BUDGET STATEMENT 2008

Creating a Top Quality Economy, Building a Resilient Community

Delivered in Parliament on 15 February 2008 by Mr Tharman Shanmugaratnam, Minister for Finance, Singapore

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BUDGET STATEMENT 2008
Creating a Top Quality Economy, Building a Resilient Community

Mr Speaker, Sir,

I beg to move that this Parliament approve the financial policy of the Government for the Financial Year (FY) from 1 April 2008 to 31 March 2009.

(1) ECONOMIC PERFORMANCE AND OUTLOOK

Economic Performance 2007

1.1 Our economy has done well over the past year. We had real growth of 7.7% in 2007, much higher than we had expected at the start of 2007. This was exceptional growth, and more so because it came after three previous years of strong growth.

1.2 The strong economy also brought unemployment down to 1.6% at the end of last year. Resident unemployment also fell sharply to 2.3%, the lowest level in a decade.

1.3 We have been aided by a favourable global environment. But Singapore's strong growth in recent years has mainly been the result of our broad-ranging efforts to restructure our economy, labour market and fiscal system. This is not a story of an old economy growing quickly, but of a new economy emerging out of the old. It is about how we are attracting new and cutting edge investments, capitalising on opportunities in new growth industries and markets abroad, upgrading our workers' skills and competing at an advantage. Indeed this is why we have been growing much faster than other developed countries – faster than any other country with the same standard of living as us. Our policies are working well, the economy is restructuring, and we are delivering superior performance.

Fiscal Position in 2007

1.4 With stronger than expected economic growth in 2007, the projected Budget Outturn improved significantly. We expect the Overall Budget Balance to be a surplus of $6.4 billion for Financial Year (FY) 2007, compared to the deficit of $0.7 billion that was originally projected.

1.5 We started the year expecting a growth rate of 4.5% to 6.5%, which was also in line with market forecasts. With actual growth at 7.7%, Corporate and Personal Income Taxes came in some $1.0 billion higher than projected. GST revenues also exceeded our projection by about $1.2 billion, mostly from higher consumption.

1.6 GST collection arising from the two percentage point hike in July 2007 is estimated at about $1.4 billion in total, which now just matches the size of the

GST Offset Package and Workfare Income Supplement (WIS) tranches that were distributed in FY2007.

1.7 However, the largest boost to revenues came from the exceptionally buoyant property market last year. Prices of private residential units rose by over 30%, much higher than industry forecasts of around 10% to 15% at the beginning of the year. The volume of property transactions went up by over 60%. Stamp Duty collection consequently rose to an unprecedented $3.8 billion, $2.3 billion higher than expected. Other property related revenues were around $1.1 billion above projections. These were large gains, out of the ordinary, and which we cannot expect to see very often.

1.8 The overall budget surplus of $6.4 billion was therefore the result of a strong economy and property market. The surplus was also an appropriate fiscal stance to adopt, as it avoided adding further liquidity and stimulus to an already rapidly growing economy.

Economic Outlook for 2008

1.9 The key factor that will shape the growth of the Singapore economy in 2008 is the global economy, especially the state of the US economy. Many private forecasters now expect the US economy to enter into a recession in the first half of the year, although it may be mild. If this happens, Asian exports will be affected. However, the IMF and other global forecasters still expect growth in Asia on the whole to remain healthy. China and India are expected to slow down, but still grow at 10% and 8% respectively on the back of strong domestic demand.

1.10 Overall, on all current indications of global conditions, we expect growth of 4.0% to 6.0% in the Singapore economy this year. This is lower than last year’s growth, but well in line with the economy’s potential over the medium term. Our economic fundamentals remain strong. Our pipeline of manufacturing investments remains robust with EDB expecting $16 billion worth of investment commitments this year, on top of the same volume last year. Our services sector too is well-positioned for growth. While the demand for services will depend on the growth of the region and the rest of Asia, we have gained significant mindshare as a global financial and business centre.

1.11 However, there are major downside risks to this year’s forecast of growth. A sharper than expected decline in US growth could add to the turmoil in the financial markets, and deepen the credit crunch that is still unfolding. This will inevitably spill over to the Asian economies and markets, and our own growth will be impacted. The outcomes cannot be predicted, but we must be watchful of the risks and be ready to respond to them.

(2) DEALING WITH INFLATION

Global Outlook

2.1 Inflation is the other major uncertainty in the global economy and a concern for us. After a period of very low inflation over the last ten years, it has re-emerged and is now an economic problem everywhere in the world.[1]

2.2 Oil prices have risen by 50% over the last year. Raw food prices at the end of January 2008 had risen by 55% globally, compared to a year ago. Commodity prices in general have risen by 31%.[2] All these increases in raw material prices have cascaded down into higher transport costs, more expensive manufactured goods, and costlier consumer foods.

2.3 The basic factors which have led to these price increases are not expected to go away soon. The demand for food especially has continued to rise globally with the rapid growth of the middle classes in China and India. This is part and parcel of expanding global prosperity, but it is happening at a time when food supply is constrained because of bad weather, and more agricultural land is being converted from producing food crops to producing bio-fuels.

2.4 We therefore have to brace ourselves for a period of relatively higher inflation globally, which will affect the prices of the goods we import. We cannot say how long it will last, but we have to expect that it will remain high, particularly in the first half of this year. For example, China's worst winter in 50 years will likely add pressure to prices of certain foods in the next six months.

Inflation in Singapore

2.5 Singapore has already been affected by this recent rise in global inflation. Inflation was about 2% for 2007 as a whole, but it was much higher towards the end of the year than it was at the start. Consumer price inflation reached 4.4% in December 2007. Overall, we currently expect inflation at 4.5% to 5.5% in 2008, but with inflation being higher in the first half of the year than the second.

2.6 The relatively high 'headline' Consumer Price Index (CPI) numbers that we are now seeing, like in December, are partly due to the GST increase in July last year. The CPI inflation figure continues to show the impact of the GST change, because it is comparing prices this month with prices twelve months ago, i.e. before the GST increase in July 2007. But if we compare prices today with prices say in September last year, there has been little further increase due to the GST change. The GST change has caused only a one-off increase in prices, and not continuing price inflation.

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[1] Average inflation in industrial countries was about 9% in the early 1980s, but dropped to between 2% to 3% in the early 1990s and to a low of 1.8% in the early 2000s.

[2] *The Economist* commodity-price index, 5 February 2008.

2.7 Singaporeans have also not been materially affected by the GST increase, because the Government has provided the majority of citizens with substantial offsets, which more than make up for the increased spending on GST by most families. Lower-income families are in fact receiving offsets which are several times larger than their higher GST payments.

2.8 There is also a technical reason, due to the rising values of homes, that is leading to high headline CPI numbers. The increase in the assessed Annual Values (AV) of homes will contribute significantly to inflation this year [more than 1.0% of the expected 4.5% to 5.5% inflation]. However, here too, most Singaporeans are not materially affected, as 95% of citizens own their own homes and do not pay rentals.

2.9 Nevertheless, even if we exclude this technical factor due to home values, and the one-off effect of the GST increase, inflation today is higher than what we have been used to in Singapore for many years.

Our Strategies

2.10 The rising cost of living that Singaporeans face is a major concern for the Government. Prices of certain essential items like cooking oil, bread, milk and other dairy products have gone up significantly over the past year.

2.11 We must start by recognising that the key problem we face going forward is that of imported inflation caused by high global prices, especially of food and oil. Some of our inflation does reflect domestic factors. I have just mentioned the GST increase, which has been compensated for, and the Annual Values of homes, which have no material impact on Singaporeans. The rapid growth of our economy has also pushed up wages and rental costs. However, our CPI inflation is not due to domestic inflationary expectations, causing wages to go up to compensate not only for inflation experienced, but even for future inflation expected, resulting in higher costs for businesses, higher prices for consumers, and an upward spiral of wages and prices. We must not let domestic inflationary expectations set in, because it will entrench inflation in Singapore even after external inflationary pressures have subsided.

2.12 Our strategies will ensure that Singapore continues to have lower inflation than the rest of the world over the medium term. We have achieved that for many years now, and will keep it that way in future. The Government is also helping lower-income Singaporeans and those in need directly with the immediate problems they face.

2.13 Our strategies to help Singaporeans cope with inflation essentially comprise five planks.

2.14 <u>First</u>, we seek to moderate imported inflation through our Singapore dollar exchange rate policy. This has been MAS's consistent policy objective. For several years, MAS's policy has been a modest and gradual appreciation of the

Singapore dollar. In October last year, MAS increased slightly the slope of the currency band, meaning that it allowed a slightly faster appreciation of the Singapore dollar. Our exchange rate policy has helped to keep inflation down. Had the MAS not allowed the Singapore dollar to appreciate over the last two years, our CPI inflation in the last quarter would have averaged 6.5%, instead of the 4.1% that was actually recorded (MAS estimates).

