BUDGET STATEMENT 2007

Ready for the Future, Ready for the World

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BUDGET STATEMENT 2007

Ready for the Future, Ready for the World

Mr Speaker, Sir, I beg to move,

That Parliament approve the financial policy of the Government for the financial year 1st April 2007 to 31st March 2008.

(1) ECONOMIC PERFORMANCE AND OUTLOOK

Economic Performance and Fiscal Position in 2006

1.1 Our economy has done well. It grew by 7.9% in 2006. Both the manufacturing and services sectors are doing well. Asset management in financial services is booming. The construction industry is now seeing a resurgence.

1.2 Singaporeans have benefited from this growth. An unprecedented 173,300 jobs were created last year, with more than half of these taken up by the local workforce. The unemployment rate went down to 2.7%. Our workers enjoyed good wage increases and better bonuses, with average wages rising by 3.2%. Overall, it has been an exceptionally good year, following two previous good years.

1.3 The fiscal position for the Financial Year (FY) 2006 improved on the back of these buoyant economic conditions. I expect a budget deficit of $1.3 billion for FY 2006, much smaller than the deficit of $2.9 billion we projected at the start of the year. Operating revenues and contributions from Net Investment Income have come in higher than projected.

Global Backdrop

1.4 The outlook for 2007 is positive. Globally, the major economies are doing well. The US economy has kept up its momentum. Consumer spending has been supported by more stable oil prices, offsetting the effects of a slowdown in the US housing market. Japan is continuing to recover from more than a decade of deflation. The major European economies too, especially Germany, are undertaking reforms and showing improvement after a long period of sluggish growth.

1.5 In Asia, China and India continue to power ahead, pulling the rest of Asia with them. The Southeast Asian economies are growing, although some of them face difficult challenges. Vietnam, in particular, is stepping up its economic reforms, tapping into the forces of globalisation, and growing dramatically.

1.6 On the whole, the global picture for 2007 is positive. But it is not free of risks. A sharp slowdown in the US economy, which could happen if there is a hard landing in the US housing market, remains our biggest external risk. A disruption in global financial markets, for example in response to America's large external deficits, is another factor that could slow down the global economy. Widening conflict in the Middle East is a significant geopolitical risk we have to look out for, which could disrupt energy supplies and force oil prices up sharply. We must continue to watch these potential threats, and stay ready to respond quickly and decisively.

Outlook for 2007

1.7 Barring such shocks, I expect the Singapore economy to continue to do well. Our investment pipeline is strong. Last year, we attracted manufacturing and services investments that will generate over $13 billion of value-added annually for our economy and we expect similar good performance in investment commitments this year. Tourism, which saw a record high of 9.7 million visitors last year, should remain strong and benefit the retail as well as the hotels and food and beverage sectors. The construction sector is set to expand further, with $17 to $19 billion worth of contracts expected to be awarded in 2007. There will be more jobs for Singaporeans at all levels of the workforce, as employment expands in the retail, healthcare and hospitality industries, financial services and across the manufacturing, marine and construction sectors.

1.8 Overall, I expect the Singapore economy to grow by a healthy 4.5% to 6.5% this year.

(2) SECURING OUR FUTURE

Globalisation is Working to Singapore's Advantage

2.1 We are looking ahead to the next five to 10 years for Singapore. Our prospects have never been better. The key reason is globalisation. Capital, enterprise and talent are flowing to countries where government can be trusted, where the workforce is well-educated and skilled, and where the quality of life is high. These are Singapore's advantages. They explain why globalisation is working to Singapore's advantage.

2.2 We are also well-placed at the heart of a globalising Asia. China and India are the big stories, but opportunities are also opening up across Asia, from the Middle East to Northeast Asia. Competition from China and India has galvanised ASEAN to accelerate integration and forge a collaborative ASEAN Community by 2015.

2.3 Businesses large and small, home grown and foreign, are taking advantage of Singapore's strengths, and using Singapore to ride the next wave of growth.

The World is Coming to Singapore

2.4 We are not just getting more large investments, but more 'first-of-its-kind' investments. Take for instance, the chip used in the latest PlayStation3 and Xbox. A French semiconductor company, Soitec, is investing $700 million to set up in Singapore its first offshore facility to make the wafer for this chip. It is high precision, high technology. The wafers have alternating layers of silicon and insulator, unlike conventional wafers which use silicon throughout. Why did Soitec choose Singapore? Because its technology has to be well-protected, and we are the only country in Asia that it trusts well enough to set up its first manufacturing campus outside of France.

2.5 Soitec is like many other global companies which have come here because they know their investments will be protected, and we have the pool of talent and skills for sophisticated manufacturing. Like Sumitomo, which expanded its $500 million complex in Singapore only last year to make the special kind of plastic used in LCD screens and dentures. These are big votes of confidence by global investors.

2.6 But it is not just the large MNCs that we are drawing here. We are also attracting a whole new category of small and mid-sized global players. Take Bob Chandran, for example, who came from the US. He had listened to PM talk on TV about Singapore being a place with 'Asian values but Western conveniences'. He explored further, looked around, and eventually decided to move his family and his company to Singapore. It is a marine fuel company, Chemoil. In fact he has now taken up Singapore citizenship. Chemoil is listed on the SGX. And Bob Chandran just announced recently a major investment in a new fuel terminal on Jurong Island.

2.7 Another example is Johan M Karlstedt. He first relocated from Finland to the US, lived there for several years, before deciding to come to Singapore — both for his company and his family. The company that he founded, QXSystems, creates virtual offices for businesses around the world. As he puts it, with the Internet, it does not matter if you are in a small country. QXSystems now owns five companies around the world, headquartered in Singapore. Johan himself doesn't work from an office; they call it working from home. So I emailed him to ask him what it really means. He said he actually sits and works daily, for hours, in many places around Singapore. His favourites are the al fresco cafes. Thanks to widespread WiFi, he can interact with anyone around the world from any spot in Singapore for the cost of almost nothing.

2.8 Bob Chandran, Johan Karlstedt and the many others like them are here because we are a compelling home for enterprise and for families.

Singaporeans are Going Out to the World

2.9 Not only is the world coming to Singapore, Singaporeans are seizing opportunities abroad. Globalisation is working to the advantage of Singapore companies.

2.10 Food Empire, based in Geylang, owns MacCoffee, which has become immensely popular in Ukraine, Russia, Poland, Bahrain, Iran and Turkey. Its advertising slogan in Ukraine reads: “Every other Ukrainian drinks MacCoffee.” In fact, even the advertisement won the most prestigious award in the Ukrainian advertising industry, which I presume means it’s true!

2.11 Rotary Engineering is another example. It was founded by Chia Kim Piow with a few friends in the 1970s. He was like many others at the time, not much education, nothing beyond secondary four — no diploma or degree. Everything was learnt on the job. Rotary began by handling electrical installations and sub-contracting for the big oil refineries. It now builds big oil refineries. Today, Rotary is one of Asia’s leading engineering companies in oil and gas infrastructure. Very active in China and India, and now moving into the Middle Eastern market with Saudi Arabian partners.

2.12 It is not just the larger Singapore players that are going abroad. We have many individual Singaporeans taking their chances and making their presence felt in their own way in global markets. They are in demand all over Asia, as trusted managers and engineers, and increasingly too as creative professionals. Like our Singapore chefs. Justin Quek is amongst our best known, having won several awards while he was in Singapore, at Les Amis, is now based in Taipei running his own restaurant – I think it is called Le Petite Cuisine. It’s already regarded as the best French restaurant in Taipei. Singaporean, in Taipei, running a French restaurant.

2.13 Jek Tan, another example, trained at SHATEC, progressed in his career – last year became Executive Chef at the Shangri-la in Dalian in Northeast China. I met him there. We have been in contact and he mailed me last week to say that he had invited over to Dalian three other Singaporean chefs. He had known them because he had worked with them in another hotel in Singapore. He invited them over for two months to run a Singapore Food Festival. The Chinese were wowed by the menu – *bak ku teh, satay*, beef *rendang*. Unfortunately, the "*rendang*" when translated into Chinese sounded a bit like "people's egg". So, one of the compliments he received was that it tasted much better than it sounded.

2.14 This is what globalisation is about, and why it is working for Singapore. Companies and individuals coming from all around the world to Singapore, and using Singapore to reach out to the rest of Asia; and Singaporeans reaching out to global markets, taking their chances, competing, seizing opportunities. And this is why the outlook for Singapore is bright.

The Challenge of the Widening Income Gap

2.15 But globalisation brings with it challenges for Singapore. We face a worsening of our income distribution and slow or no growth in wages at the lower end. Not just over the last few years or for now, but this will be with us for several years to come. It will be a key challenge for us, just as it is in most of the developed economies.

2.16 The reasons for the widening income spread are by now well known. China, India, Russia and Eastern Europe have doubled the global workforce, putting downward pressure on wages everywhere. Companies have more choices on where to invest, where to locate their plants based on where they can get the lowest cost or the best workers or the latest technology. At the same time, technology continues to advance, relentlessly. It is increasing the demand for workers with high skills and knowledge. And technology is making many types of workers redundant, especially those with low skills, and also making it easy for their jobs to be exported abroad to where wages are lower for the same skills.

2.17 The result is widening income gaps between the skilled and the low-skilled, between the young and old, between those who adapt quickly to the market and the rest. Incomes are stretching out in the developed world, with the top rising rapidly, the middle growing slowly, and the low either stagnating or declining.

2.18 In the US, the income gap has been widening for some time, especially in the last decade. In the last five years, despite strong economic growth, the wages of production and non-management workers have grown by only 1.7% in real terms over the period as a whole. The same is happening in Europe and Japan — incomes going up at the top, but stagnating or declining at the bottom. Even in China, with an economy growing at 9%-plus, workers in the bottom 10% have seen a decline in real incomes over the last decade.

2.19 Singapore is facing similar pressures. Because we are a much more open economy, compared to the US, China, Germany or Japan, we are in fact more exposed to these pressures of globalisation. Over the last five years, lower-income households have seen little growth in their incomes. In fact, in real terms, the lowest 20% of households has seen their incomes per capita decline from 2000 to 2005. Fortunately, in the last year, the strong pick-up in employment within the lower-income group has reversed the decline. In fact, it has a little more than reversed the decline of the previous five years. Nonetheless, household incomes at the top end are pulling away faster.

2.20 This is a key item on our agenda. Although our economy is growing well, incomes are only increasing slowly at the lower end, or not at all, and income gaps are widening. This is a problem for those at the bottom, but it is also a problem for the rest of society if those at the bottom feel left out.

2.21 The solution is not to grow more slowly, or to focus less on growth and more on redistribution — although some people think we should do that. If we do that, it will only hurt the people we are trying to help. Slow growth will make everybody worse off, but it will have the greatest impact on those at the bottom. Jobs will be lost and incomes will fall through the floor for those at the lower end of the workforce, while at the top end, talented Singaporeans and those with the ability to seize opportunities elsewhere will up and go. Slow growth will not assure us of a more equal society, as long as we live in a globalised world.

Singapore's Response – Growth with Opportunity for All

2.22 Our response therefore must be to focus on growth and embrace globalisation, but manage its downsides and make it work for everyone. We will do this by maximising opportunities for all Singaporeans — the opportunities to get a good education, to work or to start a business, to retrain and upgrade, and the opportunity to own a home. We must maximise opportunities for all, but we must also accept that doing so does not result in equal rewards for all. We should never reduce the incentive for Singaporeans to work and to make the most of their skills and talents, so as to get higher reward for themselves. That has to be the basis for our society, for how we keep our economy growing, and for how living standards of Singaporeans will rise over time.

2.23 Our first priority therefore is to grow the economy. We must now build capabilities for the future. We must attract new investments, grow new businesses, and create new and better paying jobs to replace old ones. We must build on our strengths and compete — not just on efficiency and low cost, but on trust and value.

2.24 As we grow the economy, we must ensure that no one is left behind and that all Singaporeans have the opportunity to succeed. Over the years, the Government has been helping the lower-income groups through various assistance measures. Since 2001, the Government has distributed more than $7.5 billion through the Progress Package, U-Save and S&CC rebates, CPF top-ups and New Singapore Shares, to share budget surpluses with Singaporeans. In all these distributions, we have made deliberate efforts to ensure that the lower-income groups get the greatest benefits. But going forward, we have to do more to help needy Singaporeans and we have to do it more systematically. This is why we are introducing Workfare. Workfare will give those at the lower end of the workforce a stronger incentive to get a job, stay in a job, and save for their future.

2.25 We also have to prepare now for the challenges of an ageing population. Healthcare spending will rise over time, as our people grow older and as medical science advances. Our living environment and physical infrastructure will have to be adapted to meet the needs of our growing ranks of senior citizens. This is the generation that has helped to bring Singapore up from Third World to First World. We must ensure their well-being.

2.26 Building capabilities for the future, strengthening our social security system and providing for the needs of older Singaporeans will require Government to spend more in future. This means we will need additional revenues. We cannot raise direct taxes. Countries the world over are reducing corporate and personal income taxes. To continue to attract talent and investments, and maintain strong incentives for our people to excel, we will in fact have to lower our direct taxes further over time.

2.27 We will therefore raise additional revenues by extracting more income from our reserves and by raising the GST. Because we are doing this now, when the economy is doing well, we are able to provide a very comprehensive set of measures to help Singaporeans adjust to the GST increase.

