the Government $60 million.

Rebates for Service & Conservancy Charges and Rent

4.16 HDB households will also continue to benefit from the S&CC and rental rebates that were given out as part of a five-year package in FY02. In FY06 and FY07, households will receive between half a month to four months of S&CC waivers, with more for those living in 1-, 2- and 3-room flats. In addition, those living in 1- and 2-room HDB flats will also enjoy between one to three months of rental waivers.

Help the Elderly meet Retirement and Healthcare needs

Top-ups to Eldercare Fund and Medifund

4.17 To help elderly and low-income Singaporeans cope with their healthcare needs, I will top up the Eldercare Fund and Medifund by $100 million each.

Top-ups to CPF Special / Retirement and Medisave Accounts

4.18 For Singaporeans aged 50 and above, I will top-up their CPF Special or Retirement and Medisave accounts. These top-ups will be tiered by age and Annual Value (AV).

4.19 Those aged 60 and above who live in a property with an AV of $6,000 and below will get the largest top-up of $800. Those aged between 50 and 59 staying in properties with AV above $10,000 will receive the lowest amount of $100. We will divide the top-ups equally between the CPF Special or Retirement Account and the Medisave Account to cater to both retirement and healthcare needs. The top-ups will be made on 1 May 2006. They are expected to cost the Government $500 million.

Table 4.
Top-Ups to CPF Special/Retirement Account and Medisave Account

Age	Annual Value of Home $6,000 or less	Annual Value of Home more than $6,000 and up to $10,000	Annual Value of Home more than $10,000
50-59	$600	$400	$100
60 & above	$800	$600	$200

Invest in the Next Generation

Opportunity Funds

4.20 In last year's Budget, I topped up the Edusave account of every primary and secondary school student by $100, to fund education enrichment activities. Our schools today offer a wide range of enrichment activities, from educational tours to music and sports. It is no wonder that the education industry is thriving! This year, I have put aside $50 million for education as part of the Progress Package. But instead of making equal top-ups into every student's Edusave account, MOE will create Opportunity Funds in every school. The schools can use these Funds to provide more curricular and enrichment opportunities for needy students.

4.21 We will set up Opportunity Funds in all the MOE schools, Junior Colleges/Centralised Institute, ITEs and Special Education (SPED) schools. Neighbourhood schools have many good programmes and offer a quality of education that few other countries can match. They can go further to expand the boundaries of their students' learning, and help all students take advantage of the opportunities they provide regardless of family income. It is how we level up. We will give each school a grant for this purpose, with neighbourhood schools getting double the grant per capita compared to independent and autonomous schools. A typical primary school will receive a grant of $118,000 while a typical neighbourhood secondary school will receive a grant of $150,000.

4.22 MOE will not dictate what exactly the schools should spend the Opportunity Funds on. But schools should seek to provide students with opportunities to learn beyond the classroom and to build firm foundations for learning. For example, schools can provide subsidies to help poor students purchase personal computers to use for project work, or they can subsidise study trips to regional countries, to help broaden students' horizons and make learning come alive.

4.23 The self-help groups, namely CDAC, MENDAKI, SINDA and the Eurasian Association, all play an important part in reaching out to students from lower-income households. I will therefore set aside a total of $2 million for these self-help groups to set up their own Opportunity Funds, on the basis of matching donations from their communities. They can then do more to help children from low-income families.

Recognise the Contributions of our NSmen

4.24 Finally, I want to recognise the many contributions of our national servicemen, and the heavy sacrifices that they have made. They safeguard Singapore's survival and security, which are the pre-conditions for our economic success and growth. In the past, we have recognised their contributions through the recommendations of the RECORD committees. We have also given NSmen more in surplus sharing exercises, such as in CPF top-ups and the allocation of New Singapore Shares and Economic Restructuring Shares. NSmen and their parents and spouses are also eligible for tax reliefs.

<u>40th Anniversary NS Bonus</u>

4.25 The Fourth RECORD committee chaired by Minister Ng Eng Hen has recommended that we give more to NSmen in this year's surplus-sharing exercise. The 40th Anniversary of National Service is approaching. One and a half generations of male Singaporeans have served NS. 400,000 have completed their full time and Operationally Ready National Service (ORNS) training cycle, and handed on their duties to the current batches of NSmen. To show our gratitude to these ex-NSmen and NSmen who have completed their ORNS training cycle, we will give them a 40th Anniversary NS Bonus of $400.