2.15 However, there is a limit to how fast the Singapore dollar can appreciate without hurting our economic performance and growth, and eventually causing wages to fall. An overly strong Singapore dollar can bring inflation down, but at the cost of lower growth and higher unemployment. This is why, while we can mitigate imported inflation through MAS's exchange rate policy, we cannot insulate ourselves completely from the effects of global inflation passing through to the Singapore economy.

2.16 Second, we are stepping up diversification of food sources so as to minimise spikes in the prices of foods we import which would otherwise happen when there is a disruption in supply from any one country. The Agri-Food and Veterinary Authority of Singapore (AVA) is facilitating private importers buying from new sources overseas, where the foodstuffs meet our standards. For food products that are already imported from well-diversified sources, the Government will continue to work with retailers to increase public awareness of cheaper food choices and substitutes.

2.17 These policies of mitigating imported inflation, through exchange rate policy and source diversification, have helped to lower food inflation in Singapore.

2.18 The third way in which Government policies help Singaporeans cope with inflation has been our support of home ownership as a key pillar of society, and especially the heavy subsidies that we provide for lower-income Singaporeans to own a home. Even lower-income Singaporeans therefore have substantial equity in their homes which rises over time and is generally protected against inflation. We have become used to this in Singapore. But it in fact insulates Singaporeans, especially our retirees, from increases in rental costs which are a significant long-term concern in other countries. In the US for example, about a fifth of older Americans rent their homes. The rental costs make up close to one-third of their expenditures each month.

2.19 Fourth, the Government provides assistance directly to Singaporeans who face problems coping with the cost of living. This approach of helping those in need directly is better and more sustainable than taking reflex actions, such as imposing price controls on essential goods. Everything we see in the countries that have tried price controls, even today, tells us that these are not real solutions, and will only lead to hoarding, black markets, and even more problems for ordinary people over time.

2.20 Our fundamental approach to helping Singaporeans in need is to help them to get a good income for themselves. The best way to do so has been and remains to help needy Singaporeans get a job, and to encourage them to stay at it, upgrade themselves, and support their family members.

2.21 Last year we introduced the Workfare Income Supplement (WIS) scheme, to add to the income and savings of Singaporeans at the lower end of the wage ladder. It provides a significant incentive to work. For a worker above 45 years of age and earning a wage of $1,000 or below, the scheme will supplement his wages by 10% to 20% each year. 287,000 workers have received their first payouts in January this year, receiving a total of $150 million from the Government. For those who are truly unable to work, for example because of disability, we have the Public Assistance (PA) Scheme.

2.22 We will continue to complement these institutionalised schemes, by providing discretionary assistance to those in need. This is why we have boosted the ComCare Fund, which now stands at $600 million, and Medifund which has reached $1.4 billion.

2.23 Further, where we make good surpluses on the Budget, we have redistributed benefits back to Singaporeans, with more going towards the elderly and the needy. For example, the GST Offset Package last year provides benefits spread out over four years. For a lower-income household, what they will receive <u>this year</u> alone from the GST Offset Package, together with the WIS, will be substantial.

2.24 HDB two-room households will this year receive, on average, continuing benefits from the GST Offset Package and the WIS that will in fact be equal to 12% of their annual incomes. Even if we exclude the benefits that they cannot use to meet their immediate expenses – in other words exclude the Post-Secondary Education Account top-ups for their children who are still in school, and the CPF component of WIS - the benefits add up to an average of 8% of their incomes. 8% exceeds any increase in their overall cost of living that might be expected this year[3], and this is <u>before</u> counting any additional benefits that this year's Budget will provide them, and any growth in wages that they may get in 2008.

2.25 Even four-room and five-room households will receive significant benefits this year as a result of what was announced <u>last year</u>, which will offset at least a good part of the increase in costs of living they experience this year.

2.26 Later in the speech, I will lay out additional benefits to Singaporeans that this year's Budget will provide as part of our sharing of last year's Budget surplus.

2.27 The <u>fifth</u> plank of the Government's strategy is the most fundamental to how

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[3] No significant difference is expected in the rate of increase of the cost of living for lower-income households compared to middle- and higher-income households in 2008. Although the lower-income group will be more affected by rising food prices, they will be less affected by the higher cost of fuel.

we cope with rising global inflation. Our strategy is to keep our economy competitive and build up our capabilities so that we can enjoy good economic growth. This is the best offset to global inflation, which will be with us not just for a few months but possibly a few years – to educate and train up our people, attract new investments, create jobs, and sustain good growth of incomes for our whole population.

2.28 This is indeed why most Singaporeans experienced good growth in real incomes last year, even as inflation went up. Even lower-income households – if we look at the non-retiree households i.e. those that do not solely comprise retirees - those in the bottom 20%, they saw significant real growth of 5% in their total incomes (7.1% in nominal terms). The main reason was that more members of these households obtained jobs.

2.29 If global inflation stays high, all countries will be affected by it and we will not be able to totally insulate ourselves. But there is no reason why we cannot keep growing, and keep outperforming. And because our economy has done well and we have healthy surpluses, we now stand from a position of strength. We have the resources and the capacity not just to deal with our immediate problems, but to look ahead and position ourselves to deliver more years of good growth and quality jobs for our people.

(3) TOP QUALITY ECONOMY, RESILIENT COMMUNITY

3.1 This Budget is about how we are looking ahead to create new advantages and fresh opportunities for Singapore in a competitive world. The way we will do it is to be a top quality economy. This means top quality people, and top quality enterprises. The Budget is also about keeping all our people together as we grow and ensuring that no one is left behind.

Budget 2008 Key Thrusts

3.2 The Budget this year is centred on four key thrusts:

(a) We will provide a full range of education and training opportunities for people to find and stretch their potential, in school and in their post-secondary education, as well as throughout their working years. We will enhance assistance for needy students to ensure that a top-rate tertiary education is affordable to all.

(b) We will spur the growth of innovative enterprises. We will significantly enhance the incentives for enterprises big and small to create new ideas and products.

(c) We will also adjust our tax policies so that we stay competitive, support the growth of our SMEs, encourage risk-taking as well as strengthen our role as a financial and business hub.

(d) We will continue to build a resilient community. We will strengthen financial security for retirement, and help the less well-off members in our society. We will also share surpluses with Singaporeans, with particular focus on the lower- and middle-income groups who are more affected by rising prices.

(4) CREATING A TOP QUALITY ECONOMY

4.1 We are competing in a league of both established leaders and newly-emerging cities with an edge in knowledge-based industries. They are not standing still, even in the developed world.

4.2 Munich in Germany, previously dependent on the automobile industry, is now a high-tech, knowledge-based city. Today, Munich is home to not only leading biotechnology research centres like the Max Planck Institute of Biochemistry and corporate giants such as BMW and Siemens, but also vibrant SMEs with world-beating technologies. Last year, Munich was also cited in the International Herald Tribune as the most liveable city in the world.

4.3 In the US, the city of Austin in Texas is fast establishing itself as a centre of innovation for clean technology. It was recently named by Moody's as the best place for business in the US. Austin had the third-highest number of patents among US cities in 2005, and over 44% of the population hold a college degree.

4.4 Asian cities, including even lower-cost cities, are joining in the high-value game. Hyderabad, now dubbed the second Silicon Valley in India after Bangalore, has invested heavily in education, research and digital infrastructure. It is home to Satyam, a leading IT company, and has attracted large global investors such as Microsoft, IBM and Novartis. In China, besides Beijing and Shanghai, second- and third-tier cities like Hangzhou, Qingdao and Yantai are emerging as centres for highly competitive clusters of innovative enterprises.

4.5 Kyoto in Japan has also emerged over the last decade as a major hub for innovation, home not only to leading global companies that started out there, like Murata, Kyocera, and Nintendo, but also a large number of small, dynamic firms often with world-leading technologies. Kyoto has one of the highest concentrations of high-tech start-ups in Japan. It also hosts top-notch academic institutions like Kyoto University, which has produced five of Japan's nine Nobel prizes in science, and an assortment of incubator facilities. And all this happening in a city endowed with centuries-old traditions, beautiful temples and gardens.

4.6 We have what it takes to compete in the top league.

4.7 We already have a first-class infrastructure and one of the most attractive living environments in Asia. But we will invest in a total upgrade of our business, transport and IT infrastructure to enable new growth in the decades to come. The development of Marina Bay will eventually double the size of our financial district. Minister Raymond Lim has set out our plans to ensure that our roads are free-flowing, and to make a quantum leap in our public transport infrastructure. We will double our rail network by 2020. Our expenditure on land transport alone from now till 2020 will add up to $50 billion or about $4 billion a year – which is about two and a half times what we have spent on all transport infrastructure – land, air and sea - over the last 20 years.