2.28 This Budget is therefore about preparing Singapore for the future and for the world. It ensures that we retain our dynamism as an economy while we take significant steps forward to preserve an inclusive society. It sets out the key changes we must make to:

(a) Build capabilities for the future;

(b) Strengthen our social security system;

(c) Reduce direct taxes and raise additional revenues, including GST;

(d) Provide Singaporeans with an offset package for the GST increase.

(3) BUILDING CAPABILITIES FOR THE FUTURE

3.1 To build new capabilities for the future,

(a) We will invest in our people to maximise their potential.

(b) We will invest in R&D to move our economy up the value curve.

(c) We will make Singapore the best place to start and grow a business.

(d) We will make Singapore a leading centre for “high trust” services.

(e) We will invest in economic infrastructure to build the business needs of tomorrow.

(f) We will transform our city and living environment to build the best home for Singaporeans.

Investing in our People

3.2 Central to our strategy is our people. Every Singaporean plays a crucial role in an innovation-driven economy. Every worker. Education and continuous learning will thus remain a top priority for Singapore.

A First-rate Education

3.3 We will give every child access to a first-rate education. In every school, we have been focusing on quality. More teachers are being deployed, leading to more time to plan for quality and to innovate in their teaching. Ideas are bubbling up in schools across the island - different classrooms, different styles and different methods, but all bringing in new quality. At Hougang Primary for example, Primary Two students are using iPods to create podcasts of talkshows, which they then showcase on the Internet for all to hear. Having a real audience means this is not just fun, but the kids have to take their lessons quite seriously!

Post-Secondary Education Accounts

3.4 Getting a top-rate school education provides a critical foundation for every Singaporean, and we will keep improving, keep helping our children to learn better in our schools. But good schools are not the end of the story. That is why we have also made our ITEs, polytechnics and universities world class. They are widely regarded internationally as being in the top tier.

3.5 We want as many Singaporeans as possible to obtain a post-secondary education, whether it be for a certificate, diploma, or degree. This is absolutely essential in the new innovation-driven economy. To help Singaporeans pursue their tertiary education, we will create a Post-Secondary Education Account (PSEA) for every Singaporean aged seven to 20. Students can use the PSEA at our publicly-funded universities, polytechnics, ITEs, and also at NAFA and LaSalle, our arts institutions.

3.6 We recognise, however, that some Singaporeans may miss out on an opportunity for post-secondary education. I will therefore allow the PSEA to also be used for UniSIM, which provides for an open-style university education for adult learners, and WDA-accredited lead training providers. Unused monies in an individual's PSEA will be transferred to his CPF Ordinary Account when he turns 30. I will announce later the amount of top-ups that the Government will put into PSEA as part of this Budget.

Supporting Lifelong Learning

3.7 We are also extending our focus beyond the post-secondary stage — beyond what we learn in school and at the post-secondary institutions. We have to do this because adult workers have to keep pace with a constantly changing economy. Lower-skilled workers are especially vulnerable to becoming displaced if they do not upgrade and pick up new skills, not just once but continuously. No matter what useful skills or knowledge we acquire in school and at the tertiary level, they will become less relevant over time.

3.8 Many more workers are in fact going for retraining, and some upgrading themselves against considerable odds. Like Madam Sabariah Bte Ahmad, who was retrenched as a production operator 18 months ago at Maxtor. Unfortunately, at age 48, and as someone who had suffered from cancer, she had difficulty getting re-employed. But she persevered, and last year, she got onto NTUC's STPT (Screen, Train, Place and Train) scheme, and that got her onto a job as a cashier at the Kopitiam at Tan Tock Seng Hospital. She earns $900 a month, and is proud to be self-reliant, despite her illness.

3.9 The Government will increase its support for lifelong learning to all Singaporeans. We already spend up to $170 million a year on adult worker training, drawn from the Skills Development Fund (SDF) and the Lifelong Learning Endowment Fund (LLEF). But this is less than what several other developed countries are spending on continuous education and less than what is necessary for our citizens to keep pace with a globalised world. We must ramp up our investment in this area over the long term.

3.10 First, we need to allow individual workers to apply directly for subsidised training opportunities. We previously operated a system that was employer-centric — we reimbursed the employers who sent their workers for training. Over the past year, we have shifted to invest more in adult worker training institutions. This has lowered course fees and made training directly accessible to the individual — so that individual can himself or herself apply for a subsidised place at these training institutions. We will keep up our efforts on this front.

3.11 Next, we will implement more Place and Train programmes, to help workers renew their skills and secure new jobs. Like how Madam Sabariah managed to get her job. The training will cover all segments of the workforce, from the unemployed, to operations staff, to supervisors, craftsmen, professionals and managers.

3.12 Third, we will encourage more adult learners to take up post-diploma courses in the polytechnics as part of lifelong learning. These comprise Advanced Diplomas and Specialist Diplomas — for example, in areas like Infocomm Security, Logistics and Semiconductor Technology. They cater to both basic diploma and degree holders. Currently these courses are fully self-financed by those who take them. I have decided to subsidise 80% of the cost of these programmes for Singaporeans, starting from the 2007 intake. About 1,400 students enter such courses today, and we hope many more will do so in future. The polytechnics will also expand their range of post-diploma offerings over time in response to market needs.

3.13 These are only initial plans, towards the larger goal of providing continuous learning opportunities for all Singaporeans, and encouraging them to see this as a way of life. We will study this comprehensively — how to provide learning programmes that are relevant to every Singaporean and relevant to the job market, how they should be funded and how to foster a culture that makes lifelong learning the norm. Your certificate may lead to a diploma, your diploma may lead to a degree, and your first degree may not be your last. Or after getting your degree, you might get a certificate or diploma. That will be the culture. But this is not about the paper chase, but about the continuous refreshing of the skills and knowledge of Singaporeans that will prepare us well for the future.

3.14 We will have to invest much more in Continuous Education and Training. As an initial estimate, we expect to triple our annual expenditure on lifelong learning to $500 million a year in the medium to long-term. This year I will put another $100 million into the Lifelong Learning Endowment Fund. But we will have to fund this important ongoing initiative using not just the income from the Lifelong Learning Endowment Fund but also our operating revenues.

Investing in R&D

3.15 Our second area of focus is to invest in R&D, to build up the capabilities that will help drive our economy over the long-term. We plan to invest 3% of our GDP on R&D annually by 2010 up from 2.4% in 2005.

3.16 This is a major commitment, both in terms of resources and talent. We are investing large sums of money. We are also gathering many very able people in the biomedical sciences and other fields of science and technology. They include Singaporeans who are doing post-graduate studies and embarking on careers in R&D, as well as globally renowned researchers who have uprooted themselves to come to Singapore because they know we are serious about our plans and ambitions, and they want to work with us on this enterprise. On top of that, we are attracting world-class corporate R&D labs and grooming local R&D firms.

3.17 We do not expect short-term returns. This is a long-term investment, and clearly there are risks. We cannot be sure of success, and even if we do succeed, many of the economic benefits are likely to be indirect. But the Government had considered this carefully, and decided that this was an investment we had to make for Singapore's future. Over time, we will build up a critical mass of top-rate researchers in Singapore, who will create new intellectual property in our research institutes, universities and hospitals, and will bring in new, technology-driven activities which will spin off benefits to the rest of the economy. Our investment in R&D is critical, for Singapore to be a leading Asian hub for high-value, knowledge-based industries, even as Beijing, Bangalore and other cities catch up.

3.18 Since embarking on this endeavour in the bio-medical sciences and other areas of R&D that we are engaged in, we have made significant progress. But we are still on the early legs of a long journey. Other developed nations, including small ones like Switzerland and Sweden, have taken decades to get to where they are. We need to persevere in our efforts, focusing our limited resources on areas in which Singapore can make an impact. That is the framework within which the Research Innovation and Enterprise Council (RIEC) is pursuing Singapore's R&D strategies, and it will continue to guide us as we go forward.

3.19 It is too early to evaluate the results of our R&D initiatives. But from MOF's perspective, I am satisfied that this is a good use of public funds. Hence, I will inject another $500 million into the National Research Fund that was established last year. Along with other R&D related expenditure in A*Star, the Ministry of Health, Ministry of Education and other economic agencies, we expect a total of $2 billion of government expenditure to be invested in R&D for this year. These will go towards continuing the applied and academic research in the public research institutes, universities and hospitals.

Making Singapore the Best Place to Start, Grow and Globalise Businesses

3.20 Next, we have to press ahead in our efforts to create a vibrant and supportive environment for enterprises, big and small. Our strength and reputation as a base for MNCs and leading global companies is well known around the world. We will make Singapore equally reputed for being the best place for SMEs, local and foreign, to locate, to grow and to globalise.

3.21 I mentioned Rotary and Food Empire earlier. Both started off very small but they found themselves having to extend their reach out of Singapore at an early stage, and now depend on markets abroad for most of their growth. In fact, about one-quarter of all our SMEs in Singapore now derive at least 50% of their revenue from overseas. Globalisation is there with our smaller firms.

3.22 Many of our younger local players are going out to global markets at an even earlier stage of their growth. Dextrans Worldwide Group, founded just four years ago by two young Singaporeans, already has a bustling logistics business, managing inventory for major electronics manufacturers in China like Flextronics. Heulab was started by two NUS graduates in 2002 to create educational software on tablet PCs. Over 140 schools in Singapore, Australia, Taiwan and Qatar use their products to introduce creative learning in the classroom. All this in just four years. And Heulab was selected a few days ago as a launch partner for Microsoft's Windows Vista Programme.

3.23 Dextrans and Heulab are part of a new generation of local firms: fleet-footed, unafraid to venture out to the world early, and working at the leading edge of technology.

3.24 We are also seeing the rise of a new breed of players in the form of global SMEs — much smaller than the traditional multinationals but typically larger than the traditional SMEs, rooted in one place, but taking advantage of globalisation to expand rapidly. Some of them are in fact very fast-growing companies, or "gazelles", as they are called in Silicon Valley.

3.25 More of these global SMEs are now coming to Singapore. They may not make huge investments like the MNCs, but they add vibrancy to our economy and expand the demand for financial and other business services, IT and logistics. Many are now listing on the SGX, and are expanding rapidly.

3.26 We should attract and root this new breed of global players in Singapore. I mentioned Bob Chandran and Chemoil as an example of a global SME that we have brought to Singapore. Another is LMA, a medical equipment firm that was based in the UK but which decided to establish its headquarters operations in Singapore to manage its global regulatory affairs, quality assurance, and R&D. It has operations all over the world, and its products reach patients in over 100 countries.

3.27 OLAM, too, shifted from London to Singapore. It has a presence in 52 countries, managed from Singapore. Last week, OLAM announced that it is tying up with Chinatex, a leading Chinese state-owned enterprise. OLAM and Chinatex will jointly invest to source soybeans in Brazil. They will also invest together in the Chinese market to process and supply soybeans, and to supply cotton for the Chinese market.

3.28 That's how globalisation is being played — globalisation out of Singapore. We want to grow more Food Empires and Dextrans, and attract more OLAMs and LMAs to Singapore. We can provide the best conditions for them to start up, grow, raise funds, and reach out to markets in Asia and the world. We are already recognised as one of the easiest places in the world to do business. Each year, the World Bank compiles assessments from about 3,000-4,000 experts around the world. In its latest report, for this year, it put Singapore as the most business-friendly economy in the world, ahead of New Zealand, the US, Canada, Hong Kong and the UK. Later, I will announce how we will strengthen further this advantage we have in attracting businesses, small and big, to Singapore and growing them out of Singapore through our tax regime.

Growing "High-Trust" Services

3.29 We will also develop Singapore as a centre for a range of "high-trust" services - from legal and financial services to highly specialised, niche services. Near Changi Airport, a company has set up the Singapore Freeport, a Fort Knox-like vault to house private art collections and treasures from all over the world. Most of you would not have heard of it or seen it, and I think that's the way it's meant to be. It is an example of a niche area that plays to Singapore's strengths.

Legal Services

3.30 In legal services, we will position Singapore as a trusted centre for high-end arbitration work. We have the key ingredients in place to do so — efficiency, reliability and neutrality. We also have plans for an integrated dispute resolution complex. We will complement these efforts by introducing a tax incentive that allows a 50% tax exemption for a law firm's incremental qualifying income for international arbitration activities.

Financial Services

3.31 The financial sector is a key pillar of our economy. The asset management industry has seen double-digit growth each year over the past five years. Singapore's Over-The-Counter (OTC) derivative market has also doubled in size since 2004 to US$37 billion in daily volumes, building on our role as the fourth-largest foreign exchange trading centre in the world. More finance professionals and individuals are locating themselves in Singapore.

3.32 We are also growing new niches in our financial sector. Singapore is increasingly serving as a bridge between the Middle East and Asia. More Middle Eastern banks are setting up in Singapore. We are also seeing double-digit growth in funds coming here from the Middle East, for investment in Asian capital markets and real estate. Banks in Singapore are structuring various new products, including Islamic financial products, such as *murabaha* investment products and Shariah-compliant mutual funds, to meet the needs of this new class of global investors. These opportunities can only grow.

3.33 We will keep refining our schemes to anchor more activities here and keep up the momentum of growth in our financial centre. We introduced a package of tax incentives to promote infrastructure finance in September last year. We will make other revisions in this Budget to ensure our tax rules and incentives remain relevant and competitive.