4.26 National servicemen who are still serving, either in the full time or ORNS units, and have not yet completed their ORNS training cycle, will receive a 40th Anniversary NS Bonus of $100.

4.27 The 40th Anniversary NS Bonus will be paid on 1 May 2006. It will cost the Government $200 million.

ORNS Completion Award

4.28 Beyond this one-off package, the RECORD IV committee has also recommended several permanent schemes. First, when NSmen complete their ORNS cycle in future, they will receive an ORNS Completion Award of $300.

Additional Tax Relief for NS Key Command and Staff Appointment Holders

4.29 Second, RECORD IV has recommended doing more for NS key appointment holders. They occupy critical command and staff posts. They bear heavier responsibilities in leading their units, keeping the SAF operationally ready, and transforming the SAF into a third-generation fighting force. They are called up for more In-Camp Trainings (ICTs) and serve longer during each ICT than other NSmen. I have therefore decided to grant NS key appointment holders an additional tax relief of $2,000 over and above the tax relief that they would normally receive as NSmen.

Changes to the assessment period for NSmen tax relief

4.30 Third, to align the recognition given to NSmen with their contributions in the work year, we will change the basis period for NSmen Tax Relief from the preceding calendar year to the preceding work year. This will take effect from Year of Assessment 2007. This will be fairer to NSmen who are called up for NS activities in two work years but within the same calendar year.

How the Progress Package will help typical families

4.31 Let me illustrate how the Progress Package will benefit some typical Singaporean families. An elderly couple in their 60s, retired with no children and living in a 3-room flat, will receive $3,300. A family of four living in a 4-room flat, with two parents in their 50s, the father an ex-national serviceman earning $1,500 a month, the mother a housewife, the son serving National Service and the daughter in secondary school, will receive a total of $3,780. The daughter will also benefit from her school's Opportunity Fund, through subsidised enrichment activities.

4.32 Notification letters will be sent out in late March to all Singaporeans informing them of the total amount that they can expect under the Progress Package. To accept this Package, all they need to do is to sign up through ATMs, the website or hard copy forms. Singaporeans can look forward to receiving their Growth Dividends, Workfare Bonus and 40th Anniversary NS Bonus, and the CPF top-ups on 1 May 2006.

4.33 In total, the Government will share $2.6 billion with Singaporeans under the Progress Package. Every citizen will benefit. This package will help us achieve our social objectives of helping the lower-income groups, looking after the elderly, investing in the young and recognising the efforts of our NSmen.

PART V – CONCLUSION

FY06 Budget Position

5.1 Mr Speaker, Sir. Before factoring in Special Transfers, we expect a surplus of $0.7 billion for FY2006. Taking into account the Progress Package, the top-ups to the endowment funds and our investments in R&D, we are left with a budget deficit of $2.9 billion. The Government is able to finance this from funds accumulated in its current term and will not need to draw on past reserves. More details on our fiscal position can be found in Annex E and the Budget Highlights.

Singapore – Our Best Home

5.2 Mr Speaker, Sir, this Budget aims to build a vibrant economy where opportunities abound, and an inclusive society where no one is left behind.

5.3 The prospects for Singapore are excellent. Asia is on the rise, powered by the booming economies of China and India. Globalisation has made knowledge and networks key sources of competitive advantage. We are well-placed to ride these trends. We have a competitive environment for enterprise. We have a hard working labour force. We have a reputation for trust and credibility. We must build on these strengths, upgrade our economy, and equip our workers with new skills. We must differentiate ourselves from others by competing not just on cost but also on service, quality and innovation. As we become a key node in a global network of people, ideas, and businesses, we will create opportunities that extend beyond the shores of an island of just four million people.

5.4 Growing our economy is only one aspect of making Singapore our best home. We must extend a helping hand to those who face difficulty coping with globalisation and change. We must help low-income households to improve their prospects, and older Singaporeans to live full and active lives. And we must invest in our young, who are the hope for our future. This will strengthen our bonds, and assure every Singaporean of a brighter future, as we create our best home in Singapore.