4.8 We have also embarked on a transformation of our HDB heartlands that will take place over the next 20 to 30 years, beginning with the rejuvenation of our older estates and the building of new generation public housing in estates like Punggol and Dawson. Together with the ongoing upgrading programmes in all our estates, and the green corridors and waterways that we are now developing all over the island, we will provide a vibrant and distinctive living environment for our people.

4.9 These large investments will position Singapore for its next phase of development as a global city, open up many new opportunities for growth, and help transform the quality of life for all Singaporeans.

4.10 However, our infrastructure is only the enabler. The key to our success will be our people and our enterprises. Whether we make the most of our opportunities, whether we grow, and whether we hold our place in the top league will ultimately depend on whether our people and enterprises are top quality, in every job and business they do.

Nurturing Every Skill and Talent

4.11 At all levels of our education system, we are investing more and moving up in quality.

4.12 We will commit more resources to achieve higher standards in the pre-school sector, which will especially benefit children from lower-income backgrounds. We will also enhance our financial assistance schemes, KiFAS (Kindergarten Financial Assistance Scheme) and CFAC (Centre-based Financial Assistance scheme for Childcare), to help more families with their children's fees in kindergartens and childcare centres. More details of these initiatives will be announced by MOE and MCYS later.

4.13 We will continue to invest in higher quality education in every school. We are paying our teachers competitively to ensure that we keep good and dedicated people, and have improved the pupil-teacher ratio in every school to enhance the learning experience for all our pupils. Indoor sports halls will be coming to all our schools. We are also putting more resources into overseas immersion for a broad base of students and new boarding school programmes that will enhance opportunities for bonding and a rigorous all-round education.

Tertiary Education

4.14 Our university sector is entering a new phase.

4.15 NUS, NTU and SMU (National University of Singapore, Nanyang Technological University and Singapore Management University) are stepping up to a new level of excellence that will put them decisively ahead. We will grow the number of subsidised university places from 25% to 30% of each cohort by 2015, with four publicly-funded universities. Government spending on the universities will increase by one-quarter, or $500 million annually. Besides the four universities, we will have a range of other programmes that will enable students to earn degrees in specialised fields, like early childhood education and naval architecture. We will stand out, even among developed countries, in the way we provide a top quality range of publicly-subsidised university options to a sizeable proportion of Singaporeans to aspire toward and take advantage of.

4.16 Our young Singaporeans are taking advantage of this and they keep surprising the world with what they are capable of. Last year, a team of first-year students from the NUS won an award given to the top ten teams in the Mondialogo Engineering Competition – the largest competition for young engineers with ideas that can change the world, organised by Daimler-Chrysler and UNESCO. They were up against 800 teams, including many with PhD students. Their project focused on how solar processing can be used to help farmers preserve fruit so as to raise their incomes. These were first-year students from NUS – three Singaporeans and two Malaysians who had done JC (junior college) education in Singapore. They made up for the fact that they were only in their first year, by doing their own research, and teamed up with two senior undergraduate students from the Mumbai University Institute of Chemical Technology – using the connections between faculty of the two universities.

4.17 We will also provide enhanced assistance to needy students to make sure that financial status remains no obstacle to pursuing studies at our publicly-funded universities.

4.18 Our universities must be able to charge realistic and sustainable fees, so that they can recruit good faculty, improve their faculty-student ratios over time and provide a top quality education. This is the only way we can build a world-class university system for Singaporeans.

4.19 The Government provides very significant subsidies for university education, at 75% of costs. Students also have easy access to loans to fund a large part of their fees. This system is fair, since university graduates can expect to earn a significant premium in the employment market and can afford to pay back their loans gradually after they start work.

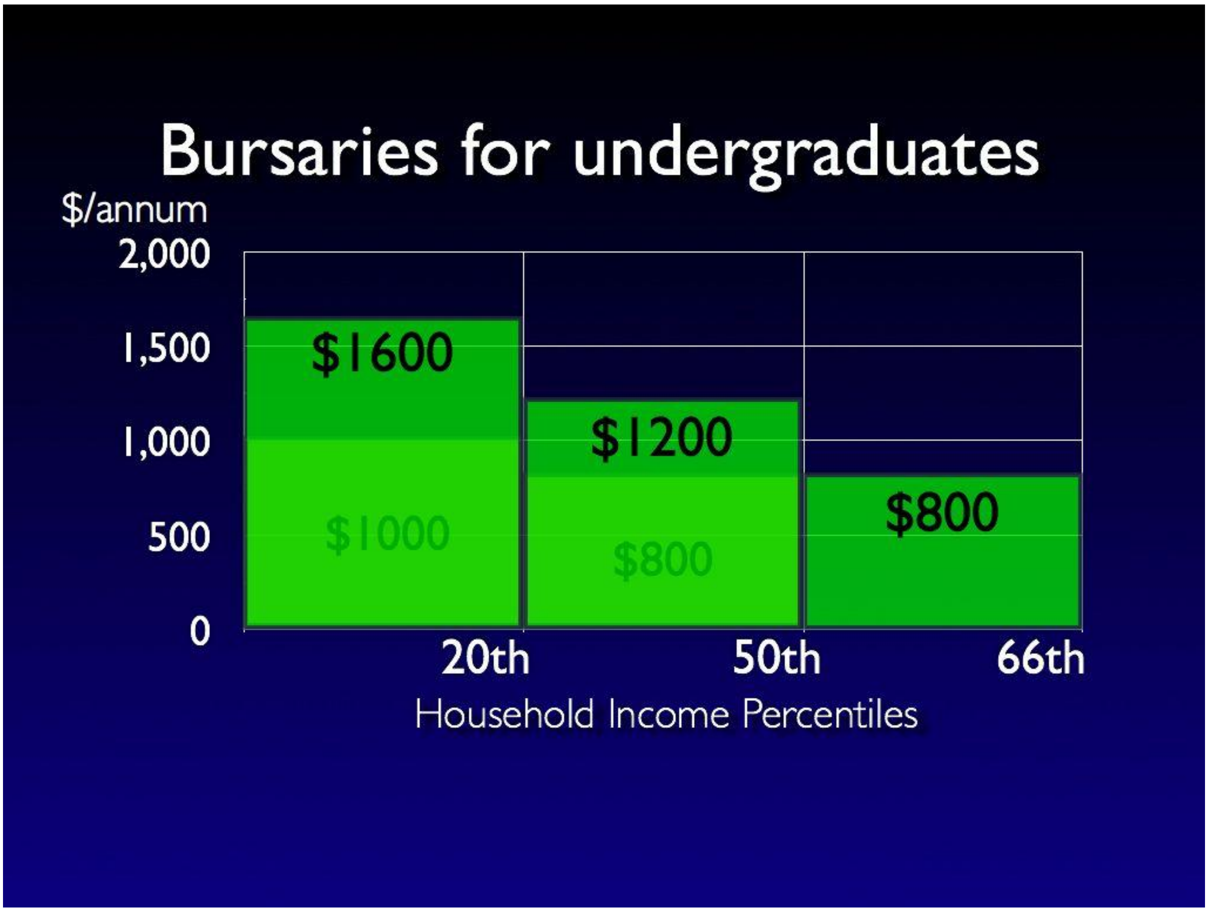
4.20 However, taking into account the higher costs of university education today, with the improvements in quality that we are making, we have decided to significantly enhance the bursaries given to students from the lower-income group. We will also provide more assistance to those in the middle-income brackets. This will ensure that no student needs to face an excessive burden of loans at the start of his working life. Further, through a combination of bursaries and loans, students within the bottom two-thirds of the population will not need to expend cash for either their fees or living expenses during their university years.

University Bursaries

4.21 First, for students in the lowest 20% of households who enter our universities, we will increase the CDC/CCC (Community Development Council/Citizens' Consultative Committee)-University Bursary Scheme for students, from $1,000 to $1,600 per annum. The universities will themselves also provide further bursaries to low-income students in need.

4.22 Second, for the middle-income group, the MOE Bursary Scheme for students up to the 50th percentile of households will be increased from $800 to $1,200 per annum. Further, we will extend the bursaries to students above the 50th percentile but within the lower two-thirds of households by income, who will receive a lower amount of $800. To provide greater access to credit for students in middle-income households, the Study Loan Scheme will be extended to students up to the 80th percentile of households (<u>Chart 1</u>).