3.34 First, I will remove the "80:20" rule under our tax exemption scheme for non-resident funds. This will give certainty of tax exemption to foreign investors whose funds are managed in Singapore, and also provide fund managers based in Singapore with greater flexibility in sourcing for mandates. The list of designated investments will also now include qualifying loans. Details of these changes will be released later.

3.35 I will also enhance our tax incentives relating to Finance and Treasury Centres, OTC financial derivatives, and Qualifying Debt Securities. Details of these will be in <u>Annex A.</u>

<u>Growing Singapore as a Philanthropy Hub</u>

3.36 We will also capitalise on our strengths as a key financial centre to develop Singapore as an attractive hub for global philanthropic organisations. Philanthropy is growing exponentially around the world. More MNCs are now establishing charitable foundations and seeking to extend their reach into Asia. We can play a useful role as a centre for these organisations. Local philanthropy, too, is blossoming — witness, for example, the very substantial donations that have been made to our universities and medical schools in recent years. The presence of more global philanthropic grantmakers in Singapore will go hand in hand with the growth of local philanthropy - injecting vibrancy, promoting collaborative ventures and sharing best practices.

3.37 To facilitate the growing interest in philanthropy from both the local and international community, we will make a number of important changes. First, I will remove the 80:20 spending rule for income tax exemption for registered charities. This rule currently requires charities to spend at least 80% of their annual receipts on charitable causes in Singapore within two years in order to enjoy income tax exemption. International philanthropic grantmakers and local foundations, which are looking to contribute towards worthy causes in the region, apart from Singapore, perceive this rule as overly restrictive on their use of funds. Even those who are looking for causes in Singapore see the two-year limitation as too restrictive. Henceforth, I will grant all registered charities and exempt charities automatic income tax exemption. This will enable charities to optimise their activities in Singapore and in the region, and the use of their funds over time to sustain their programmes.

3.38 Second, we will relax the 80:20 fund-raising rule, which requires any organisation seeking to raise funds for any foreign charitable purpose to spend, in Singapore, at least 80% of the funds raised. This lifting of the 80:20 fund-raising rule is done so as not to hinder the efforts of reputable charitable organisations and grantmakers with an international or regional orientation, provided that the funds are raised from private donors rather than from the general public.

3.39 Currently, individuals and companies can obtain double tax deductions for donations to Institutions of Public Character (IPCs) but not for donations to foundations and other grantmakers. I will therefore allow double tax deduction for all donations made to philanthropic grantmaking organisations, as long as these donations are subsequently channelled to an IPC in Singapore. More details on these initiatives will be released later.

3.40 Finally, I will introduce a tax incentive scheme to give income tax exemption to other Not-for-Profit Organisations (NPOs) that can bring economic value to Singapore. Our targeted NPOs include those which have links to key clusters of our economy, such as the International Bar Association (IBA) and the Joint Commission on Accreditation of Healthcare Organisations (JCAHO). EDB will administer this incentive.

Logistics, Maritime and Aviation Services

3.41 Logistics, maritime and aviation services are key to Singapore's connectivity and our role as a global business hub. We will develop these capabilities further.

3.42 To encourage shipping logistics companies to grow their activities in Singapore, we will enhance the Approved Shipping Logistics Enterprise Scheme by extending the incentive period from five years to 10 years.

3.43 Asia-Pacific aviation is expected to lead global growth in passenger and freight activity over the next five years. The leasing business will grow as airlines are increasingly looking to lease aircraft and aircraft engines. Singapore can position itself as the base for regional leasing activities, as we have the aviation expertise and a well-developed financial sector. I will therefore make several enhancements to the Aircraft Leasing Scheme that is currently awarded to approved aircraft leasing operators.

3.44 I will also expand the scope of GST zero-rating for international maritime and aviation services so that logistics companies here will pay zero GST when they incur expenses to service, buy or lease containers in Singapore.

3.45 Details of these tax changes too will be in Annex A.

Enhancing our Economic Infrastructure

3.46 We have to invest in our economic infrastructure to position Singapore for the next 15 years of its development. These are major investments which will help support the growth of our high-value manufacturing and services economy, and catch the next wave of emerging industries.

IT Connectivity

3.47 The Intelligent Nation 2015 Masterplan, estimated to cost $4 billion, is a major step forward in our economic infrastructure. We will make Singapore a centre for creating and commercialising new media technologies, as well as a whole array of digital content and services in areas such as healthcare, education, and games-on-demand. For example, one of our local players, Bridge Mobile, will be distributing ESPN STAR Sports content through mobile devices across Asia, from Singapore. We are already rolling out Wireless@SG which will cover most of Singapore. Industry players are putting forward plans for the new National Broadband Network. The pervasive nature of our IT infrastructure will also encourage any Singaporean to take full advantage of connectivity to the world, or even to create something new and take it to market.

Enhancing our Energy Hub

3.48 We will build up Singapore as an energy hub for the future, expanding on our current role as an oil-refining and trading centre. To diversify our energy sources, a new billion-dollar Liquified Natural Gas (LNG) terminal will be ready to supply a third of Singapore's gas demand by 2012. More than that, as gas catches on regionally and globally as a source of energy, it will help to position Singapore as a gas hub in the same way that we are an oil hub.

3.49 We will move ahead with the second phase of the underground rock cavern beneath Jurong Island that will be used for the storage of chemicals. The project will free up 60 hectares of surface land space on Jurong Island for high value manufacturing activities. This is an investment costing $2 billion in total.

3.50 Alternative Energy is an emerging growth industry. The global Alternative Energy market is projected to grow by 10 times, to US$300 billion, by 2015. We will seek to participate in this emerging industry, in areas where Singapore can be competitive.

3.51 Rolls Royce has already invested in a $100 million fuel cell development project in Singapore. Leading foreign solar companies such as Conergy, Solarworld, and Solar-Fabrik have based their Asian headquarters here. An Australian company, Natural Fuel, is investing $200 million, in what will be the world's largest biodiesel facility, in Singapore. We are positioning ourselves to ride the next wave of energy technology.

Creating a Living Environment of the Future

3.52 For Singapore to stand out as a global city, however, we cannot be just an economic marketplace. We must have a living environment that is the best in Asia — a city that exudes our own Singapore brand of diversity and vitality.

3.53 We will remake our city, to create a home that is distinctive and endearing to all Singaporeans. It will be a place where every family feels they own not just their flat, but their neighbourhood; where our elderly lead active lives; and where the young can find a space for every interest and aspiration. We will transform our HDB heartlands, connect them to a more extensive and convenient transport network, and integrate them into a network of parks and waterways that will together represent a quantum leap in our quality of life.

3.54 We will make Singapore a city of gardens and waters, or as PM put it recently, a city of green and blue. The Gardens by the Bay will open in 2010, bringing further activity and vibrancy to the whole area. We will spend about $700 million on these gardens, the next phase of park connectors, and enhancements to existing parks in the coming years.

3.55 We will also make use of our extensive network of water bodies to enhance our living environment, be it in the city where we are converting the Marina Bay into a reservoir, or in the residential heartlands where we are bringing waterfront living to HDB neighbourhoods. In the next five years, the Active-Beautiful-Clean or ABC Waters Programme will cover 28 projects at a cost of about $200 million.

3.56 We will transform Marina Bay into a vibrant live-work-play destination with distinctive architecture, lush greenery, public spaces and a pedestrian promenade that will encircle the entire Bay. Our established city areas like Orchard Road, Bugis and Bras Basah will also be enhanced and refreshed.

3.57 Next, our housing estates. As the Minister for National Development announced last week, we will undertake a systematic and total "urban regeneration" of our housing estates. We will start with the older housing estates in about five years' time. This will cost us about $1 billion each year in the steady state.

3.58 The makeover of our public housing estates will be done together with the development of our public transport system so that residents can easily and conveniently commute from home to workplaces and commercial nodes all over Singapore. The Circle Line which will open from 2010, plus the new

Downtown Line which we will embark on next, will allow commuters to enjoy greater convenience and faster rides. For example, a trip from Bukit Panjang to the city centre which now takes 60 minutes will be shortened to 40 minutes, in other words by one-third.

3.59 Over time, we will also have to cater for a larger population, by expanding our road network. We will have to widen all our existing highways to four lanes. New highways will also be needed. Plans are already being finalised for a Marina Coastal Expressway to serve the new business district and other developments in Marina Bay. In all, over the next 10 to 15 years, we expect to spend at least $20 billion on our land transport infrastructure.

3.60 This is the way we will transform Singapore into a world class city and provide the highest quality of life for our citizens. Modern business centres, choice residences for all Singaporeans, and attractive leisure and recreational amenities at Marina Bay, Orchard Road, Bugis and other central areas. HDB homes nestled in lushly landscaped common areas, fully fitted with elderly-friendly facilities, connected to the rest of Singapore by an efficient road and rail system, and linked into green corridors and waterways. This will be the Singapore of 2020.

(4) STRENGTHENING OUR SOCIAL SECURITY SYSTEM

4.1 We are building an inclusive society where every citizen shares in the country's success. Since independence, three pillars – all linked to the CPF – have underpinned our social security system. The first – the CPF Special or Retirement Account – has enabled every working Singaporean to build a nest-egg for his retirement needs. The second – subsidised public housing through the HDB and the CPF Ordinary Account – has made home ownership a reality for the vast majority of Singaporeans. The third – the 3Ms of Medisave, MediShield and Medifund – has provided Singaporeans with affordable, high-quality healthcare.

4.2 The CPF helps us achieve our social stability. We should continue to strengthen our CPF system, and include as many Singaporeans as possible in it. The three existing pillars of our social security system continue to serve the majority of Singaporeans well. Through the CPF schemes, most Singaporeans are able to save enough to provide for their own social security. However, low-income Singaporeans are finding it more difficult to save enough in their CPF. Their wages have stagnated because of globalisation, and will continue to be under pressure. For this group, we now need a fourth pillar — Workfare.

4.3 Like the existing three pillars, Workfare will also be linked to the CPF, to encourage more low-wage workers to save for their longer term needs. In doing all this, we must continue to preserve the key principles which underpin our social security system — namely self-reliance and mutual support within the family, supplemented by the Government only to the extent necessary.

Raising the Employer CPF Contribution Rate

4.4 First, we will raise the CPF contribution rate for employers. It is currently 33% — 20% from employees and 13% from employers. We have set a long-term variable range of 30% to 36%. This range seeks to strike the right balance between achieving our social security objectives and economic competitiveness, while giving us the flexibility to respond to changing economic conditions. With the economy doing well, I believe we can sustain a modest rise in the employer CPF contribution rate.

4.5 Therefore, the Government has decided to increase the employer contribution rate by 1.5 percentage points to 14.5%, starting from 1st July 2007. One percentage point will go into the Ordinary Account. It will add to the savings of CPF members, and help many of them pay for their mortgages. The remaining 0.5 percentage point will go into the Medisave Account to better provide for healthcare needs. The Ministry of Health has made it easier for Singaporeans to draw from their Medisave Accounts, and will continue to liberalise the use of Medisave.

4.6 The increase in CPF will apply to all Singaporean workers, except for the group of workers who earn $1,500 or less *and* are also above 35 years old. For this group of workers, we will need a different approach.

Restructuring the CPF and Introducing Workfare for Low-Wage Workers

4.7 Older low-wage workers are the ones most affected by the changes in our economy. They find it harder to learn new skills and upgrade themselves, they find it harder to get re-employed if they lose their jobs, and their families find it more difficult to make ends meet. We will therefore introduce Workfare to supplement the wages and savings of older low-wage workers, and modify the CPF system to complement the Workfare scheme.

4.8 Many other developed countries have addressed the problems of the low income group often through extensive social welfare programmes. But Welfare has drained fiscal resources and, more damagingly, eroded the work ethic and encouraged an entitlement mentality. The more successful model of assistance has been Workfare — which seeks to supplement the incomes of low-wage workers on the principle that the best way to help people is to help them find work and stay in work.

4.9 Wage supplements are new to Singapore, but the concept has been tried with some success in other countries. In the US, this is called the Earned Income Tax Credit. This acts like a negative income tax for low-wage workers; in other words, it supplements their earned income instead of taking away from it. The UK has a Working Tax Credit which is similar. These schemes have helped to reduce poverty and encourage work. But they are not without problems — they are not cheap, and they potentially weaken the incentive for workers to upgrade themselves and earn more. That is why we have to consider the design of the scheme very carefully and move cautiously. We introduced the Workfare Bonus as part of the Progress Package last year, to test out the concept amongst Singaporeans. We are now ready to take a step further by making Workfare income supplements a long-term feature of our social security system — the fourth pillar.

4.10 We will move in parallel on both the CPF and Workfare for low-wage workers. We will reduce the CPF contributions for these workers, while introducing Workfare income supplements for them. This will achieve three objectives. First, workers will contribute less CPF, so as to increase their take-home pay. Second, employers will also contribute less CPF, to make the workers more employable. Third, the Government will give workers Workfare income supplements, mainly into their CPF accounts, so as to help them to build up their savings. Workfare provides more incentives for individuals to work, and for employers to hire them. With Workfare, low-wage workers will end up with more in their CPF. With Workfare, the State is stepping in to share the burden of social support with the individual and his employer.