5.5 Mr Speaker, Sir, I beg to move.

Annex A: Tax Changes to Promote the Financial Sector

To promote and encourage the development of financial products and services, the following tax changes will take effect from today.

Measures to Promote Asset and Wealth Management

	Current Treatment	**New Treatment**
Enhancement of the Designated Unit Trust ("DUT") scheme	The DUT scheme is a special taxation regime for unit trusts introduced in 1995 to foster the development of the domestic retail unit trust industry. Specified income derived by a unit trust with the DUT status do not form part of the statutory income of the unit trust and are therefore not subject to tax at the trust level. An individual is also currently exempted from tax on any distribution[1] made by retail unit trusts.	The DUT scheme will be extended to certain other types of unit trusts, which are targeted at sophisticated and institutional investors. Specified income derived on or after 17 Feb 06 by such unit trusts that are granted the DUT status will not form part of their statutory income. Individuals will also be able to enjoy tax exemption on the distributions (out of specified income derived on or after 17 Feb 06) from unit trusts that are Restricted Authorised Schemes under the Securities and Futures Act.
Tax exemption scheme for qualifying domestic trusts	Currently, certain specified locally-sourced investment income derived and all foreign-	Tax exemption will be granted on locally-sourced investment income derived on or

[1] Unless such income is derived through a partnership in Singapore or is derived from the carrying on of a trade, business or profession.

	Current Treatment	New Treatment
	sourced income ("FSI") received, directly by an individual, are exempt from tax. However, if an individual were to be a beneficiary of a domestic trust (i.e. a trust that does not meet the definition of "foreign trusts[2]" and where there are Singapore citizens or residents as settlors and/or beneficiaries) and the trust derives the locally-sourced investment income or receives FSI, such individuals would be subject to tax on the trust distribution.	after 17 Feb 06 and FSI received on or after 17 Feb 06, by qualifying domestic trusts and their underlying holding companies, to the extent such tax exemption mirrors the tax exemption on the locally-sourced investment income and FSI granted to individuals. Any distribution made by qualifying domestic trusts to their beneficiaries out of such locally-sourced investment income derived on or after 17 Feb 06, and FSI received on or after 17 Feb 06, will also be tax-exempt in the hands of the beneficiaries. To be a qualifying trust, one of the conditions is that the settlors must be all individuals and the beneficiaries must be either individuals or charities.
Enhancement of tax incentives relating to qualifying foreign trusts	There are currently two tax concessions pertaining to qualifying foreign trusts: (a) Concessionary tax rate of 10% on certain income derived by Approved	The following enhancements to the tax concessions relating to the qualifying foreign trusts will take effect on 17 Feb 06:

[2] Foreign trust is defined in the Income Tax (Exemption of Income of Foreign Trusts) Regulations.

	Current Treatment	New Treatment
	Trustee Companies ("ATCs") administering qualifying foreign trusts; and (b) Tax exemption on specified income from designated investments derived by qualifying foreign trusts administered by a trustee company in Singapore. To be a "trustee company" for the purposes of the above tax concessions, the company must be either: (a) A company licensed as a trust company under the Trust Companies Act; or (b) A non-resident company incorporated outside Singapore having a branch in Singapore which provides services as a trustee or custodian. Foreign trusts will only be considered as qualifying foreign trusts for the purposes of the above tax concessions if their settlors and beneficiaries are qualifying individuals and/or qualifying companies.	(a) To expand the scope of persons who can be considered as settlors and beneficiaries of qualifying foreign trusts by including various other forms of foreign entities; (b) To extend the tax exemption scheme for qualifying foreign trusts to those administered by companies which are exempted from the requirement to hold a trust business licence in respect of the carrying on of trust business in Singapore under the Trust Companies Act. Specified income derived on or after 17 Feb 2006 by such foreign trusts will be tax exempt; and (c) To extend the ATC tax incentive scheme to companies which are exempted from the requirement to hold a trust business licence in respect of the carrying on of trust business in Singapore under the Trust Companies Act and which are administering qualifying foreign trusts in Singapore. Specified

	Current Treatment	New Treatment
		income derived on or after 17 Feb 2006 by such companies which are approved as ATCs will be taxed at the concessionary tax rate of 10%.
New tax exemption scheme to encourage fund domiciliation in Singapore	Specified income derived by funds set up in the form of companies will be tax exempt under the tax exemption scheme for foreign investors if, subject to other qualifying conditions, the company is not resident in Singapore.	A new tax incentive will now be introduced to grant tax exemption to qualifying funds set up in the form of companies which are resident in Singapore and substantially owned by foreign investors. Approval will be granted under this incentive during the period from 17 Feb 06 to 16 Feb 11 (both dates inclusive).