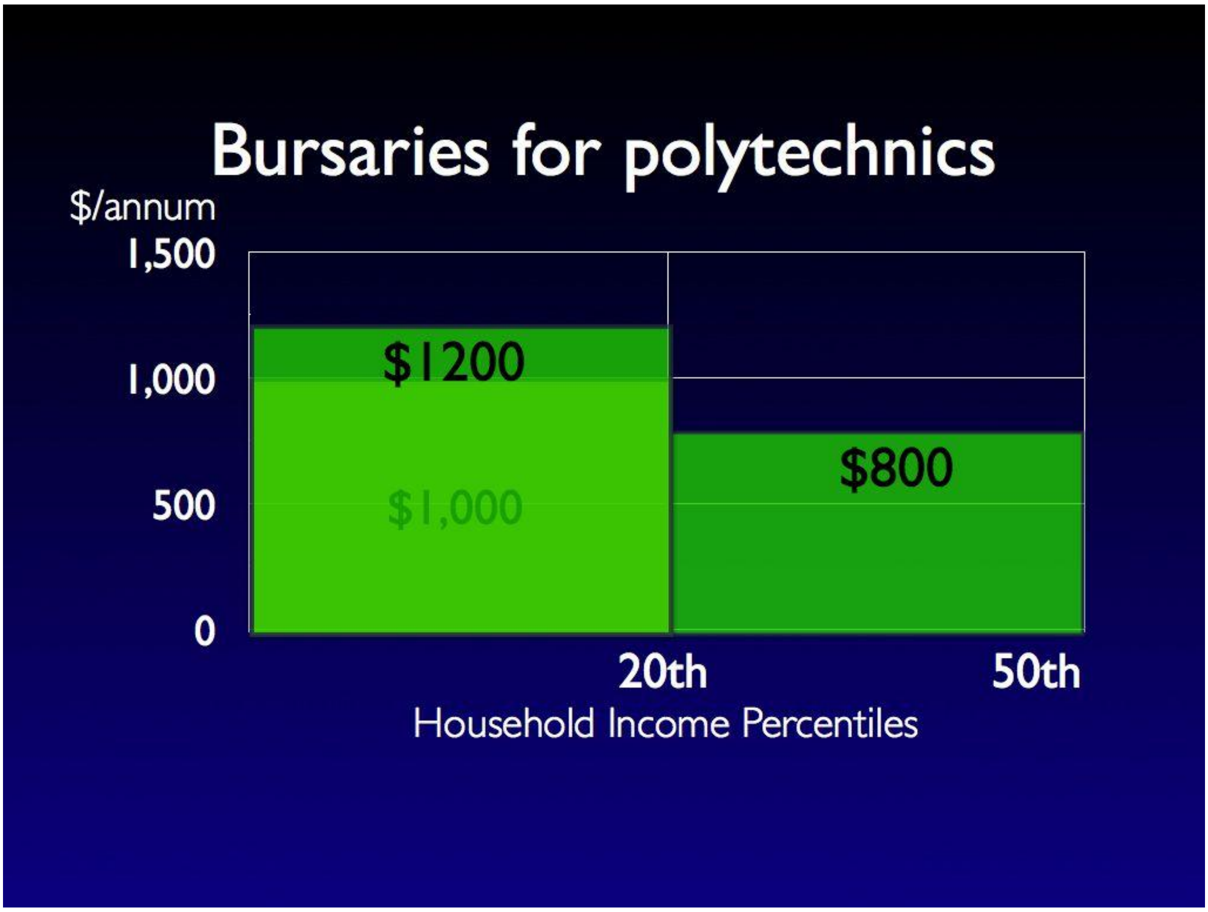
Chart 1 – Quantum of bursaries for university undergraduates



Polytechnic Bursaries

4.23 We will similarly increase the bursary quantums for polytechnic students. For the CDC/CCC-Polytechnic Bursary Scheme, we will increase it from $1,000 to $1,200 per annum. We will also be introducing a new MOE Bursary Scheme for polytechnic students from the bottom 50% of households, as we have done at the universities. The new bursary will be set at $800 per annum. We will also extend the MOE and CDC bursaries to students enrolled in MOE-funded diploma programmes in the arts institutions – LaSalle and Nanyang Academy of Fine Arts. Similar to the study loans for university students, the Study Loan Scheme for diploma students will be extended to students up to the 80th percentile of households (Chart 2).

Chart 2 – Quantum of bursaries for polytechnic students



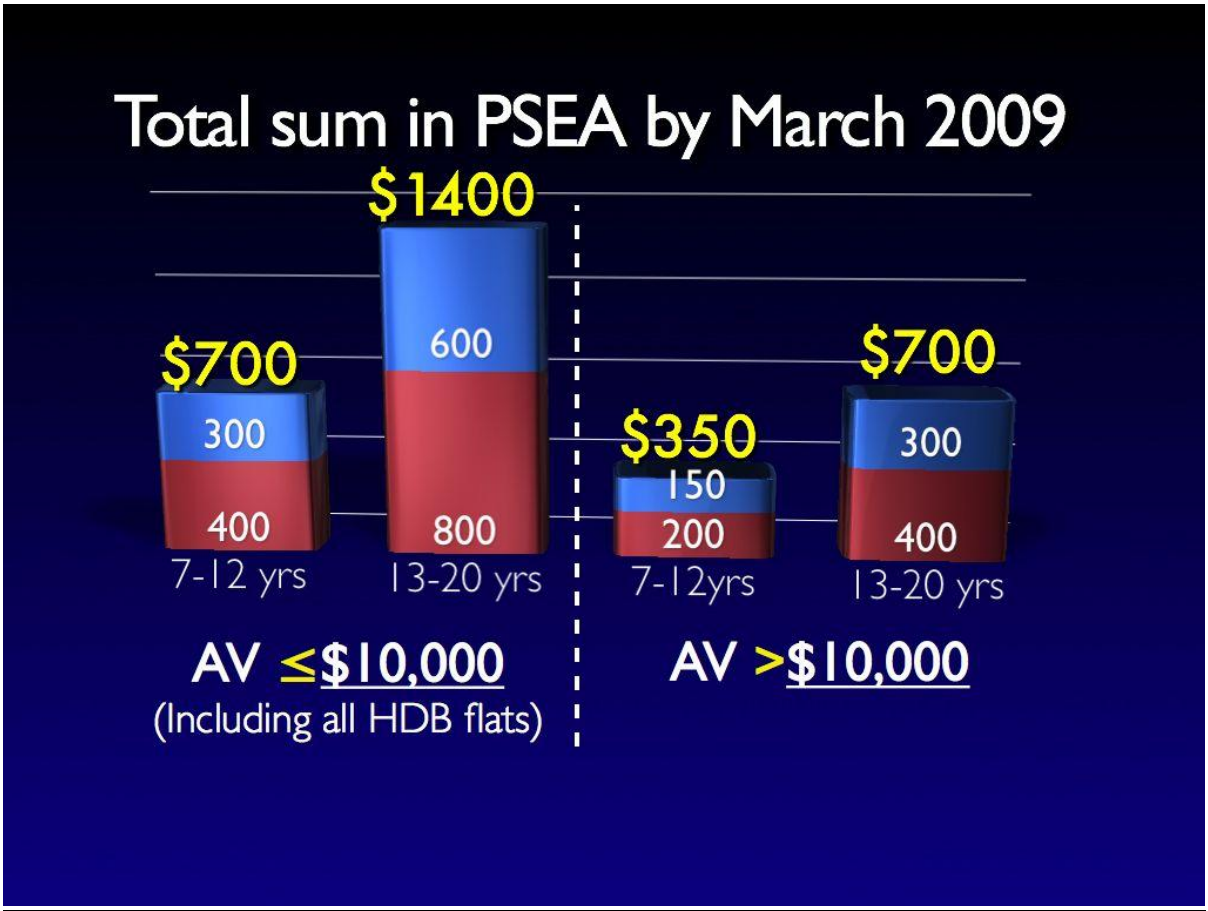
4.24 All new and existing students can take advantage of these schemes starting from this coming academic year.

4.25 Last year we introduced Post-Secondary Education Accounts (PSEAs) for all students. I announced a top-up of $100 to $400 for each of 2008 and 2009. I had also said that we would top up students' accounts from time to time when our surpluses allow. Given the good surplus that we had last year, I will now make a further top-up later this year. We will provide the majority of students, which includes those from all HDB homes, $300 for those still in primary school and $600 for those in secondary school. Including what was announced previously, this means that secondary school students would have up to $1,400 in their accounts by March next year to use for their post-secondary education. The additional top-up this year will cost us $300 million (Table 1, Chart 3).