4.11 The principal target group of Workfare will be older full-time workers aged above 45 years who earn $1,000 or less. This group will receive the highest Workfare benefits. However, Workfare benefits will also extend to a wider group — those above 35 years who earn $1,500 or less, but at a lower rate. This is so that we do not miss any deserving cases, and also so that workers whose earnings increase beyond $1,000 do not suddenly lose all their Workfare benefits. I will go through each of the measures in turn.

Increasing Take-Home Pay

4.12 First, increasing take-home pay. Currently, employees start contributing CPF when their monthly incomes exceed $500, but at a lower rate. Their contributions are increased to reach the full rate of 20% at a monthly wage of $750. We will now increase the employee CPF contributions more gradually, so that employees only pay the full rate of 20% when they get to a monthly wage of $1,500. Workers earning $1,000 or less will have larger reductions in employee contributions and hence larger increases in take-home pay. This change in employee contributions will apply to all low-wage workers regardless of age. The contribution rates for workers above 50 years old, which are lower, will be scaled down accordingly.

Improving Employability

4.13 Improving the employability of older, low-wage workers is the second reason why we are doing this. Currently, employers pay the full 13% rate for all workers earning more than $50 per month. We will now phase in the employer CPF contributions for workers who are aged above 35, so that employers only pay the full new contribution rate of 14.5% at a monthly wage of $1,500. Again, the contribution rates for workers above 50 years old will be scaled down accordingly.

Supplementing Wages and Savings

4.14 These two changes will reduce employer and employee CPF contributions for older low-wage workers. The new Workfare Income Supplement (WIS) scheme that we are introducing will more than make up for this.

4.15 The Workfare quantum will be based on age. For workers above 45 and earning $1,000 and below, the Workfare will supplement their wages by up to $1,200 per year, or between 10% and 20%[1]. Workers aged between 35 and 45 will receive three-quarters the amount that workers above 45 will receive.

4.16 Workfare will be given partly in cash, but mostly in CPF. The cash-to-CPF ratio will be 1 : 2.5. In other words, for every dollar of cash we give the worker, we will also put $2.50 into his CPF. We are putting a larger part into CPF, so as to help low-wage workers better provide for their future needs.

4.17 WIS will be conditional on regular work. It will be given to workers who have worked at least three months in any six month period in the calendar year, or at least six months in the calendar year. Eligible workers who have worked for at least three months in the first six months of 2007 can look forward to their first WIS on 1st January 2008.

4.18 Like the Workfare Bonus Scheme, the WIS scheme will be for those who live in properties with an annual value of $10,000 or less, who are mostly living in public housing.

4.19 Let me give two examples to summarise what WIS will do, coupled with the changes in CPF contribution rates. First, let's look at a 46-year old worker who earns $800. He used to take home $640 per month. He will now bring home $57 more. What he gets in his CPF, which used to be $264, will also be slightly higher now despite the cut in employer CPF. Overall, he has received $100 of WIS, in other words, a 12.5% supplement to his wage. The employer has saved $27.

4.20 The second example — again a 46-year old, who earns $1,000 per month. Again, he gets more take-home pay — $49 more, and in his CPF — $38 more. He gets $100 of WIS too, which is a 10% supplement to his wage. He is better off, overall, and his employer's cost of hiring him is also reduced.

[1] Workers above 45 years of age, earning between $500 and $1,000 inclusive, will receive $1,200 in total WIS, which translates to a 10%-20% increase in annual income.

This is the combined result of the CPF restructuring and Workfare — more cash-in-hand, and more in the CPF. Details can be found in Annex B.

Helping Self-Employed Persons

4.21 Self-employed individuals do not pay full CPF, but they are required to contribute to Medisave at the same rates as other working individuals. The WIS scheme will extend to them. Self-employed persons will receive Workfare benefits that are two-thirds the amount for employees, provided they pay their Medisave. However, unlike employees, all of the Workfare for self-employed persons will be paid into their Medisave accounts.

4.22 Presently, one-third of self-employed persons are not paying Medisave, even though they are required to do so. To encourage more low-income self-employed persons to contribute to Medisave, we will reduce their contribution rate to one-third of the full Medisave rate. They will therefore pay no more than 3%, based on the new Medisave contribution rate of 6.5% to 8.5%.

4.23 For example, a self-employed person above 45 years earning an average of $1,000 a month would have had to contribute $80 a month to his Medisave. With the new scheme, he will only need to contribute $28 a month, whereupon the Government will top up his Medisave with a further $67 a month. In other words, the Government is topping up his income by about 7% a month.

4.24 The one-third Medisave contribution rate will apply to all self-employed persons[2] with a net trade income of $12,000 or less a year; in other words, an average of $1,000 a month or less. The rate will increase gradually to the full Medisave rates at a net trade income of $18,000 a year, $1,500 a month or more.

Helping Informal Workers

[2] Those with a net trade income of below $6,000 are not currently required to contribute to Medisave. However they are encouraged to do so voluntarily.

4.25 There is another group whom we want to encourage to join the CPF system and to benefit from the WIS. These are the informal workers who do odd jobs on an ad-hoc basis. Their employers do not pay their CPF, either because they cannot afford to do so, or because the workers prefer to take their entire wages in cash.

4.26 For purposes of the WIS scheme, we will treat informal workers just like the self-employed. Informal workers will receive WIS benefits if they work and contribute to their Medisave. They must pay Medisave at the same rate as the self-employed, and they will receive the same Workfare benefits as the self-employed, in other words, two-thirds of what regular employees receive, but all paid into their Medisave accounts.

4.27 We want, however, to caution employers who avoid paying CPF for their workers. Under the CPF Act, so long as a worker works regularly for any employer, that employer is liable to pay their CPF. As we institutionalise Workfare, MOM and CPFB will step up enforcement to ensure that payment for CPF is complied with.

<u>WIS Scheme Rewards Work</u>

4.28 The WIS scheme is expected to benefit 438,000 Singaporeans[3], and cost about $400 million a year over time. The numbers are likely to go up as more individuals are incentivised to join the workforce and to contribute to CPF. While Workfare is a long-term government programme, the specific scheme that we have worked out is new and will need to be tested out. We will review this scheme after three years and adjust it if we need to, to make sure that it achieves our aims.

4.29 The Workfare Income Supplement scheme is a major policy change. For the first time, the state will be supplementing the market wages that low-wage workers receive. But we have decided to make this change so as to help

[3] Estimated numbers by imposing the housing Annual Value criterion.

low-wage workers and encourage them to stay employed. This will strengthen social inclusion in Singapore.

Preparing for Future Healthcare Needs

4.30 Through Workfare and the various CPF changes that I have just mentioned, the CPF balances of all Singaporeans will rise to help them meet their long-term expenses, including their medical needs. However, many Singaporeans are understandably concerned about whether they will be able to afford their healthcare bills as they grow older.

4.31 Healthcare costs for the individual are rising because we are now living longer and becoming more prone to age-related diseases like stroke, diabetes and hypertension which are typically chronic and require long-term care. The elderly use more healthcare services and incur higher costs per episode of care. For example, hip fractures because of osteoporosis are common among the elderly and hip replacement surgeries are usually required to ease their condition.

4.32 The incidence of heart disease and cancer among Singaporeans is also growing, leading to very costly hospitalisation and treatment cycles. And the expectations of Singaporeans are rising; they are demanding more medical services, better medical technologies and more effective drugs.

4.33 To cater to these healthcare needs, the Government will be ramping up our healthcare expenditure over the next five to 15 years. Over the next five years alone, we expect to increase spending to reach about $3 billion a year by 2012, compared to $2 billion today. Part of this will go towards growing the number of doctors, nurses and allied health professionals in our public hospitals. In particular, we aim to bring 4,500 more nurses into the public sector over the next five years, as they play an increasingly important role in supporting the elderly. We will also increase the number of acute hospital beds and improve clinical services.

4.34 We will create academic medical centres in our NUH and SGH campuses, which will allow us to better marry the strengths of academic and clinical practice. Both centres will have a stronger clinical research component, with funding focused on the major diseases afflicting Singaporeans. In addition, step-down care now provided by charities will be better integrated with hospital care. We also want to better integrate patient care between GPs and specialists so that GPs can play a larger role in looking after Singaporeans' health.

4.35 Singaporeans will still have to foot their share of their medical bills, either in Medisave, insurance or cash. Some people, especially the elderly and low-income, have difficulty setting aside enough in their Medisave for their healthcare needs. They need our help. I will top up the Medifund by $200 million this year so that it reaches a sum of $1.4 billion.

4.36 Mr Speaker Sir, I have outlined some of the major programmes that the Government will have to embark on over the next five years and beyond, to build our capabilities for the future and to strengthen our social security system. With the Speaker's permission, I will continue later with the changes I will make to our tax regime and how we can fund these expenditure programmes.

(5) REVENUE STRUCTURE FOR THE FUTURE

5.1 Mr Speaker Sir, the plans I have laid out for CPF and Workfare represent the Government's commitment to address the dislocations caused by globalisation and ensure a sense of cohesion and financial security among Singaporeans. We are also making major new investments in our social and economic infrastructures. At the same time, we want to be able to reduce direct taxes to enhance our competitiveness. To do all this, we must therefore raise additional revenues. I will now map out our plans on the revenue front.

Reducing Direct Taxes

Restructuring the Corporate Income Tax System

5.2 First, direct taxes — we will make a significant move on corporate income tax in this Budget. The landscape is now more competitive than it was, even five years ago. Globally, corporate tax rates have come down to an average of 27% compared to 31% five years ago. Hong Kong's rate is currently at 17.5%, and could go down further. Ireland's is 12.5%. The emerging Eastern European economies have become serious competitors for global investment — Czech Republic is at 24%. Poland and Slovak Republic are at 19%. Hungary is at 16%. Latvia and Lithuania are at 15%.

5.3 As a broad based measure to help all companies and to keep Singapore attractive as a business location, I have decided to reduce the corporate tax rate by two percentage points, to 18%, with effect from YA2008. This will cost the Government $800 million a year. This corporate tax cut will bring Singapore more investments and more good jobs over time.

5.4 I will also do more to keep our tax regime relevant to new business structures and financial practices. Recognising that business borrowings are now taking various innovative and non-traditional forms, I will now allow all borrowing costs that are essentially similar to interest to qualify as tax-deductible expenses, with effect from YA2008. Such tax deductible costs will include certain guarantee fees and bond discounts. This will cost the Government $110 million a year. IRAS will release further details on this change.

Making Singapore the Best Location to Start and Grow Companies

5.5 I spoke earlier about our intention to make Singapore the best location for companies to start, grow and globalise. Our tax regime for SMEs and start-ups is already attractive. We will make it more so.

5.6 I have decided to increase the Partial Tax Exemption threshold for companies from the current $100,000 to $300,000, with effect from YA2008. This will cost the Government $150 million. All companies will enjoy this exemption, but it will benefit SMEs the most. This will mean that almost 80% of taxable companies in Singapore will pay taxes at effective rates of less than 10%. It also means that a company with chargeable income of $500,000 will pay tax at an effective rate of 12.5%, equal to Ireland and significantly lower than comparable rates in Hong Kong.

5.7 I will also enhance our tax regime for start-ups. Start-ups currently enjoy full tax exemption on the first $100,000 of their chargeable income for each of their first three years of assessment between YA2005 and YA2009. I have decided to remove the YA2009 expiry date so that all start-ups will henceforth enjoy a full three years of exemption.

5.8 These moves, coupled with the reduction in corporate tax rate to 18%, will make Singapore one of the most competitive locations in the world for SMEs and start-ups.

5.9 We recognise that our SMEs will typically face greater difficulties in meeting the higher costs due to the CPF employer contribution increase. Therefore, I have decided to give them a rebate on their labour expenses for two years. In the first year, this will take the form of a 2% cash rebate on the first $40,000 of total employer and employee CPF contributions of a firm. On the next $40,000 of total CPF contributions, we will give a 1% rebate. These percentages will be halved in the second year. This rebate will effectively offset up to 45% of the additional CPF cost that SMEs face in the first year and cost the Government $100 million in total. Details can be found in Annex C.

Keeping our Personal Income Tax Regime Competitive

5.10 Personal income taxes have also been coming down worldwide, although not to the same extent as corporate taxes. We have gradually lowered our personal income tax rates, most recently with a two-percentage point cut to 20%. We aim to keep personal income taxes low. This will maximise the incentives for all Singaporeans to work hard and reap the rewards of their efforts. It will also help us to attract and keep both international and Singaporean talent here.

5.11 For most taxpayers, our personal income tax regime is already competitive, because our marginal tax rate schedule is highly progressive. Thus individuals with assessable incomes of up to half a million dollars pay less tax in Singapore than in Hong Kong; in fact, up to about $530,000 of assessable income, you pay less tax in Singapore compared to Hong Kong. However, at the very top end, some other jurisdictions have lower effective tax rates than us, including Hong Kong. For attracting and keeping top talent, this is an issue. Therefore, we will continue to monitor the trends in personal income tax rates of competing locations. The changes to the framework for drawing investment income on our reserves will enable us to lower our rates further if necessary.

Rationalising Indirect Taxes

5.12 I have decided to implement other tax changes to rationalise our indirect tax regime.

Abolishing Cess

5.13 First, I will remove the current broad-based Cess that applies to F&B outlets. For those who are not familiar with this, it is the second of the three 'pluses' on the bill you get at a restaurant. This will cost the Government about $30 million a year. Cess has played a role in helping to fund the promotion of tourism. The Government will study more targeted ways to use Cess in future, where necessary, to fund specific tourism events.