Measures to Promote Capital and Treasury Markets

	Current Treatment	New Treatment
Tax measures to develop Singapore as choice listing location for REITs	Singapore-listed REITs that invest in foreign properties: (a) May be granted tax exemption by the Minister for Finance under section 13(12) of the Income Tax Act on foreign-sourced dividends paid out of income/gains related to foreign properties; and (b) Will not be able to recover GST on expenses incurred to structure and set up the various tiers of Special Purpose Companies ("SPCs") to hold overseas non-residential properties. Input tax incurred on acquiring the overseas non-residential properties and operating the SPCs are also not recoverable.	The scope of tax exemption under Section 13(12) of the Income Tax Act, granted to Singapore-listed REITs, will be expanded to include *foreign-sourced interest and distributions by foreign trust*[3] paid out of income/gains related to ownership of foreign properties, subject to the REIT satisfying the qualifying conditions. This change takes effect on 17 Feb 06. Singapore-listed REITs will be able to recover GST on expenses incurred to structure and set up the various tiers of SPCs to hold overseas non-residential properties, subject to the satisfaction of qualifying conditions. GST incurred on acquiring the overseas non-residential properties and the operating of the SPCs is also recoverable, subject to the satisfaction of qualifying conditions. This is effective for GST incurred during the period from 17 Feb 06 to 17 Feb 10 (both dates inclusive).

[3] This refers to a trust that is set up overseas. The trustee of such a trust is not tax resident in Singapore.

	Current Treatment	**New Treatment**
Enhancement of the Qualifying Debt Securities ("QDS") incentive scheme	Discount debt securities with tenure of more than one year currently do not qualify for the QDS incentive scheme and investors of such securities are subject to the following tax treatments: (a) 20% for companies and bodies of persons; (b) 15% or the rate under the tax treaty, whichever is the lower, for non-residents; and (c) Marginal personal income tax rate for resident individuals.	Discount debt securities with tenure of more than one year, which are issued during the period from 17 Feb 06 to 31 December 08 (both dates inclusive), will be included under the QDS scheme. Subject to satisfaction of qualifying conditions, investors of such discount debt securities will be able to enjoy the tax concessions under the QDS scheme. The tax exemption on locally-sourced investment income derived directly by individuals, will also be extended to cover discount from debt securities with tenures of more than one year.
Enhancement of Finance and Treasury Centre ("FTC") incentive scheme	Currently, an approved FTC is granted a concessionary tax rate of 10% on its income derived from the provision of qualifying services to its approved offices and associated companies and from qualifying activities carried out on its own account.	The list of FTC qualifying activities and services will be expanded with effect from 17 Feb 06 to include trading and arranging of derivatives provided that such transactions are carried out with specified counter-parties.

	Current Treatment	**New Treatment**
New tax incentive to promote the use of Over-The-Counter ("OTC") Derivatives Clearing Facility	Income derived from provision of clearing services by a member of any clearing facility is subject to tax at normal corporate tax rate of 20%.	Income derived from the provision of clearing services in Singapore by approved clearing members of a Singapore OTC derivatives clearing facility will be accorded a 5% concessionary tax rate for a period of 5 years. The window period for clearing members to qualify for this concessionary tax rate will be from 17 Feb 06 to 16 Feb 11 (both dates inclusive).