Table 1 - Structure of New PSEA Top-ups

Age of Child in 2008	Annual Value of Home less than or equal to $10,000	Annual Value of Home more than $10,000
7 to 12	$300	$150
13 to 20	$600	$300

Chart 3 – Total sum in PSEA by March 2009 from the top-ups in 2008 and 2009



4.26 Details on financial assistance schemes for post-secondary education are at Annex A.

Continuing Education and Training (CET)

4.27 From kindergarten up to university, we are investing more and enhancing financial support for students. However, a key focus going forward will now be continuous education for adults. This is going to be absolutely essential for us to retain the competitiveness of our workforce, in a world where we are competing on skills, quality and productivity, and not on costs alone.

4.28 Two weeks ago, PM launched the National CET Masterplan, which sets out our strategy to invest in our people over the next ten years. We expect to spend, on recurrent expenditure alone, $400 million per year on CET by 2010. To support this long term engagement, I will top-up the Lifelong Learning Endowment Fund (LLEF) by $800 million this year, bringing it to $3.0 billion.

4.29 As the Government ramps up its spending on CET, employers will remain key players in the training of workers. Currently, they contribute a Skills Development Levy (SDL) on workers earning $2,000 and below. As we move to provide CET to workers across all levels, we should broaden the base for the SDL. Employers will now contribute the SDL on all workers they employ, up to the first $4,500 of gross remuneration. The wider base will allow us to reduce the levy rate from 1% currently to 0.25%. This will be broadly neutral in terms of levy collections, but will reduce the overall burden on smaller companies and employers of lower-wage workers. The change will take effect from 1 October 2008.

4.30 We will also help Singaporeans who take the initiative to upgrade themselves, by extending subsidies beyond vocational CET. Currently we do not subsidise part time degree programmes. We will now provide subsidies for part-time degree programs at the three publicly-funded universities and UniSIM for those who have not previously benefited from a government-subsidised undergraduate education. Singapore citizens will be able to pay subsidised fees, with the Government meeting 40% of the cost of these programmes.

4.31 We will also make further refinements to the existing tax relief for course fees to help individuals claim the relief more easily when they take up academic, professional or vocational courses. Details on these refinements are at Annex B-1.

Making Innovation Pervasive

4.32 We must make innovation pervasive in our economy.

4.33 Singapore is already host to a good share of global companies, the HPs, Novartises and Mitsuis of the world. They are moving their activities up the value chain and increasingly investing in R&D in Singapore. We now also have a few home grown companies like Venture Corp, which has some 600 R&D engineers worldwide, and about half of them in Singapore. Our strategy is to spread innovation across the corporate sector, enhance incentives for enterprises small and big to do R&D and push for greater commercialisation of research generated in our institutions of higher learning.

Investing in World Class R&D Capabilities

4.34 We will increase our overall research spending to $7.5 billion per annum by 2010, or 3% of the GDP, with one-third of this being publicly funded research. Through the National Research Foundation (NRF), A*STAR and our academic institutions, we are developing deep capabilities in research fields which have a clear value proposition for Singapore. This year, I will top up the National Research Fund by $800 million, bringing it to a total of $1.8 billion.

4.35 Top international scientists are coming here because they see Singapore as a place where high impact research can be done. But we are also attracting and nurturing young, up-and-coming researchers. Just two weeks ago, the NRF awarded research fellowships to ten outstanding young researchers from eight different countries to conduct cutting edge research in Singapore. Four of them had studied in Singapore or have been teaching at our universities. One of them was Dr. Yeo Yee Chia, who at age 36, has been granted some 150 patents. The NRF fellowship will allow Dr. Yeo to lead research efforts on advanced transistor technology, an area that could create new advantages for Singapore's semiconductor industry.

Pushing for Commercialisation of Research

4.36 Having the facilities and talent for top-class research is not enough, however. As our research entities develop our R&D capabilities, we will also do more to create value out of R&D so that we benefit our enterprises and our economy over the long term. We will facilitate incubation of early-stage ideas that are developed in our universities and research institutions, and partner with venture capital funds to help the institutions spin off companies.

4.37 Polytechnics and ITEs too will be encouraged to commercialise their innovations. MOE has established an Innovation Fund of $10 million to help seed their ideas and products, and to bring their innovations to the point that could attract industry funding.

4.38 The push to create knowledge in our universities and polytechnics and to find ways to commercialise it will over time benefit many enterprises, and in many ways. We already have several examples, including in traditional industries. Like Lee Hwa Jewellery, a company founded over 30 years ago by Mdm Tan Su Lan. Lee Hwa created something entirely new - purple gold jewellery. Not many people know this, but purple gold has something to do with Singapore Polytechnic. The technology was first developed by Dr Loh Peng Chum, who was then at Singapore Polytechnic. He took it to Lee Hwa, which then spent a few million dollars to perfect the technology. Purple gold is now sold in several cities around the world, from London and Dubai, to Tokyo and Seoul.

Incentivising Enterprise and Innovation

4.39 We will help all our companies move up the innovation ladder. Last year's Budget enhanced our tax competitiveness for all businesses. We made Singapore one of the lowest tax locations in the world to start and grow an enterprise. In this year's Budget, we will make Singapore one of the most competitive places for companies, big and small, to do R&D.

4.40 Firstly, I will increase the tax deductions allowed for R&D done in Singapore from 100% to 150%. This enhanced deduction means that for every $100,000 of local R&D spending, a company will be able to deduct $150,000 from its taxable income. I will also lift the requirement that the R&D done in Singapore must be related to a company's existing business, so as to allow it to qualify for the deduction even if it is doing research in new areas unrelated to its current activity.

4.41 Secondly, I will introduce a new broad-based tax allowance which will provide a further push for innovation amongst companies in Singapore, and especially the SMEs. Companies will be granted R&D tax allowances each year, up to an amount of 50% of the first $300,000 of their chargeable income. This allowance can be used to defray incremental expenditure on R&D done in Singapore in subsequent years. This will provide additional resources for SMEs to invest in innovation, whatever their field of business. It is extra funds that they will lose if they do not use them for R&D.

4.42 Thirdly, I will also introduce an incentive to help our high-tech start-ups. Turning R&D into marketable products usually takes time, during which the new company may have no taxable income. Currently, they carry forward their losses for tax purposes. The new incentive, called R&D Incentive for Start-Up Enterprises (or RISE), will allow them to convert immediately these losses into a cash grant of up to about $20,000. They will get this as long as they incur at least $150,000 in expenditure during the year for doing R&D in Singapore. This scheme will be available for enterprises in their first three years of assessment. As with the other incentives I have mentioned, we will review the scheme after five years.

4.43 The three schemes will provide a significant incentive for all companies, small and big, to do R&D. <u>Start-ups</u> which have not yet turned a profit, will benefit from reduced costs when they do R&D. A <u>small company</u> that is around the 80th percentile of taxpaying companies, and which spends an additional $150,000 on R&D, would find its effective tax rate being reduced from around 9% currently, to almost zero. For a <u>medium-sized company,</u> around the 90th percentile of our tax-paying companies, its effective tax rate will come down from about 15% to 10%. The three schemes together will cost about $250 million a year.

4.44 Details of these R&D initiatives are at <u>Annex B-2</u>.

Catalysing Innovation in Public Services

4.45 The public sector itself will be more active in innovation. A new Public Service Innovation Framework will serve to promote public-private collaborations that will bring about breakthrough public services.

4.46 The Government will set aside $90 million over three years as a seed fund for experimentation, test-bedding and building capabilities. Each Ministry will have a Chief Innovation Officer to drive and coordinate this process. The Public Service is always looking for solutions to problems, big and small, that innovative enterprises could participate in. Private companies with new ideas for technologies and services can offer them for joint development prior to the procurement stage.

4.47 Some examples are well known, like how our companies have taken advantage of NEWater and TradeXchange to develop whole new capabilities, grow and expand overseas. There are other lesser known examples. One of them is Cadi Scientific, founded by four Singaporeans just five years ago. They approached Singapore General Hospital with a prototype device and offered to work together with the hospital to develop a thermal sensor that could automatically transmit body temperature readings wirelessly to a central system. It freed up time for the nurses, and also meant that patients need not be disturbed from their rest.

4.48 Today, their device has been developed further, into a system that measures many vital signs – blood pressure, respiratory rate and so on – known as SmartSense. SmartSense has been adopted by Tan Tock Seng Hospital, and is now being trialled in hospitals in Thailand and Taiwan.

4.49 We are stepping up our focus on R&D and innovation on all fronts, through our universities and public sector institutions, by incentivising R&D in our enterprises including SMEs and start-ups, and through closer interaction between the public sector and private enterprises. We cannot expect quick results from the investments we are making today and the incentives we are providing. We may have to do more in future years. But what we do now to make innovation more pervasive in the economy, and to grow new enterprises that are driven by R&D, will eventually pay off.