Reducing Road Tax

5.14 I will reduce road tax by 8% for passenger cars and motorcycles. This is part of our move to shift progressively towards taxing on the basis of vehicle usage rather than ownership. Someone who owns a 2.0 litre car (e.g. a Toyota Picnic) and who currently pays $1,550 in annual road tax will get about $124 in savings. Details will be announced by the Ministry of Transport.

Reducing the Foreign Domestic Worker Levy

5.15 I will reduce the monthly Foreign Domestic Worker Levy by $30 from 1st July 2007. This will benefit one in every six households in Singapore, which currently employs a foreign maid. It will be particularly helpful for families that need a maid to help take care of dependents.

5.16 I have also decided to extend the Foreign Domestic Worker Levy Concession which currently only applies to those with young children and elderly parents, to employers with disabled family members, in other words, where there are disabled family members, or the employers are themselves disabled and need additional care-giving support. This will take effect from 1st November 2007. The Foreign Domestic Worker Levy changes will cost the Government $75 million a year. More details on the qualifying criteria for the extension of the concession to those with disabilities will be announced by the Minister for Community Development, Youth and Sports.

Reducing the Foreign Worker Levy

5.17 To help companies save costs, I will lower the second tier foreign worker levy for the manufacturing and services sectors from $310 to $280 with effect from April 2007. This will cost the Government about $1 million a year. The Minister for Manpower will also be announcing other measures to facilitate access to manpower in the construction sector and certain other industries that are growing very rapidly.

Extending Tax Relief for Cash Top-ups to CPF Accounts by Siblings

5.18 Currently, a person can claim up to $7,000 in tax relief each year for making cash top-ups to his, his parents', his grandparents' or his spouse's CPF Retirement Accounts, provided the beneficiary is aged 55 and above. To encourage greater support from close family members and not just children, we will extend this tax relief for cash top-ups to siblings who are aged 55 and above, and who earn $2,000 or less in the year preceding the top-up. This will take effect from YA2008.

Extending Stamp Duty Relief

5.19 Today, only limited liability companies and registered business trusts qualify for stamp duty relief on intra-group transfers of assets. I have decided to extend this relief to unlimited companies, Limited Liability Partnerships (LLPs) where all the partners are companies, and Statutory Boards. This will take effect from today.

Rationalising Liquor Duties

5.20 Some liquors are taxed on the basis of alcoholic content while others are taxed on the basis of volume. We will progressively move towards taxing liquors on the basis of alcoholic content. From 1st January 2008, I will tax beer and stout on this new basis. This is a rationalisation of duties and is not aimed at generating additional revenues. In addition, we will harmonise the Customs and Excise duty rates for beer and stout. The new rates are set out in Annex D.

Reviewing Asset Taxes

5.21 We mentioned in 2006 that we will review our asset taxes, including estate duty. I have decided to postpone a verdict on this. There have been many calls also to rationalise the structure of estate duty on residential properties and other assets respectively. I prefer to take this together with the decision on whether we will retain estate duty.

Raising New Revenues

5.22 Let me now turn to the issue of raising revenues to ensure long-term fiscal sustainability.

5.23 To meet our future expenditure needs and ensure that we remain competitive on direct taxes, we will raise additional revenues from two sources — income from our reserves, and GST.

Drawing More Income from the Reserves

5.24 First, the Government intends to amend the Constitution to revise the rule that allocates Net Investment Income (NII) from past reserves for spending. We are studying this carefully and discussing with the President the proposed revisions to the Net Investment Income formula. We expect to be able to increase the investment income available for spending by the Government by taking in capital gains as part of this income. What we aim to do is to work out a formula that strikes a fair balance between the claims of present and future generations, because the financial security and spending needs of tomorrow are no less important than those of today.

5.25 But we cannot rely on Net Investment Income alone to cover everything that we need to spend on. Instead, we must use the additional income from our reserves to secure further improvements to our competitiveness, to make longer-term investments in infrastructure and R&D, and to top up the endowment funds that will bring value to Singaporeans for many years to come.

This way, the NII will help to boost the growth of our economy over the long term. The increased expenditures that we will have to make on the social front over time should, therefore, be funded primarily by other revenues.

Raising the Goods and Services Tax Rate

5.26 This is why PM announced last year that we will raise the GST rate. Doing this will broaden our tax base, and enable the Government to implement Workfare and other initiatives to strengthen our social cohesion and grow our economy.

5.27 I have decided to raise the GST rate to 7% with effect from 1st July 2007. It is prudent to implement the GST increase now, in one step, while the economy is strong. This is expected to raise additional revenues of $750 million this year, and $1.5 billion per year going forward.

5.28 I have carefully considered the alternative of spreading out the increase in the GST over two years, and decided against it. It is better to raise prices at one go and compensate Singaporeans with a substantial offset package. By doing it in one step, it also means that no one can profiteer by raising prices in anticipation of a second step. For businesses, it also saves costs because they will not need to adjust their systems twice.

5.29 We will make it easier for smaller businesses to register for GST. SPRING will subsidise up to 50% of GST registration-related costs for Internet connection and IT consultancy and training for small enterprises. This support will be in place for two years starting from March 2007. SPRING and IRAS will also work with the industry chambers and associations to provide free automation software to businesses and help them administer the GST.

(6) GST OFFSET PACKAGE

6.1 This brings me to the measures we will take to offset the GST increase. We will put in place a comprehensive set of measures for Singaporeans, with more for the lower-income. The majority of Singaporeans will get offsets that are equal to at least five years of the increase in their expenditures as a result of the higher GST. Lower-income households will get much more than five years' worth. This GST Offset Package will cost the Government $4 billion in total over the five-year period.

Helping Singaporeans Cope with the GST Increase

GST Credits

6.2 Of this $4 billion, $1.8 billion will be given out in cash, in the form of GST Credits. All adult Singaporeans will receive GST Credits in annual instalments. The amount that a person receives will depend on two factors — his assessable income (AI) and the annual value (AV) of his home, which is used as a proxy for his wealth.

6.3 I will give lower-income Singaporeans larger GST Credits. Those who live in one- to three-room flats[4] and have annual assessable incomes of $24,000 or less will qualify for the largest quantum of $1,000. This $1,000 will be paid out in instalments of $250 per year over four years. Nearly three-quarters of the population will receive GST Credits of $800, again in instalments of $200 each year over the next four years. Next, if you live in a larger home with an AV of more than $10,000 but your income is less than $100,000 a year, you will get $400 in GST Credits. The top income group comprising those earning over $100,000 a year will get $100 of GST Credits, paid one time. It is a small gesture, but recognises that the GST increase affects everyone.

[4] This refers to those living in flats with AV of $5,000 or less. It covers virtually all HDB residents in one- to three-room flats.

Table 1 – Structure of GST Credits

<table>
<tr><td colspan="2" rowspan="2"></td><th colspan="3">Annual Value of Home</th></tr>
<tr><th>$5,000 or less</th><th>More than $5,000 and up to $10,000</th><th>More than $10,000</th></tr>
<tr><th rowspan="3">Annual Assessable Income</th><th>$24,000 or less</th><td>$1,000
($250 per year for 4 years)</td><td rowspan="2">$800
($200 per year for 4 years)</td><td rowspan="2">$400
($100 per year for 4 years)</td></tr>
<tr><th>More than $24,000 and up to $100,000</th><td></td></tr>
<tr><th>More than $100,000</th><td colspan="3">$100 (for 1 year)</td></tr>
</table>

6.4 NSmen and NSFs, including those aged below 21, will also get an additional $100 of GST Credits to recognise their contributions to national security. They will get their bonus GST Credits in the year that they qualify. So a person who becomes an NSF in 2008 or 2009 will also get the bonus GST Credits in that year.

6.5 Singaporeans will have to sign up just once to qualify for all four years of GST Credits though the amount they get will be assessed yearly, based on their income and residence. The first instalment will be paid out on 1st July this year, at the same time as the GST increase.

<u>Senior Citizens' Bonus</u>

6.6 I will give senior citizens more. Many of them will be concerned about the GST increase because they have to meet their living expenses out of their savings. We will therefore provide Singaporeans aged 55 and above with a Senior Citizens' Bonus, as long as they have annual assessable incomes of $100,000 or less. Those aged 60 and above will get more, with amounts ranging from $1,000 for those in the lower-income group to $400 for those who are better off. As with the GST Credits, the quantums will depend on their income and the annual value of their homes. Two-thirds of the Senior Citizens'

Bonus will be given in cash and one-third credited into their Medisave Accounts on 1st July of each year. For example, a 65-year-old retiree living in a three-room flat will get $1,000 of Senior Citizens' Bonus on top of the $1,000 he will get in GST Credits, making a total of $2,000 over four years. The Senior Citizens' Bonus will cost the Government $400 million.

Table 2 – Structure of Senior Citizens' Bonus

<table>
<tr><th colspan="2" rowspan="2"></th><th colspan="3">Annual Value of Home</th></tr>
<tr><th>$5,000 or less</th><th>More than $5,000 and up to $10,000</th><th>More than $10,000</th></tr>
<tr><th rowspan="2">Annual Assessable Income</th><th>$24,000 or less</th><td>Aged 55 – 59: $600
($150 per year for 4 years)

Aged 60 & above: $1,000
($250 per year for 4 years)</td><td rowspan="2">Aged 55 – 59: $400
($100 per year for 4 years)

Aged 60 & above: $800
($200 per year for 4 years)</td><td rowspan="2">Aged 55 -59: $200
($50 per year for 4 years)

Aged 60 & above: $400
($100 per year for 4 years)</td></tr>
<tr><th>More than $24,000 and up to $100,000</th><td></td></tr>
</table>

<u>Top-ups to Post-Secondary Education Accounts</u>

6.7 We want to help families with the costs of their children's post-secondary education. As I mentioned earlier, we will open Post-Secondary Education Accounts (PSEA) for all Singapore citizen children aged from seven to 20 from next year. We will top up these accounts from time to time, when our surpluses allow, and give more to those who are less well-off. I will credit the accounts of those in secondary school or older with $400 in 2008, and another $400 in 2009. Those of primary school age will get less as they can get more PSEA top-ups in future years if we are able to share surpluses.

6.8 The PSEA top-ups will cost $400 million and benefit around 650,000 children.

Table 3 - Structure of PSEA Top-ups (each year)

Age of Child in Year of Payout	Annual Value of Home less or equal to $10,000	Annual Value of Home more than $10,000
7 to 12	$200	$100
13 to 20	$400	$200

Utilities-Save (U-Save), Service and Conservancy Charges (S&CC), and Rental Rebates

6.9 As part of the GST Offset Package, I will also extend the Utilities-Save, S&CC and Rental Rebates to eligible HDB households for five years, from 1st April 2007 to 31st March 2012. This will help low to middle-income households cope with increased household expenses that they face due to the GST increase. The U-Save and S&CC rebates will also be extended to those living in HDB executive flats. These rebates will benefit 800,000 HDB households and cost a total of $800 million* over five years.

[***Afternote**: As announced by the Prime Minister on 17 August 2008, households will receive a 50% increase in the total amount of U-Save rebates to be given out in Fiscal Year (FY) 2008. This will raise the cost of the U-Save to $866m over five years.]

Property Tax Rebate

6.10 I will provide a one-off property tax rebate of up to $100 per year in 2008 and 2009, in other words $200 in total for all owner-occupied residential properties. This will benefit about one million property owners, with three- and four-room HDB flat owners paying little to no property tax in 2008 and 2009. This will cost the Government $200 million.

Assistance for Low-Income Families with Young Children

6.11 To help lower-income families with young children, we will increase financial assistance for kindergarten and childcare. We will enhance the Kindergarten Financial Assistance Scheme (KiFAS) by increasing the level of subsidy from 75% of kindergarten fees, which is where it is currently, to 90%. This means that low-income families will now be able to enjoy a subsidy of about $80 a month. Subsidies for the Centre-Based Financial Assistance Scheme for ChildCare (CFAC) will be increased by between $20 and $40 a month for each child. Other enhancements to the ComCare Fund programmes will be announced by MCYS later. These enhancements will cost a total of $6 million a year.

Assistance for Pensioners

6.12 The Government has decided to increase the Singapore Allowance further by $20 per month, and raise the gross pension ceiling from the current $1,100 to $1,150 per month. The revision will give an additional $4 million a year to pensioners residing in Singapore.

Public Transport Fund

6.13 While public transport remains affordable for the majority of Singaporeans, there are lower-income families who need more help. The Government will commit $10 million, to a Public Transport Fund (PTF) in October 2007, to be given out over three years. This will provide additional help to lower-income households for their public transport costs where necessary.

Assistance through Citizens' Consultative Committees (CCCs), Self-Help Groups and VWOs

6.14 Although we have a comprehensive GST Offset Package, it is possible that some households will face special difficulties. The best way to help them is through flexible assistance from their CCCs. I will therefore top up the CCC ComCare Fund by $5 million over five years. To help lower-income Singaporean families, the Government will also provide $2 million over five years to the Self-Help Groups, and $3 million over five years for Government-funded VWO programmes. More details will be announced by MCYS.

Additional Subsidies for Healthcare, Education and Service and Conservancy Charges

6.15 The Government will provide the restructured hospitals and polyclinics with more grants to fully absorb the additional GST on subsidised healthcare services. This will cost the Government an additional $12 million a year.