Measures to Promote Islamic Finance Products and Services

	Current Treatment	**New Treatment**
Overall policy approach for Islamic Finance and tax treatment of qualifying financial products based on specified Islamic concepts	With effect from 1 Jan 05, the double or triple imposition of stamp duties incurred in Islamic transactions which involve real estate, namely Murabaha contract and Ijara Wa Igtina contract is removed, and the amount payable from Islamic debt securities is accorded the same concessionary income tax treatment that is currently granted to interest income arising from conventional debt securities, subject to conditions.	**Overall Policy Approach** The overall policy approach is to align the tax treatment of Islamic contracts with the treatment of conventional financing contracts that they are economically equivalent to. To give the industry maximum flexibility for innovation whilst preventing any unintended tax consequences, tax rules are to be prescribed for each specific Islamic finance arrangement. ***Tax Treatment of Qualifying Financial Products based on Specified Islamic Concepts*** **(A) Murabaha Concept** *Income Tax* Any gains or profits accrued and any expenses incurred, in lieu of interest, will be regarded as interest. *GST* For a loan used for the purchase of non-residential property, any mark-up on the

	Current Treatment	New Treatment
		selling price of the non-residential property by the bank to the buyer will be exempt from GST, and the bank will be allowed to claim GST on the purchase of the non-residential property from the vendor in full. **(B) Mudarabah Concept** *Income Tax* Any profit payable to a customer, in lieu of interest, by a qualifying financial institution, will be regarded as interest. **(C) Ijara Wa Igtina Concept** *Income Tax* Any gains or profits accrued and any expenses incurred, in lieu of interest, will be regarded as interest. *GST* For a loan used for the purchase of non-residential property, any mark-up on the selling price of the non-residential property by the bank to the buyer will be exempt from GST, and the bank will be allowed to claim GST on the purchase of the non-residential property from the vendor in full.

	Current Treatment	New Treatment
		(D) Sukuk Concept *Stamp Duty* Stamp duty on instrument(s) related to the transfer of immovable properties that is ***in excess*** of that chargeable in the case of an equivalent conventional bond issue, may be remitted, subject to conditions.

__Measures to Promote Insurance Industry__

	Current Treatment	**New Treatment**
Tax exemption for captive insurance companies	Approved insurance companies, including captive insurance companies approved as such, are granted a concessionary tax rate of 10%[4] on the following income: (a) Income derived from accepting insurance covering offshore risks; and (b) Dividends and interest derived from outside Singapore, the gains or profits realized from the sale of offshore investments, and interest from ACU deposits derived from: (i) The investment of its insurance fund for offshore insurance business; and (ii) The investment of its shareholders' funds used to support the offshore insurance business.	Approved captive insurance companies will be granted tax exemption on the following income for a period of 10 years: (a) Income derived from accepting insurance covering offshore risks; and (b) Dividends and interest derived from outside Singapore, the gains or profits realized from the sale of offshore investments, and interest from ACU deposits derived from: (i) The investment of its insurance fund for offshore insurance business; and (ii) The investment of its shareholders' funds used to support the offshore insurance business.

[4] Where an approved insurance company is an approved marine hull and liability insurer, tax exemption is granted on certain qualifying income.

	Current Treatment	New Treatment
		The window approval period for captive insurance companies to be approved for tax exemption will be from 17 Feb 06 to 16 Feb 11 (both dates inclusive).

Annex B: Tax Changes to Grow Dynamic Maritime and Logistics Industries

	Current Treatment	New Treatment
Maritime Financing Incentive (MFI)	Ship investment vehicles and ship investment managers do not get any tax concession.	An MFI scheme will be introduced with effect from Year of Assessment 2007 to grow ship financing activities in Singapore. Under the MFI, (a) The ship investment vehicle (which can be a ship leasing company, a shipping fund or a shipping trust) will get tax exemption on qualifying income; and (b) The ship investment manager (which can be a fund management company or a trustee manager) will get a 10% concessionary tax rate on qualifying income. The MFI status will be granted from 1st March 2006 to 28th February 2011 for a period not exceeding 10 years. The Maritime Port Authority of Singapore will announce further details by June 2006.