Enhancing Business Competitiveness

4.50 We have to keep our business costs competitive, and not let them run ahead of the cities we are competing with.

Office Space Constraints

4.51 In the short term, we face tightness in office space capacity, caused by the surge in business growth, especially in the business and financial sector. Office rentals have risen sharply. Although office space still costs 30% to 50% less in Singapore on average, compared to Hong Kong and Tokyo, the pace of cost increases has been rapid and unsettling for businesses.

4.52 The tightness in office space should ease over the medium term, with the completion of major projects currently under construction, such as Phases 1 and 2 of the Marina Bay Financial Centre, the Marina View sites and South Beach. By 2012, we will have an additional 1.4 million sqm of office space.

4.53 But we are addressing the short term problem. The Government has released 15 transitional office sites and vacant state properties, which will yield 150,000 sqm of additional office space. Companies are already relocating to some of these sites, and to our new regional centres.

4.54 Further, the Government has decided to relocate several agencies out of the Central Area. We will now free up 20,000 sqm or more by the first quarter of 2009 for use by the private sector. This is equivalent to twenty floors or more of an Office Tower Block in Suntec City.

4.55 Construction costs are another short term problem. The combination of higher raw material prices and work on major new projects such as the two integrated resorts and petrochemical complexes has caused costs to spike up. To ease the pressure, the Government has earlier announced the deferment of some $2 billion worth of Government projects. We have now decided to defer another close to $1 billion of projects. This deferment will only affect projects which are less urgent. Key investments such as the expressways, the Downtown Line and the NUS University Town will not be affected.

Tax Competitiveness

4.56 We will continue to keep our taxes competitive so as to provide every incentive for work and enterprise, and generate economic growth for the future.

4.57 With our 18% corporate tax rate – we brought it down last year by two percentage points – and the enhancements we have made to our Partial Tax Exemption scheme last year, our corporate tax regime is competitive. The R&D incentives I have announced will provide further reductions in effective tax rates for companies over time. I will make additional refinements this year to give a further boost to entrepreneurial companies and SMEs.

Start-Up Tax Exemption Scheme

4.58 First, I will liberalise our start-up tax exemption scheme. Currently, all shareholders must be individuals before the company is eligible for the scheme. This is too restrictive. I will therefore allow the tax exemption for start-ups as long as there is at least one individual shareholder with at least a 10% shareholding.

Equity Remuneration Incentive Scheme

4.59 Many companies are seeking to use equity-based remuneration to attract and retain talent. Several years after the dotcom bubble, equity in the form of stock options or share awards remains a relevant tool for young and fast-growing companies.

4.60 There are currently two tiers of tax incentives for equity-based remuneration – one for employees of SMEs and another for those in larger companies. Some of our larger companies would like to use equity remuneration for key employees to encourage them to take risks and grow the company. However, they are currently restricted from doing so as the existing incentive requires them to offer share awards or stock options to <u>at least 50%</u> of their employees. So it has not been very practical for companies, especially our large companies. I have decided to adjust this condition so that they are only required to issue stock options or shares awards to <u>at least 25%</u> of the company's employees.

4.61 I will also introduce a new and more attractive tier for start-up companies besides the two current tiers targeted at SMEs and larger companies. As the risks involved in start-ups are naturally higher, it is reasonable to grant their employees a larger exemption from personal income tax on the gains they make on their stock options or share awards.

Fixtures and Fittings Incentive

4.62 A regular bugbear concerns the expenses that companies incur on fixtures, fittings and installations in their premises. Some renovation expenses are currently not eligible for capital allowances. Typically, if the fixture or furniture is movable, it qualifies; if it is not movable or does not look movable, it does not qualify. For example, if a restaurant wants its bar counter to qualify for capital allowances, the surest way is to put it on wheels. I have decided to introduce a new incentive to help businesses, and especially SMEs, keep their costs down. Businesses will be granted a special allowance for the costs of fixtures, fittings and installations incurred, to be written down over three years. The allowance will be limited to expenses of $150,000 every three years. This new allowance will be particularly helpful for SMEs in the services industries. Whether it is a fashion or F&B outlet, the upgrading they make to the interior design of their premises is integral to the experience they offer to their customers. So we should allow this to be deductible. Overall, this measure will save our businesses about $130 million a year in tax. The cap at $150,000 of expenses is essential because, if we allowed all businesses to deduct all expenses involved in renovating their premises, we would face significant revenue loss.

Promoting New Financial Activities

4.63 Singapore's financial centre has seen good growth and has significant new opportunities ahead, particularly in Asian markets. Islamic finance is a promising area and we will ensure that Singapore's financial markets are conducive for its growth. To encourage more Shariah-compliant financial activities to be done out of Singapore, I will introduce a 5% concessionary tax rate for income derived from qualifying Shariah-compliant activities, specifically in the areas of lending, fund management, insurance and reinsurance. I will also extend the tax exemption currently granted to non-residents and resident individuals on income from Qualifying Debt Securities to all investors of qualifying *sukuks* (Islamic bonds), including resident non-individual investors.

4.64 To strengthen Singapore as a wealth management hub, I will introduce a tax incentive scheme for family-owned investment holding companies. The scheme will allow these companies to enjoy the same scope of exemptions that individuals currently enjoy on Singapore and foreign-sourced investment income.

4.65 To further develop Singapore as a premier insurance centre, I will introduce a tax incentive scheme for licensed insurance and reinsurance brokers. They will be taxed at a concessionary rate of 10% on the income they derive from offering insurance broking and advisory services to offshore clients.

4.66 I will also enhance other financial sector tax incentives comprising those related to project finance, Qualifying Debt Securities and asset securitisation transactions, as well as extend the Financial Sector Incentive scheme for another five years.

Developing the Maritime Hub

4.67 To deepen our maritime financing capabilities and to tap on new business opportunities created by the buoyant shipping market, I have decided to provide a concessionary tax rate of 5% or 10% on income from leasing of containers under the Maritime Finance Incentive. I will also allow partners to enjoy the incentive.

Tax Credit for Foreign-Sourced Income

4.68 We will also make other specific tax changes. To eliminate the possibility of double taxation for our companies that venture abroad, I will extend unilateral tax credit to all foreign-sourced income that they earn in countries with which Singapore does not yet have an Avoidance of Double Taxation Agreement.

Overseas Talent Recruitment Scheme and Not-Ordinarily-Resident Scheme

4.69 To help businesses continue to attract talent from around the world, I will extend the Further Tax Deduction scheme, which allows for further tax deduction for relocation and recruitment expenses for another five years till 2013. I will also refine the Not-Ordinarily-Resident scheme, which is relevant to individuals with regional work responsibilities, so that it covers not only salary but also benefits in kind.

4.70 Details on these tax changes are at Annex B-3.

Individual Taxes

Estate Duty

4.71 I mentioned last year that we would review estate duty, and we have done so. We collect about $75 million per year on average from estate duty.

4.72 We inherited estate duty from the British. The rates we originally had were high –until 1984, the top rate was 60%. (Today's inheritance tax in the UK is in fact still 40%.) Our current rates are much lower; 5% for the first $12 million of dutiable assets and 10% thereafter.

4.73 Estate duty is a means to rebalance opportunities with each new generation and prevent wealth from being concentrated in fewer and fewer hands over time. It was especially relevant at the time when the bulk of wealth comprised land that was passed down through the family. Today, however, wealth is being created in many more ways and by a wider group of entrepreneurs, many of whom start off with little.

4.74 Wealth is also being managed today on a global basis. Proponents of removing estate duty have therefore argued that removing it would encourage wealthy individuals from all over Asia to bring their assets into Singapore, thus supporting the growth of the wealth management industry. Ordinary Singaporeans have also argued that having worked, paid taxes on their income and property, and built up their savings, they want to be able to pass it on to their families. Some are in fact liable for estate duty when their estates receive large life insurance payouts.

4.75 The current low exemption limit for non-residential assets, set at $600,000, compared to the higher limit of $9 million for residential properties, in fact tends to affect our middle and upper-middle-income estates disproportionately compared to wealthier ones. We have considered raising the $600,000 limit for non-residential assets so as to correct for this. However, this would further shrink what is already a narrow tax base and render the tax less effective.

4.76 I have therefore decided to remove estate duty from our tax regime, with effect from deaths from today. It is not just a practical or expedient measure, but one that on balance will be in our collective interest. If we make Singapore an attractive place for wealth to be invested and built up, whether by Singaporeans or foreigners who bring their assets here, it will benefit our whole economy and society, not just the individuals who build up their wealth. It is not a zero sum game.

4.77 I would however encourage individuals who have accumulated wealth to think of how they can use it to make a contribution to society, and make full use of the enhanced incentives we introduced last year to promote philanthropy. This will benefit our schools, universities and hospitals, and the growing range of charitable causes in Singapore.