6.16 We will also absorb the GST payable on school and miscellaneous fees as well as fees and tuition grants at ITEs, polytechnics and universities. This will cost an additional $40 million a year.

6.17 Town councils will also get an additional $10 million a year to absorb the additional GST payable on Service and Conservancy Charges.

Overall Impact of the GST Offset Package on Households

6.18 Let me summarise the overall impact of the GST Offset Package for Singaporean households. Most households will receive GST Credits, Senior Citizens' Bonuses, PSEA top-ups, U-Save, S&CC and rental rebates, and property tax rebates. Taking these offsets alone, those living in four-room flats will receive benefits that are, on average, seven times the extra GST that they will have to pay each year. In other words, seven years' worth of offset. Even those in executive flats will receive four years' worth of offset on average. The lowest-income households will receive the most. For instance, two-roomers will receive about 16 years' worth of offsets, or 16 times the increase in their annual GST expenditure. More details can be found in Annex E.

6.19 Take the example of an average Singaporean family living in a four-room flat. This example is typical. If I were to choose a lower-income family, the benefits would be larger. Husband, aged 42, earns $2,800 a month. His wife, aged 37, earns $1,000 a month. They spend most of their take-home pay, or about $3,000 a month of spending. They will pay an additional GST of $57 per month or $685 per year typically. The couple has two children, one in primary school and the other in secondary school. They will get a total of over

$4,200 from the GST Offset Package — comprising $1,700 in GST Credits[5], $790 in U-Save rebates, about $340 in S&CC rebates, $1,200 of PSEA top-ups, and $200 of property tax rebates for 2008 and 2009. Add it all up, it comes to six years' worth of the GST increase in the case of this family. In addition, on an on-going basis, even after the GST offsets are distributed and over with, this family will be getting ongoing improvement in their standard of living because the wife will qualify for $900 from the Workfare Income Supplement (WIS) scheme and the husband gets an increase in his employer's CPF contributions as well.

6.20 The GST Offset Package is therefore a substantial one that will help the majority of Singaporeans offset their increased GST costs for several years. Low-income households, in particular, will be well provided for both through the GST Offset Package and the WIS. Even after the GST offsets have been distributed, Workfare will continue to provide significant support for low-income workers on a continuing basis. This is why the GST, combined with the Workfare Income Supplement Scheme, is not regressive. Lower-income workers will end up better because of this — better off compared to before the GST increase and the introduction of Workfare.

[5] This includes the $100 NS component for the husband.

<u>(7)</u> <u>CONCLUSION</u>

FY2007 Budget Position

7.1 Mr Speaker, Sir, let me now summarise the FY2007 budget position. Excluding Special Transfers and tax changes, we expect a surplus of $1.1 billion for FY2007. The GST increase, reduction in corporate tax and other tax changes taken together, will increase FY2007 operating revenue by $0.3 billion. The GST Offset Package, Workfare, and top-ups to NRF and the endowment funds will cost $2.1 billion. After taking these into account, the estimated FY2007 Overall Budget Balance is a deficit of $0.7 billion. The Government will not need to draw on past reserves as the deficit can be fully financed by funds accumulated since the new Government took office in May 2006. Details of the revised fiscal positions for FY2006 and FY2007 can be found in <u>Annex F</u>.

Ready for the Future

7.2 Mr Speaker, Sir, this Budget is about our future. It will build on our strengths, enhance our capabilities, and provide opportunities for all Singaporeans to strive and succeed.

7.3 This Budget will sharpen Singapore's competitive edge. We are reducing corporate tax and providing an environment for enterprises small and big to flourish. Singapore will become the best place to start and grow a business. We will invest in our people, enhance our infrastructure, and create a living environment that will inspire every Singaporean.

7.4 This Budget also strengthens our social security system. We are raising the employer CPF contribution rate to help our workers become more financially secure and to provide for their future medical, housing and retirement needs.

7.5 We are taking a bold new approach to help those at the lower end of our workforce. Their wages are being held down by globalisation. Our older workers, especially, find it difficult to secure jobs, and many lower-income households struggle to make ends meet. We will reduce their CPF contribution rates to help them stay employable and to increase their take-home pay. And we will supplement their incomes and savings through Workfare.

7.6 This Budget strengthens our revenues for the future. We are raising the GST to broaden our tax base. It will give us critical additional revenues that will enable us to improve our social security system, increase spending on health especially as our population ages, and ensure that our income taxes remain competitive.

7.7 To help Singaporeans adjust to the higher GST, we are providing a comprehensive offset package. Lower-income Singaporeans will receive much more than the extra GST they have to pay. The middle- and higher-income groups will also benefit from the offset package as well as from the higher employer contributions to their CPF. Most importantly, all Singaporeans will be better off because these decisive moves that we are making now will grow our economy.

7.8 We are setting in place a strong and sustainable fiscal position. The GST increase will give us an additional $1.5 billion each year. Workfare will cost us about $400 million a year. Our increased health expenditures will amount to $300 million each year on average over the next five years, and considerably more beyond that. Expanding continuing education opportunities for all Singaporeans will cost us at least $300 million extra each year in the long term. The corporate tax cut will cost us $800 million per year. The GST increase will help us to finance these initiatives. But we also need to use more of the investment income from our reserves. The additional income from our reserves, together with the increased GST revenues, will give us the resources to enhance our social security system, invest in new capabilities, further sharpen our competitiveness, and meet the challenges of the future from a position of strength.

7.9 Mr Speaker Sir, we have every reason to be confident about our future. Globalisation is playing to Singapore's strengths — our openness to the world, our responsiveness to change, our reputation for trust. But what will ultimately determine our success is our people's spirit of enterprise, resilience, and self-reliance. Even as we bolster our system of social support, we must keep these values strong in our society.

7.10 Many Singaporeans bear testimony to these values. Like Mabel Ong, now in her mid-fifties. She did not get beyond primary school. But she has always worked. First, as a seamstress for many years in garment factories. Until her mid-forties, when her eyesight deteriorated and she found it harder to sew clothes. She then started working at hotels as a valet, delivering laundry to hotel guests, and as a food server in restaurants. Two years ago, she took up a friend's recommendation and started work at the Oriental Hotel, checking and issuing mini-bar items for rooms. She does every type of work she can; during lull periods, she volunteers to help out at the linen department. She has also been going for courses so that she can take on new responsibilities. Recently, the hotel promoted her into a new position they created — "Mini-bar Supervisor". Mabel sums it up in her own words, her attitude to work and to life — "Whatever I can do, I will do. And whatever I do, I will try to do well."

7.11 That is the Singapore spirit — can do, will do, do well. This is why we will succeed and this is why we have a bright future.

Mr Speaker, Sir, I beg to move.

ANNEX A: Budget 2007 Tax Changes

General Tax Changes

Name of Tax Change	Current Treatment	New Treatment
Reduction in Corporate Tax Rate	Currently, the corporate tax rate is 20%.	The corporate tax rate will be reduced to 18% with effect from year of assessment (YA) 2008. In line with the reduction in corporate tax rate to 18%, the following tax rates which are presently pegged at 20% will also be correspondingly reduced to 18% with effect from YA 2008: (a) tax rate for non-resident persons [other than non-resident individuals and non-resident Hindu joint family, which will remain at 20%]; (b) rate at which tax is withheld for payments (other than those subject to the 10% or 15% final withholding tax) to non-resident persons other than non-resident individuals/ Hindu joint family; (c) tax rate for trustees (other than trustees of incapacitated persons) and executors; (d) rate of deduction of tax from Singapore franked dividend paid during the period from 1 January

Name of Tax Change	Current Treatment	New Treatment
		2007 to 31 December 2007[6]; (see next item) (e) rate of tax to be used to compute the effective company tax rate for a body of persons.
One-tier Corporate Tax System/ Payment of Singapore Franked Dividends in 2007	A) The one-tier corporate tax system took effect on 1 January 2003. Companies were given five years from that date till 31 December 2007 to use up their unutilised section 44A tax credits to frank dividends. After 31 December 2007, the unutilised balances will be nullified. To mitigate the adverse effects of the one-tier corporate tax system, we also introduced concessions that effectively allowed the interest expense attributable to one-tier exempt dividends to be deducted while companies restructured their operations. These concessions are available up to 31 December 2007. B) Currently, the rate of deduction of	A) In order to preserve what is seen as a consistent and fair regime and to reinforce our intention to move to the one-tier corporate tax system as soon as possible, there will not be further extension to the five-year transitional period for: i) utilisation of section 44A tax credits; ii) transitional concessions; and iii) utilisation of section 44 charges. B) With the reduction in corporate tax rate, the rate of

[6] With the reduction in the corporate tax rate, the rate at which credit is granted for franked dividends under section 46(1)(a) of the Income Tax Act shall not exceed 18%. Where tax on franked dividends paid in 2007 has been deducted at 20%, the net dividends received by the shareholder is deemed to have been paid without deduction of tax and will be grossed-up at the rate of 18% to determine the gross dividends assessable to tax. The difference between the amount of tax deducted at 20% from such dividends and the tax deemed to be so deducted will be credited to the 44A balance of the company declaring the dividends and will be available for franking future dividends before 31 December 2007.

Name of Tax Change	Current Treatment	New Treatment
	tax from Singapore franked dividends is 20%.	deduction of tax from Singapore franked dividends for 2007 will be 18%. Despite the reduction of corporate tax rate, the tax rate for non-resident individuals/ Hindu joint family will remain at 20%. This is to align with the top marginal tax rate for resident individuals/ Hindu joint family. Hence, when a non-resident individual/ Hindu joint family receives a Singapore franked dividends for the year 2007 (which has tax deducted at source at the rate of 18%), the franked dividend received is to be subjected to tax at 20%. The company paying the franked dividends would be required to withhold and remit 2% of the gross dividends to the Comptroller of Income Tax. To alleviate the administrative burden of companies that remain on the imputation system for the purpose of paying franked dividends, the rate of tax on franked dividends received by non-resident individuals/ Hindu joint family will be reduced to 18% of the gross amount of such dividends. This reduced tax rate of 18% will be a final tax. However, in recognition that non-resident individuals/ Hindu joint family may claim expenses incurred to earn the income from Singapore, non-resident individuals/ Hindu joint family are allowed the option to be taxed at 20% of net dividends instead of 18% of gross dividends.

Name of Tax Change	Current Treatment	New Treatment
Tax Deduction for Borrowing Costs	Generally, deduction of an expense is allowed if the expense is revenue in nature and is incurred in the production of income. In the case of borrowings used to acquire a capital asset, and where the capital asset is used to acquire income, only the interest cost is currently deductible under section 14(1)(a) against the income generated from the capital asset. Other borrowing costs associated with such borrowings do not qualify for any tax deduction.	Specified borrowing costs, other than interest, which are incurred on a borrowing that is used to acquire a capital asset used to produce income will be deductible for tax purposes, provided these costs are paid as a substitute for interest or to reduce interest costs. The tax change will take effect from YA2008. IRAS will release more details by May 2007.
Increase in Partial Tax Exemption Threshold	Currently, 75% of the first $10,000 of normal chargeable income (excluding Singapore franked dividend), and 50% of the next $90,000 of a company is tax exempt. This Partial Tax Exemption (PTE) scheme is generally available to all companies.	The threshold for PTE will be increased to $300,000, as follows: • 75% exemption of up to the first $10,000 of normal chargeable income (excluding Singapore franked dividend); and • 50% exemption of up to the next $290,000 of normal chargeable income (excluding Singapore franked dividend). This tax change will take effect from YA2008.
Lifting the Sunset Clause for the Income Tax Exemption Scheme for New Companies	Full income tax exemption is granted on the normal chargeable income (excluding Singapore franked dividend) up to $100,000, for tax resident exempt	The sunset date of YA2009 is lifted. Tax resident EPCs incorporated in Singapore will hence be granted tax exemption on their normal chargeable income up to $100,000 for the full three consecutive YAs regardless of

Name of Tax Change	Current Treatment	New Treatment
	private companies (EPCs) incorporated in Singapore. The tax exemption scheme is currently applicable to the new company's first three consecutive YAs falling within YAs 2005 to 2009.	whether any of these first three YAs falls beyond YA 2009.
Extension of Section 15 Stamp Duty Relief	Section 15 Stamp Duty Relief is only available to intra-group transfers of assets involving companies with limited liability and registered business trusts.	Section 15 Stamp Duty Relief on intra-group transfers will be extended to unlimited companies, Limited Liability Partnerships (LLPs) where all the partners are companies and Statutory Boards. IRAS will be issuing a guide on the new treatment in February 2007.
Accelerated Depreciation Allowance for Replacement of Pre-Euro IV Diesel Goods Vehicles and Buses	Currently, capital expenditure incurred on new diesel driven goods vehicles and buses that replaced old ones that were registered before 1 January 1991 are allowed to be written-off in one year instead of over three or six years under section 19A(9) of the Income Tax Act (ITA). However, capital expenditure incurred on diesel driven goods vehicles and buses meeting the new Euro-IV emission standard that replace existing pre Euro IV vehicles registered on or after 1 January 1991 are allowed to be written-off over either three or six years.	New goods vehicles and buses acquired to replace the old ones that do not meet with the new Euro- IV emission standard and which were registered on or after 1 January 1991 will qualify for one-year write-off for income tax purposes. The incentive will be granted for five years and will take effect for new vehicles registered from 15 February 2007 to 14 February 2012.