	Current Treatment	New Treatment
Third incentive period for the Approved International Shipping Incentive	The Approved International Shipping (AIS) Scheme, which incentivises international shipping enterprises to base in Singapore, confers a tax exemption status on income derived from international shipping operations. Currently, companies are granted the AIS status for a 10-year period and may only renew the AIS once for another 10-year period. Hence companies may only enjoy a maximum 20-year period of incentive.	With effect from 2007, shipping companies may apply for a 3rd AIS incentive period of 10 years, thus enjoying an increase in the maximum period of the incentive from 20 years to 30 years. Companies may apply to The Maritime and Port Authority of Singapore for the AIS incentive.
Removal of incidental condition for Global Trader Programme (GTP)	The Global Trader Programme (GTP) incentivises international trading in physical commodities. Traders, who currently enjoy a 10% concessionary tax rate under the GTP, are required to show that their Over-The-Counter (OTC) hedging derivative trades are in connection with and incidental to the trading in physical goods before the income from such derivative trades qualify for the 10% tax concession.	To reflect the changing operational environment where trading companies engage in more sophisticated strategies to hedge their physical trades with paper trades, the requirement to show that derivative trades are in connection with and incidental to trades in physical goods for the purpose of the tax concession will be removed with effect from the Year of Assessment 2007.
Waiver of GST on goods removed from ZG warehouses by MES and Approved 3PL persons	Currently, GST must be paid on goods removed for local consumption from Zero GST (ZG) warehouses *unless* the removals are made under the existing Waiver Scheme by Major Exporter Scheme (MES) persons.	To promote Singapore as a logistics hub, the current restrictions will be lifted on the Waiver Scheme to allow automatic GST suspension for goods removed from ZG warehouses by ***all*** persons registered under

	Current Treatment	New Treatment
	The existing Waiver Scheme can only be used with prior approval from IRAS and only for specific business scenarios.	the MES or the Approved Third Party Logistics (3PL) Company Scheme. This will take effect from 1 July 2006.

Annex C – Review of Record-Keeping Periods

The following changes will take effect after the relevant legislations have been amended.

Ministry	Proposed amendment
MOF	• To reduce the record-keeping period in: o Section 199 of the Companies Act from 7 years from the point of transaction to 5 years from the end of the financial year. o Section 25 of the Limited Liability Partnerships (LLP) Act from 7 years from the point of transaction to 5 years from the end of the financial year. o Section 67 of the Income Tax Act from 7 to 5 years from the relevant year of assessment. o Section 46 of the GST Act from 7 to 5 years from the end of the accounting period. o Sections 12 and 13 of the Charities Act from 7 to 5 years from the end of the financial year of the charity. o Section 90 of the Customs Act from 7 to 5 years (from the date of import or export of goods or, if the goods are manufactured locally, from the date of release of goods from Customs control).
MAS	• To reduce the record keeping period in: o Section 75 of the Business Trusts Act from 7 to 5 years. o Section 38(1)(*c*) of the Financial Advisers Act from 6 to 5 years. o Section 16(2) of the Money-Changing and Remittance Businesses Act from 6 to 5 years. o Sections 102(3) and 131(1)(*c*) and (2)(*b*) of the Securities and Futures Act from 6 to 5 years. o Section 28(4) of the Trust Companies Act from 6 to 5 years.
MOM	• To reduce the record-keeping period in Regulation 16A(1)(c) of the Trade Union Regulations from 7 to 5 years.
MND	• To reduce the record-keeping period in: o Section 48 of the Building Maintenance & Strata Management Act from 7 to 5 years. o Regulation 13 of the Building Maintenance & Strata Management (Lift & Building) Regulations from 6 to 5 years.
MEWR	• To reduce the record-keeping period in Regulation 10 of the Environmental Public Health (Crematoria) Regulations from 15 to 7 years.

Ministry	Proposed amendment
MHA	• To reduce the record-keeping period in: o Section 36 of the Corruption, Drug Trafficking and Other Serious Crimes (Confiscation of Benefits) Act from 6 to 5 years. o Rule 9(4) of the Massage Establishments Rules from 3 years to 1 year.
	• To specify a record-keeping period of 5 years in Section 10 of the Secondhand Dealers Act.
MinLaw	• To specify a record-keeping period in the following legislation: o 5 years in Sections 19 and 20 of the Moneylenders Act. o 5 years in Rule 12 of the Moneylenders Rules. o 5 years in Section 14 of the Pawnbrokers Act. o 5 years in Rule 19 of the Pawnbrokers Rules.