4.78 With the removal of estate duty, our remaining tax on wealth would be the tax on property. We should retain this tax. It is an efficient tax, set at a low rate in relation to the full value of the property, especially for owner-occupied homes. You cannot tax-plan it away. It also does not affect our middle and upper-middle-income estates disproportionately compared to wealthier ones. This is why most countries have some form of tax on property – including even Hong Kong, which like us does not have capital gains tax and has already done away with estate duty. Only Ireland does not have a tax on residential property, but the Irish have capital gains tax, inheritance tax and gift tax.

4.79 Details on estate duty are at Annex B-4.

Personal Income Tax

4.80 For most taxpayers, Singapore's personal income tax regime is already one of the most competitive in the world, because our marginal tax rate schedule is highly progressive. We will not be making any further move on personal income tax rates this year. But we will continue to watch this and ensure that we are always able to attract and keep talent in Singapore, including those at the top end. After we amend the Constitution to revise the framework for drawing investment income from our reserves, we will reassess our options on corporate and personal income tax and lower rates further should it become necessary.

4.81 As the Government had a strong surplus last year, however, we will give something back to taxpayers this year. I will give an income tax rebate of 20% for all resident taxpayers for Year of Assessment 2008. The rebate will be capped at $2,000. Having this cap allows us to target the rebate at those below the top income brackets. The income tax rebates will cost the Government $380 million.

Miscellaneous Tax Changes

4.82 Last year, I announced that we would progressively move towards taxing liquors on the basis of alcoholic content, rather than on the basis of volume. We are now already taxing many liquors, including beer and stout, on the basis of their alcoholic strength. However, other liquors like wine, whisky, and brandy are still taxed based on volume. With effect from today, all alcoholic beverages will be taxed on the basis of their alcoholic content. Most liquors will see a slight reduction in duty rates. The rationalisation of the duty rates will be broadly revenue neutral.

4.83 Having covered liquor, I now move to driving. The Government has already announced the reductions in the Additional Registration Fee of vehicles and the 15% cut in road taxes that will accompany the expansion of the Electronic Road Pricing system.

4.84 We will also introduce changes to the tax levied on private diesel cars. The current special tax on private diesel cars is too punitive, and explains why we only have one such car on the road today. I am informed that there are another two on Pulau Ubin, but they do not pay the special tax on Pulau Ubin. The changes will narrow the difference in the cost of fuel consumption that a motorist faces, between a Euro-IV car and a petrol car.

4.85 Details of the special tax and liquor duties are at Annex B-5.

4.86 With the Speaker's permission, I will continue later with the changes we will make to build a resilient community.

(5) BUILDING A RESILIENT COMMUNITY

5.1 As we develop as a global city, we must build up our resilience as a community and help every Singaporean make the best of the opportunities that will come. Our big advantage is that our economy is growing, we are attracting investments, and more jobs are being created. Our education system provides opportunities for all to develop their potential. All Singaporeans therefore have the chance to further their learning, to upgrade themselves, to earn a good living, and to provide for their families.

5.2 This desire to learn, work and do well and look after our families has been, and must remain, the foundation for our success. We will only have a resilient community if each of us strives to be self-reliant.

5.3 However, even as our economy grows and does well, we have to address two key challenges that we face together as a community. First, we must help our lower-income workers cope with the continued pressures on their wages in a globalised world. This is a collective challenge, not just a challenge for the individuals concerned. Second, we have to help Singaporeans save more for their retirement and prepare for healthcare needs that come with aging, so that they can look forward to the happy prospect of longer lives.

5.4 Last year we made significant moves to address these challenges. The new Workfare Income Supplement (WIS) scheme is a major social intervention, using public resources to boost the incomes of those at the lower end of the wage ladder. We also reduced both the employer and employee CPF contribution rates for our lower-income workers, to help them stay employed and increase their take-home pay.

5.5 We made further changes to the CPF system last year to enable Singaporeans to save more for retirement. Singaporeans can now expect to receive higher interest rates on their CPF savings, especially those with smaller balances. We also committed to providing the older cohorts of CPF members with bonuses, the V- and D-bonuses, for deferring the draw-down of their savings.

5.6 I will outline, in the next part of the speech, further measures that the Government will take to help Singaporeans prepare for old age as well as measures to help the most needy and vulnerable in our society. I will also set out measures by which we will share part of the surpluses from last year with Singaporeans.

Enhancing Financial Security in Retirement

5.7 This year, we are moving on four further initiatives to help ensure adequate savings for retirement.

Voluntary Savings

5.8 Firstly, we will encourage Singaporeans to voluntarily put aside more savings whenever they can. We will make it easier for Singaporeans to top up CPF accounts for themselves and their family members in order to meet the Minimum Sum, and we will provide more tax incentives for them to do so.

5.9 The Ministry of Manpower will now allow members below the age of 55 to top up their CPF savings up to the Minimum Sum. Further, employers will now be allowed to make top-ups to their employees' Minimum Sum.

5.10 To encourage this topping-up of CPF accounts, I will broaden the tax reliefs currently available. Today, there is a single $7,000 tax relief available for qualifying Minimum Sum top-ups either for oneself or for one's family members, provided the beneficiary is aged 55 and above. I will allow two separate tax reliefs - up to $7,000 for top-ups by the member or his employer to his own Minimum Sum, and up to another $7,000 for top-ups to other family members' Minimum Sum. Both reliefs will apply regardless of the age of the recipient when the top-ups are made. We therefore have a single $7,000 relief that is now being changed to two $7,000 reliefs, for top-ups to the member himself and to his family members respectively. Employers will also enjoy a full tax deduction for top-ups to their employees' accounts.

5.11 To encourage savings to meet medical needs, I will also provide tax relief for voluntary contributions that CPF members specifically direct to the Medisave Account. This will help more CPF members meet the Medisave Minimum Sum.

5.12 The Supplementary Retirement Scheme (SRS) provides a tax incentive for Singaporeans as well as foreigners to save for retirement outside of the CPF system. Today, only employees are allowed to contribute to the SRS. To enable employers to play a part towards the retirement savings of their employees, we will allow them to directly contribute to the SRS on behalf of their employees. This will provide an inexpensive method for employers to provide retirement benefits without the need to set up company pension funds, which may have high overheads. With more Singaporeans now working beyond the retirement age, we will also remove the age limit on contributions to the SRS.

LIFE Bonus

5.13 As Minister Ng Eng Hen has recently stated, the Government has accepted the recommendations of the National Longevity Insurance Committee on the CPF LIFE scheme. It puts in place a major new plank to ensure Singaporeans a stream of income for as long as they live.

5.14 From 2013, CPF members will join CPF LIFE automatically when they turn 55 as long as they have at least $40,000 in their Minimum Sum. The first cohort to do this will be those aged 50 this year, who will turn 55 in 2013. We also want to encourage those with less than $40,000 in their Minimum Sum as well as members who are older than 50 this year to join the scheme when they turn 55.

5.15 We have decided to provide a special bonus to the first few cohorts of CPF members who will participate in CPF LIFE. These older cohorts generally earned less over their working years compared to what younger Singaporeans currently have and can look forward to. By the time these older cohorts join CPF LIFE, they would also have had less time to benefit from the extra 1% interest that CPF members now receive on the first $60,000 of their CPF balances. Further, younger cohorts will also be able to benefit from more years under the WIS scheme, which provides significant top-ups into their CPF accounts, plus cash payments.

5.16 The Government will provide a sign-on bonus for the <u>first five cohorts</u> of CPF members who join CPF LIFE, in other words, those aged 46 to 50 this year. We call this the LIFE Bonus, or the L-Bonus. It will be given to members when they enrol in the scheme at age 55.

5.17 The L-Bonus is targeted at the lower and middle-income CPF members. It will be given to members whose annual income when they sign on to the LIFE scheme is $54,000 or less, and whose annual assessed property value is $11,000 or less, which will include all HDB flats. These make up <u>about 80% of the cohort aged 50 today</u>, including those whose Minimum Sums are too low for them to be automatically enrolled in the LIFE scheme.

5.18 The amount of the L-Bonus will vary such that older and less well-off members will receive more. For members aged 50 this year, they can expect to receive between $2,200 and $4,000. A 50-year-old who lives in a five-room flat and earns between $24,000 and $54,000, in other words, a middle-income 50-year-old, will receive $2,200. However, a 50-year-old who lives in a three-room flat and earns less than $24,000 annually will receive $4,000 when he joins the LIFE scheme. If he has $40,000 in his Minimum Sum, $4,000 amounts to 10% of his retirement savings.