Name of Tax Change	Current Treatment	New Treatment
Extension of Section 19B Writing Down Allowance	No writing down allowance will be given for any capital expenditure incurred to acquire intellectual property rights by any company after 31 Oct 2008.	The writing down allowance concession for acquired intellectual property rights will be extended by another five years, till 31 October 2013.
Enhancement to Investment Allowance Scheme	Currently, under the Investment Allowance (IA) scheme administered by SPRING and EDB, the maximum qualifying period (i.e. period within which the fixed capital expenditure must be incurred in order to qualify for the IA) is five years from the investment day specified in the certificate issued. For companies that purchase equipment on hire purchase, any capital expenditure incurred (i.e. hire purchase instalments made) beyond the qualifying period will not qualify for the IA.	The maximum qualifying period for companies that purchase equipment on hire purchase would be extended from five years to eight years. This change will take effect for equipment purchased on or after 15 February 2007.

Legal Services

Name of Tax Change	Current Treatment	New Treatment
International Arbitration Tax Incentive	N.A.	Approved law firms will be granted a 50% income tax exemption on qualifying incremental income derived from international arbitration work. This scheme will be available from 1 July 2007 to 30 June 2012. The incentive duration will be up to five years. The Ministry of Law will release further details by May 2007.

Financial Services

Name of Tax Change	Current Treatment	New Treatment
Enhancements to the Tax Exemption Schemes for Income from Funds Managed for Foreign Investors	Tax exemption is granted on specified income derived by a foreign investor from funds (both resident and non-resident) managed by any fund manager in Singapore in respect of designated investments.	With effect from 15 February 2007, the list of designated investments will be expanded to include the following: a) qualifying loans; b) commodity derivatives (both over-the-counter and exchange-traded) and physical commodities where: - the trade volume of physical commodities do not exceed 15% of the total trade volume of commodity derivatives and physical commodities for each year of assessment throughout the

Name of Tax Change	Current Treatment	New Treatment
		incentive period; and - the trading of physical commodities is in connection with and incidental to any related commodity derivatives trading. Specified income derived on or after 15 February 2007 by a foreign investor from the types of designated investments stated in paragraphs (a) and (b) will be tax exempt. In addition, the tax exemption schemes will also be expanded to cover Collaterised Debt/Loan Obligations. MAS will release details by May 2007.
Enhancement to Financial Sector Incentive (FSI)	Fees and commissions derived by a FSI-(fund management) company or FSI-(standard-tier) company from the following activities are taxed at a concessionary tax rate of 10%: a) managing the funds of foreign investors for the purpose of designated investments; b) providing investment advisory services to foreign investors in	Fees and commissions derived on or after 15 February 2007 by a FSI (fund management) company or FSI (standard-tier) company from providing investment advisory services in relation to a foreign investor or to a foreign fund manager under a fund delegation arrangement will qualify for the concessionary rate of tax of 10%. MAS will release details by May 2007

Name of Tax Change	Current Treatment	New Treatment
	relation to designated investments; and c) arranging on behalf of foreign investors any loan of designated securities under a securities lending arrangement in writing to another FSI(fund management) company or FSI (standard-tier) company.	
Enhancements to the Finance and Treasury Centre (FTC) incentive	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 approved associated companies, and from qualifying activities carried out on its own account.	With effect from 15 February 2007, the list of FTC qualifying activities will be expanded to include transacting and investing in the units in any qualifying unit trust. For the purposes of the scheme, a qualifying unit trust is one which engages wholly in qualifying activities that an FTC can carry out on its own account under the FTC incentive. MAS will release details by May 2007.
Extension of the tax exemption on Over-The-Counter (OTC) Financial Derivative Payments made to	Tax exemption is granted on payments related to financial derivatives in *any currency* that are traded over-the-counter, made to persons who are	<u>Changes for -</u> <u>a) Financial Institutions</u>

[7] A financial institution refers to any institution licensed or approved by the MAS, or exempted from such licensing or approval under any Act administered by the MAS, and includes an institution approved as a Finance and Treasury Centre under Section 43G of the Income Tax Act (Cap 134).

Name of Tax Change	Current Treatment	New Treatment
a non-resident	neither residents of nor permanent establishments in Singapore. The exemption applies to payments which – a) a *financial institution*[7] ("FI") in Singapore is liable to pay to non-residents from 27 February 2004 to 19 May 2007 (both dates inclusive); and b) an approved special purpose vehicle which engages in asset securitisation transaction is liable to pay to non-residents from 27 February 2004 to 19 May 2007 (both dates inclusive) .	The tax exemption will be extended by another five years to 19 May 2012. In addition, tax exemption will be applied to all payments made on contracts which are entered into from 15 February 2007 to 19 May 2012 (both dates inclusive). The tax exemption will apply to OTC financial derivative payments made by FIs to non-residents for the entire duration of such contracts. b) Approved Special Purpose Vehicle ("ASPV") The tax exemption will be extended to 31 December 2008, to coincide with the expiration of the ASPV scheme. The tax exemption will be applied on a contract basis i.e. for contracts entered into during the period from 15 February 2007 to 31 Dec 2008 (both dates inclusive). The tax exemption will apply to OTC financial derivative payments made by an ASPV to non-residents for the entire duration of the contracts. MAS will release details by May 2007.
Enhancement to Qualifying Debt Securities Scheme	The Qualifying Debt Securities Scheme accords tax exemption or concessionary tax rates on interest and discount derived by investors from Qualifying	With effect from 15 February 2007, the Qualifying Debt Securities Scheme will accord tax exemption or concessionary tax rates on *prepayment fee*, *redemption premium* and *break cost* that are derived by investors from

Name of Tax Change	Current Treatment	New Treatment
	Debt Securities, subject to conditions.	Qualifying Debt Securities, subject to conditions. This is applicable to all Qualifying Debt Securities issued on or after 15 February 2007. MAS will release details by May 2007.

Growing Singapore as a Philanthropy Hub

Name of Tax Change	Current Treatment	New Treatment
1) Income Tax exemption for Registered Charities 2) Double tax deductions for donors to foundations and grantmakers	1) Charities are required to spend at least 80% of their annual receipts on charitable objects in Singapore within two years in order to be exempt from income tax. 2) Individuals and companies can obtain double tax deductions (DTD) for donations to organisations with Institutions of Public Character (IPC) status.	1) Registered charities will enjoy income tax exemption without having the need to meet the 80% spending rule. 2) Individuals and companies that donate to foundations and grantmakers will be eligible for double tax deductions, if the donations are channeled to Institutions of Public Character in Singapore within a specified timeframe. Details will be announced by September 2007.
Tax Exemption Scheme for Not-for-Profit Organisations (NPOs)	N.A.	NPOs approved by Economic Development Board (EDB) will be granted income tax exemption for an initial period of not more than 10 years. The incentive may be renewed

Name of Tax Change	Current Treatment	New Treatment
		subject to approval by EDB. Eligible NPOs will include those that promote the economic development of Singapore, such as standards organizations and research bodies. The scheme takes effect from 15 February 2007.

Logistics, Maritime and Aviation Services

Name of Tax Change	Current Treatment	New Treatment
Enhancement to the Approved Shipping Logistics Enterprise Scheme (ASL)	Ship agencies, ship management companies and shipping logistics companies under the Approved Shipping Logistics Enterprise Scheme (ASL) are granted a 10% concessionary tax rate on qualifying income for a period of five years.	The incentive period for ASL companies will be extended from five years to ten years with effect from 15 February 2007. MPA will release details by May 2007.
Enhancement to the Approved Aircraft Leasing Scheme (ALS)	Aircraft leasing companies which are approved under the ALS enjoy a concessionary tax rate of 10% for a period of five years *on income from offshore leasing of aircrafts*. The 10% concessionary tax rate is also granted on income derived from the	With effect from 1 March 2007 to 29 February 2012, the ALS will be enhanced as follows: a) Grant a concessionary tax rate of 5% (in addition to existing 10% rate) on qualifying lease income for a period of five years; b) Extend the concessionary tax rates to registered

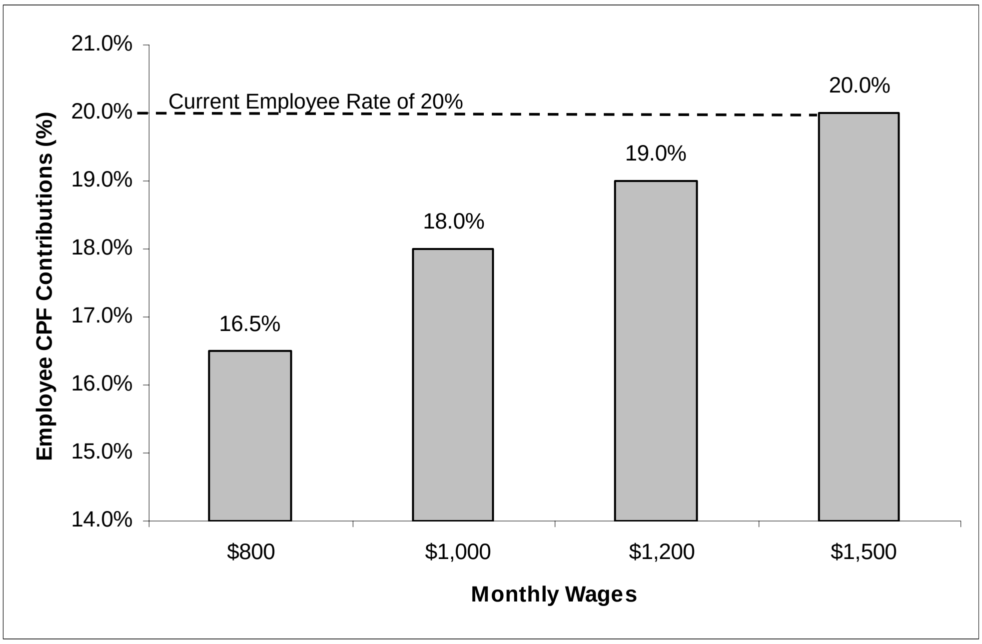
Name of Tax Change	Current Treatment	New Treatment
	performance of ancillary activities such as: a) Management of aircraft leases. b) Advisory and agency services relating to the sale of leasing of aircraft.	business trust or an approved company under an aircraft or aircraft engine financing arrangements. c) Expand the scope of income qualifying for the concessionary tax rate to include: i) income from leasing of aircraft engines; and ii) income from leasing of aircraft or aircraft engines to any person in Singapore i.e. onshore leasing. Details will be released by EDB by May 2007.
Zero-rating of GST for servicing, sale and lease of containers. ['servicing' refers to repairs, maintenance and management services of containers]	The supply of servicing, sale and lease of air and sea containers can only be zero-rated if the customer is foreign-based and the containers will be shipped overseas to a specific destination. The problem is that the customer may not know where his container will be shipped at the point of billing. Furthermore, local customers have to pay GST even though the containers will eventually be used for international transportation of goods.	Given that sea or air containers are primarily used for the international transportation of goods, the supply of servicing, sale and lease of containers are recognised as international services and therefore qualify for zero-rating. Thus, both foreign and local customers will not pay any GST. The tax treatment will take effect from 1 April 2007. IRAS will be issuing a guide on the new treatment in March 2007.

ANNEX B: CPF Restructuring for Low-wage Workers and Workfare

(1) Increase Take-Home Pay of Low-Wage Workers

- Reduce the employee component of CPF contribution rates for all employees earning $1,500 or less a month.
    - Employee component of CPF will now increase from 0% at a wage level of above $500 to the full rate of 20% at $1,500.
    - Figure 1 illustrates the change in employee CPF contributions for those aged 50 and below.
- The rates for employees above 50 years old will be scaled down accordingly.

Figure 1: Employee CPF Contribution Reduced[8]

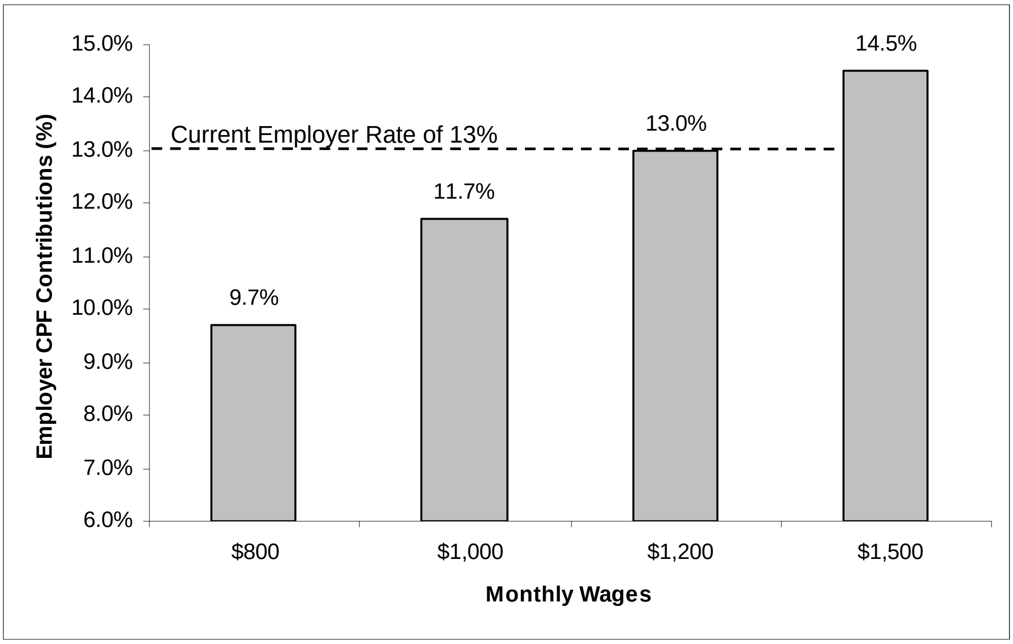


(2) Increase Employability of Older Low-Wage Workers

- Reduce the employer component of CPF contribution rates for workers above 35 years old and earning $1,200 or less.
- Increase employer CPF contributions gradually from 0% at a monthly wage of above $50 up to 13% at a monthly wage of $1,200. The 1.5% increase in CPF will be phased in between $1,200 and $1,500. (Employers currently pay the full rate of 13% when monthly wages exceed $50.)
    - Figure 2 illustrates the change in employer CPF contributions for those aged above 35 to 50.
- The rates for employees above 50 years old will be scaled down accordingly.