Annex D - Review of Industrial Building Allowances

Current Treatment	New Treatment
No Initial Allowances and Annual Allowances are granted to purchasers of *new* buildings with leasehold interest less than 25 years.	To allow Initial Allowances and Annual Allowances to purchasers of *new* buildings with leasehold interest less than 25 years.
No Annual Allowances can be granted to a purchaser of a used building that was *not* previously used as an industrial building, even though the purchaser is using the building as an industrial building currently.	Eligibility to Annual Allowances will be based on the current use of the building as a qualifying industrial building.
To compute the Annual Allowances on purchased building, reference is made to the Residual of Expenditure (ROE) [1] of the building, which is derived from the cost of the construction of the building.	To compute the Annual Allowances on purchased buildings (both *new* and *used*) based on the purchase price, without reference to the cost of construction. To compute the Initial Allowances on *new* purchased buildings based on the purchase price, without reference to the cost of construction.
No Annual Allowances can be allowed after the end of the 50th year after the building or structure was first used.	To remove the 50-year restriction. The restriction is now based on the amount of expenditure incurred.

Note: These tax changes will take effect on purchases of buildings on or after 1 January 2006. The date of purchase will be the date of the Sale and Purchase Agreement.

[1] ROE is defined under Section 18(8) of the Income Tax Act to be the amount of the capital expenditure incurred in the construction of a building or structure reduced by the amount of allowances granted on the building and increased by any balancing charges made. The amount of AA the purchaser is entitled to is the higher of:

(a) the ROE divided by the number of years of assessment for which the purchaser is entitled to annual allowances, ending with the 50th year after the year in which the building or structure was first used, or;

(b) 3% of the ROE after the sale.

Annex E - Budget for FY2005 and FY2006

	Revised FY2005	Estimated FY2006	Change over Revised FY2005	
	$b	$b	$b	%
OPERATING REVENUE	**27.48**	**28.96**	**1.48**	**5.4**
Corporate Income Tax	7.10	7.68	0.58	8.1
Personal Income Tax	4.30	4.60	0.30	7.0
Statutory Boards' Contribution	1.25	1.18	(0.07)	(5.5)
Assets Taxes	1.86	1.89	0.02	1.1
Customs & Excise Taxes	2.02	2.01	(0.01)	(0.6)
Goods & Services Tax	3.60	3.75	0.15	4.2
Motor Vehicle Taxes	1.47	1.78	0.30	20.4
Vehicle Quota Premiums	0.51	0.62	0.11	21.6
Betting Taxes	1.49	1.50	0.01	0.3
Other Taxes	1.94	2.06	0.11	5.9
Other Fees & Charges	1.79	1.75	(0.04)	(2.5)
Others	0.13	0.16	0.02	15.6
Less:				
TOTAL EXPENDITURE	**28.85**	**30.62**	**1.77**	**6.1**
Operating Expenditure	21.59	24.48	2.89	13.4
Development Expenditure	7.25	6.14	(1.12)	(15.4)
PRIMARY SURPLUS/(DEFICIT)♣	**(1.37)**	**(1.66)**		
Less:				
SPECIAL TRANSFERS	**0.87**	**3.59**	**2.71**	**310.2**
Growth Dividends	-	1.43		
National Research Foundation	-	0.50		
Top-up to CPF Accounts	0.43	0.50		
Workfare Bonus Scheme Fund	-	0.40		
40^{th} Anniversary NS Bonus	-	0.20		
Utilities-Save Scheme	0.06	0.06		
Opportunity Funds	-	0.05		
S&CC and Rental Rebates^	0.06	0.05		
Top-up to Community Care Fund	0.25	0.10		
Top-up to Medifund	-	0.10		
Top-up to Eldercare Fund	-	0.10		
Top-up to Lifelong Learning Fund	-	0.10		
Top-up to Edusave Accounts	0.05	-		
Economic Restructuring Shares	0.02	-		
Add:				
NET INVESTMENT INCOME CONTRIBUTION	**2.67**	**2.39**	**(0.28)**	**(10.6)**
OVERALL BUDGET SURPLUS/(DEFICIT)	**0.43**	**(2.86)**		

♣ Surplus/(Deficit) before Special Transfers and Net Investment Income Contribution.

^ Reclassified from Operating Expenditure wef FY2005; committed in FY2002 to offset increases in GST burden.