[8] Illustration for employees aged 50 and below.

Figure 2: Employer CPF Contribution Restructured[9]



(3) Help Self-Employed Persons (SEPs) contribute to CPF

- Reduce the Medisave contribution rate to one-third of the full rates i.e. less than 3% for those with an annual net trade income of above $6,000 and up to $12,000. The contribution rate will gradually rise to the full rates for those with an annual net trade income of between $12,000 and $18,000.
- SEPs earning an annual net trade income of $6,000 or less do not have to contribute to the CPF. But those who meet the Workfare Income Supplement (WIS) scheme criteria can voluntarily contribute at the reduced contribution rates to qualify for WIS.

Workfare Income Supplement (WIS) Scheme for Older Low-Wage Workers

Eligibility Criteria

- Singapore Citizen;
- Monthly salary of $1,500 or less;
- Above 35 years old;
- Stays in a property of not more than $10,000 annual value; and
- Works at least three months in any six-month period in the calendar year, or at least six months in the calendar year.

Payout Structure

- Payouts will be given to eligible beneficiaries earning above $50 and up to $1,500 a month.
- Higher payouts for those above 45 years old, up to a maximum of $1,200 a year.
- Maximum of $900 a year for those aged above 35 to 45.

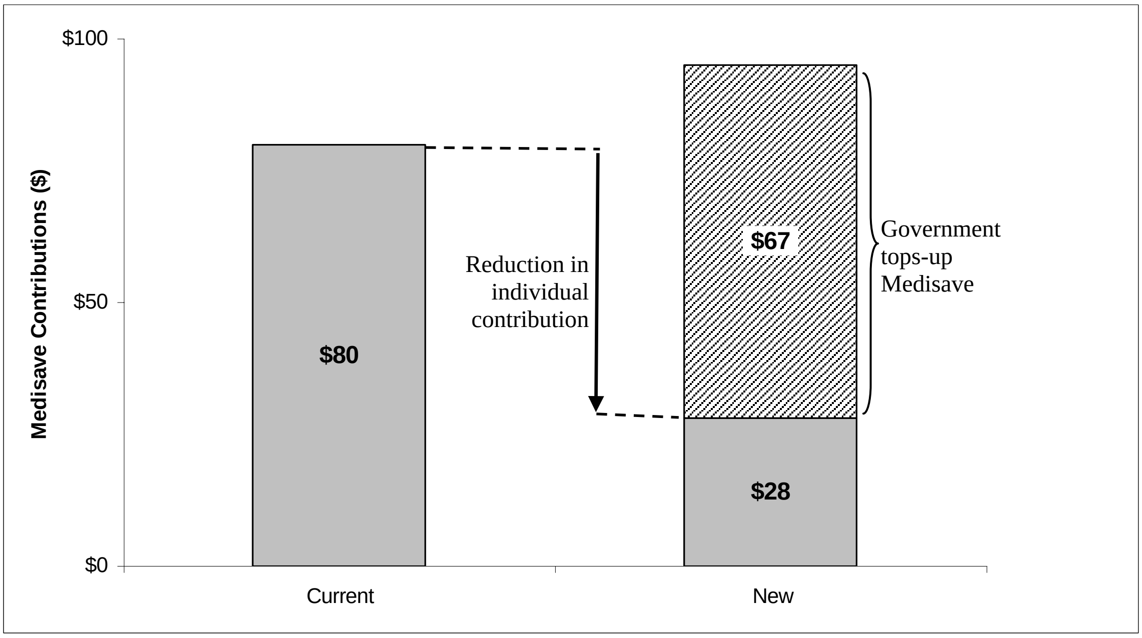
[9] Illustration for employee aged above 35 to 50.

- For employees, the WIS will be paid with a cash-to-CPF ratio of 1 : 2.5.
- Payments will be made twice a year.
- Eligible workers who have worked for at least three months in the first six months of 2007 can look forward to their first payout in January 2008.

Self-Employed Persons and Informal Workers Need to Make Medisave Contributions to Benefit from WIS

- Self-employed persons and informal workers who meet Workfare eligibility criteria will be required to contribute into their Medisave Accounts (MA) in order to receive WIS.
- WIS for self-employed persons and informal workers will be two-thirds of the amount for employees, as they contribute much less in CPF. The WIS will be paid entirely into their MA.
- Figure 3 illustrates an example of a 46 year-old self-employed worker who earns $1,000 per month, and receives $67 of WIS payouts to his MA.
- Self-employed and informal workers who earn $6,000 or less in annual net trade income can make voluntary contributions to qualify for WIS.

Figure 3: Example of 46 year-old Self-Employed Worker Earning $1,000 / month



Overall Impact of WIS and CPF Changes

- WIS is designed to complement the CPF changes.
- The reduction in CPF contributions from the CPF changes will in general be made up for by WIS.
- Beneficiaries will be better off as compared to previously.
- Low-wage workers will be better off as compared to previously.
- Employers will enjoy savings from hiring these workers.

Table 1: Illustration of Impact of WIS and CPF changes

A 46-year old employee earning $800 per month

	Current ($)	New ($)	Difference ($)
Employee CPF	160	132	-28
Employer CPF	104	77	-27
WIS Cash (monthly)	-	29	29
WIS CPF (monthly)	-	71	71
Take-home Pay	**640**	**697**	**57**
Total CPF Contributions	**264**	**280**	**16**
Total Income	**904**	**977**	**73**
Employer Savings ($)	**27**		
Total WIS ($)	**100**		

A 46-year old employee earning $1,000 per month

	Current ($)	New ($)	Difference ($)
Employee CPF	200	180	-20
Employer CPF	130	117	-13
WIS Cash (monthly)	-	29	29
WIS CPF (monthly)	-	71	71
Takehome Pay	**800**	**849**	**49**
Total CPF Contributions	**330**	**368**	**38**
Total Income	**1,130**	**1,217**	**87**
Employer Savings ($)	**13**		
Total WIS ($)	**100**		

A 46-year old self-employed with an average net trade income of $1,000 per month (or $12,000 per year).

	Current ($)	New ($)	Difference ($)
CPF Contributions	80	28	-52
WIS CPF (monthly)	-	67	67
Takehome Pay	**920**	**972**	**52**
Total CPF Contributions	**80**	**95**	**15**
Total Income	**1,000**	**1,067**	**67**
Total WIS ($)	**67**		

ANNEX C: SME Rebate Scheme

The SME Rebate Scheme will last two years. Rebates will be paid to qualified firms on an annual reimbursement basis after the end of each 12-month qualifying period. The start of the first qualifying period will coincide with the increase in CPF contribution rate (1 July 2007). The two qualifying periods will hence be:

- 1 July 2007 to 30 June 2008 ("first year")
- 1 July 2008 to 30 June 2009 ("second year")

After the end of each qualifying period, CPFB will make payment to firms based on their total CPF payment for that period.

The rebate is pegged to total employer and employee contributions payable by a firm to CPF Board. The rebate is 2% of the first $40,000 of total CPF contribution and 1% of the next $40,000 of total CPF contribution in the first year, and at 1% and 0.5% respectively for the second year.

	First Year ***(01 Jul 07 – 30 Jun 08)***	**Second Year** ***(01 Jul 08 – 30 Jun 09)***
1st Tier	2% of first $40,000 of total CPF contribution (max $800)	1% of first $40,000 of total CPF contribution (max $400)
2nd Tier	1% of next $40,000 of total CPF contribution (max $400)	0.5% of next $40,000 of total CPF contribution (max $200)

To receive the rebates, firms will have to apply to CPF Board and declare that they meet the SME qualifying criteria. Further details of the application process and eligibility criteria will be released by 1 May 2007.

ANNEX D: New Customs and Excise Duties for Beer and Stout

HS code	Product Description	Current Duty Rates		New Duty Rates	
		Customs Duty	Excise Duty	Customs Duty	Excise Duty
22030010	Stout & porter	$1.70 per litre	$3.70 per litre	$16 per litre of alcohol	$48 per litre of alcohol
22030090	Beer & ale	$0.80 per litre	$2.70 per litre	$16 per litre of alcohol	$48 per litre of alcohol

ANNEX E: Impact of GST Offset Package on Households

	HDB 1 Room	HDB 2 Room	HDB 3 Room	HDB 4 Room	HDB 5 Room	HDB Exec	Private Houses and Flats
Annual Household Income from work ($) [1]	7,630	13,220	32,770	48,840	71,160	90,510	140,200
Additional GST Payable Annually ($) [2]	240	320	500	690	870	1,030	1,090
Total Benefits from GST Offset Package (over 5 years) ($) [3]	3,880	4,110	3,940	4,030	3,750	3,550	1,590
Number of Years of Additional GST Payable that is offset by the GST Offset Package	**19**	**16**	**10**	**7**	**5**	**4**	**2**

Notes:
1) Household incomes are estimated based on the 2005 General Household Survey conducted by the Department of Statistics (DOS) and comprises employment and business income only. It does not include income from other sources such as rental, investments, pensions and irregular or extra-ordinary receipts.
2) Additional GST payable annually, from the increase in GST rate from 5% to 7%, is estimated based on the household expenditure estimates from the 2002/03 Household Expenditure Survey (HES) conducted by DOS.
3) Includes only GST Credits, Senior Citizens' Bonus, U-Save rebates, service & conservancy charges rebates, rental rebates, property tax rebates and Post-Secondary Education Account (PSEA) top-ups.

ANNEX F: Budget for FY2006 and FY2007

	Revised FY2006	Estimated FY2007	Change over Revised FY2006	
	$billion	$billion	$billion	%
OPERATING REVENUE	**30.00**	**32.36**	**2.36**	**7.9**
Corporate Income Tax	8.25	8.40	0.15	1.9
Personal Income Tax	4.68	5.16	0.48	10.2
Statutory Boards' Contributions	0.96	1.36	0.41	42.6
Assets Taxes	2.03	2.09	0.06	2.8
Customs and Excise Taxes	1.95	1.96	0.01	0.4
Goods and Services Tax	3.93	4.85	0.92	23.4
Motor Vehicle Taxes	1.65	1.74	0.09	5.7
Vehicle Quota Premiums	0.08	0.26	0.18	240.4
Betting Taxes	1.57	1.62	0.05	3.0
Other Taxes	2.81	2.83	0.01	0.4
Other Fees and Charges	1.95	1.94	(0.01)	(0.7)
Others	0.14	0.16	0.01	10.5
Less: **TOTAL EXPENDITURE**	**30.55**	**33.00**	**2.45**	**8.0**
Operating Expenditure	24.43	25.88	1.45	5.9
Development Expenditure	6.12	7.12	1.00	16.4
PRIMARY SURPLUS/(DEFICIT)♣	**(0.55)**	**(0.64)**		
Less: **SPECIAL TRANSFERS**	**3.58**	**2.07**	**(1.51)**	**(42.1)**
GST Credits	-	0.53		
National Research Fund	0.50	0.50		
Workfare Income Supplement Scheme	-	0.20		
Top-ups to Post-Secondary Education Account	-	0.20		
U-Save Scheme	0.06	0.15		
Senior Citizens' Bonus	-	0.10		
S&CC and Rental Rebates	0.04	0.08		
Other GST offset measures[@]	-	0.01		
Growth Dividends	1.37	-		
Top-ups to CPF Accounts	0.48	-		
Workfare Bonus Scheme	0.40	-		
40th Anniversary NS Bonus	0.20	-		
Economic Restructuring Shares	0.08	-		
Top-up to Opportunity Fund	0.05	-		
Top-up to ComCare Fund	0.10	-		
Top-up to Medifund	0.10	0.20		
Top-up to ElderCare Fund	0.10	-		
Top-up to Lifelong Learning Fund	0.10	0.10		
Add: **NET INVESTMENT INCOME CONTRIBUTION**	**2.84**	**2.02**	**(0.83)**	**(29.0)**
OVERALL BUDGET SURPLUS/(DEFICIT)	**(1.28)**	**(0.69)**		

♣ Surplus/(Deficit) before Special Transfers and Net Investment Income Contribution.
[@]This includes grants to Citizens' Consultative Committee (CCC) ComCare Fund, Self-Help Groups (SHGs) and Public Transport Fund.