5.19 The youngest eligible cohort, those aged 46 today, will get around 30% of what the 50-year-olds receive.

Table 2 - Structure of L-Bonus for those 55 and older in 2013

	Annual Value (AV) of Home	
Annual Assessable Income (AI)	**Up to $6,000**	**More than $6,000 and up to $11,000**
$24,000 or less	$4,000	$3,200
More than $24,000 and up to $54,000	$3,200	$2,200

5.20 Professor Lim Pin's committee had recommended that the Government provide a one-off incentive to facilitate greater participation and opt-in by members who are not automatically included in the scheme. The Government agrees with the committee's recommendation and will extend the L-Bonus to this group of members.

5.21 Therefore, if members have less than $40,000 in their Minimum Sum, but want to participate in the LIFE scheme, we will help them to do so and give them the L-Bonus as long as they are willing to make a reasonable contribution to their balances and accept lower monthly payouts. This is particularly important for many of the women, who may have been housewives or stopped working early and do not have enough in their accounts. The L-Bonus will encourage their husbands or other family members to top up their accounts so that they can join the scheme.

5.22 We will also extend the L-Bonus to older members above the age of 50 this year who choose to opt into the scheme. They can opt in when they reach 55. But if they have already passed 55 when the scheme is introduced, they will have to opt in within a year from that time. All these older members who choose to opt in will receive the same amount of L-Bonuses as those aged 50 this year.

5.23 The Government will set aside $770 million over three years for the L-Bonuses, including $260 million out of this year's Budget.

5.24 Details on L-Bonus are at Annex C.

Helping Singaporeans Meet Healthcare Needs

5.25 We are investing heavily in healthcare. The Government is spending $900 million over the next five years to upgrade and expand facilities at NUH, SGH, and the National Heart Centre, and to build the new Khoo Teck Puat Hospital in Yishun. We will also spend another $1 billion over the next five years to recruit and train more healthcare professionals, including not only doctors, but also pharmacists, physiotherapists and other allied health professionals in the public sector. This is on top of the additional 40% more nurses that we had previously committed to bring into the public sector. It will mean more well-qualified staff to take care of each patient - more nurses and more allied health professionals of various specialisations.

5.26 But as we spend more on healthcare, we must ensure that our commitment can be sustained not just for a few years, but over the long term. Means-testing has had a thorough debate over the past several weeks. It is the only realistic way to ensure that high quality healthcare can be delivered to all, including lower-income patients, without placing an unsustainable burden on taxpayers as a whole. Minister Khaw Boon Wan has assured Singaporeans that he is sensitive to the concerns of the middle-income group, who will continue to be subsidised at Class C and B2 wards, though at a reduced rate compared to the low-income patients.

5.27 To protect retirement savings from being depleted by heavy expenses due to catastrophic illnesses, we must also ensure that our people are adequately covered by medical insurance.

(a) MOH will be enhancing MediShield to provide better coverage for patients with large hospital bills, with some adjustment to MediShield premiums in tandem with this. To help older Singaporeans pay for their medical bills and their increased MediShield premiums, we will top up the Medisave accounts of all those aged 51 and above by up to $450** this year. This will cost the Government $220 million (Table 3).

Table 3 -Structure of Medisave Top-ups

Age in 2008	Medisave Top-up Amount
51 to 60	$150
61 to 70	$250
71 to 75	$350
76 to 80	$450
81 and above **	$550

****Afternote:** As announced by the Minister for Health on 17 April 2008, the top-up for those above the age of 80 will be raised to $550. This will raise the cost of the Medisave Top-ups to $226 million.

(b) To encourage employers to provide portable medical benefits through Medisave and MediShield, we will also relax the criteria for them to enjoy tax deductions up to the higher cap of 2% of their wage bill. Beyond regular Medisave contributions, employers will now be allowed tax deductions up to the higher cap if they make ad hoc contributions to their employees' Medisave accounts, or if they purchase MediShield or Medisave-approved private integrated plans for their employees. Details of this are in Annex B-6.

5.28 We are also setting aside more funds to help the elderly and needy. The ElderCare Fund is already being fully utilised to support older Singaporeans who need long-term care in nursing homes and other step-down care facilities. We will top up the ElderCare Fund by $400 million this year, bringing its size to $1.5 billion. Medifund, which supports the needy, is also being well utilised. We will top it up by $200 million this year, bringing the fund size to $1.6 billion.

Taking Care of the Vulnerable

5.29 We will continue to refine the safety nets to help the most vulnerable in the community. We have to do this in a calibrated fashion because the last thing we should do is to weaken the incentive for the individual to find a job and stay in one, or undermine the responsibility that family members have towards each other. These twin values have underpinned our programmes for social assistance and will continue to do so.

5.30 The Public Assistance (PA) Scheme applies to needy Singaporeans who are unable to work and have no other means of support. In addition to their PA allowance, they are given a PA card which makes them eligible for free healthcare and many other subsidies, as well as extensive community support. Last year, we raised the monthly PA rates to $290.

5.31 Many, including our MPs, have asked that the PA rates be reviewed again. MCYS has done so. Following this review, the Government has decided to increase the monthly PA rate for a single-person household further to $330. This will give households on Public Assistance more assurance that they can meet their basic needs. Minister Vivian Balakrishnan will provide more details in the MCYS COS, including other changes to the Public Assistance Scheme.

5.32 I will also top up the ComCare Fund by $200 million this year, bringing it to $800 million. This will support our efforts to help the needy to obtain jobs, look after their children’s needs and integrate into the community.

Surplus Sharing

5.33 2007 was a good year for Singapore. Our fiscal position is strong. We can therefore afford to share some of the budget surplus with Singaporeans. I will distribute the surplus to all Singaporeans, but with particular focus on the lower and middle-income groups and older Singaporeans. Their needs are greater, and they are more affected than better-off Singaporeans in the current climate of rising prices.

5.34 I had earlier in the speech announced top-ups to the Post-Secondary Education Accounts (PSEA) and Medisave accounts, as well as Personal Income Tax rebates, as part of this surplus sharing exercise.

5.35 I have also decided to give Growth Dividends to all adult Singaporeans, to be paid out in two instalments in April and October this year. Those who have already signed up for their GST Credits will automatically receive their Growth

Dividends.

5.36 We will give the needy more, using the same framework that has been used for GST Credits. A lower-income Singaporean living in a three-room HDB flat or smaller, will receive a Growth Dividend of $400. This is on top of the $250 in GST Credits that he will be getting this year. The majority of Singaporeans, who live in other HDB flats and do not have high incomes, will receive a Growth Dividend of $300, which will be on top of $200 in GST Credits that he will get this year. This is the same framework that we used for the GST Credits - looking at the Annual Value of the home and Annual Income of the individual to determine how much credits he gets.

5.37 I will give older Singaporeans, those aged 60 and above, more. Most older Singaporeans will receive one and a half times what other Singaporeans will receive.

5.38 As with the GST Credits, we will include everyone. Those with Annual Incomes more than $100,000 will receive a Growth Dividend of $100 (Table 4).

Table 4 - Growth Dividends*

<table>
<tr><td colspan="2" rowspan="2"></td><td colspan="3">Annual Value (AV) of Home in 2007</td></tr>
<tr><td>$5,000 or less

(1-, 2- and 3- room HDB flats)</td><td>More than $5,000 and up to $10,000
(4-room, 5-room HDB flats, executive flats and some less expensive private properties)</td><td>More than $10,000

(more expensive private properties)</td></tr>
<tr><td rowspan="3">Annual Assessable Income (AI) in 2007</td><td>$24,000 or less</td><td>$400
(+$100*)

For those 60 years old and above:
+$200
(+$50*)</td><td rowspan="2">$300
(+$75*)

For those 60 years old and above:
+$150
(+$37*)</td><td rowspan="2">$150
(+$37*)

For those 60 years old and above:
+$75
(+$19*)</td></tr>
<tr><td>More than $24,000 and up to $100,000</td><td></td></tr>
<tr><td>More than $100,000</td><td colspan="3">$100
(+$25*)</td></tr>
<tr><td colspan="2">NSmen, ex-NS men and NSFs</td><td colspan="3">+$100</td></tr>
</table>

***Afternote:** As announced by the Prime Minister on 17 August 2008, Singaporeans will receive a one-off 50% enhancement to the second installment of Growth Dividends (GD). Figures in brackets show the increment announced at National Day Rally 2008. This will raise the cost of the Growth

Dividends to $1.06 billion.

5.39 As before, we will provide the option for Singaporeans to donate their Growth Dividends to charity, so that those who wish to can conveniently contribute to a cause of their choice.

5.40 We will give an additional dividend to those who have served and are currently serving national service. NSmen, ex-NSmen and NSFs, including those below 21, will get an additional $100 of Growth Dividends, to recognise their contributions to our nation.

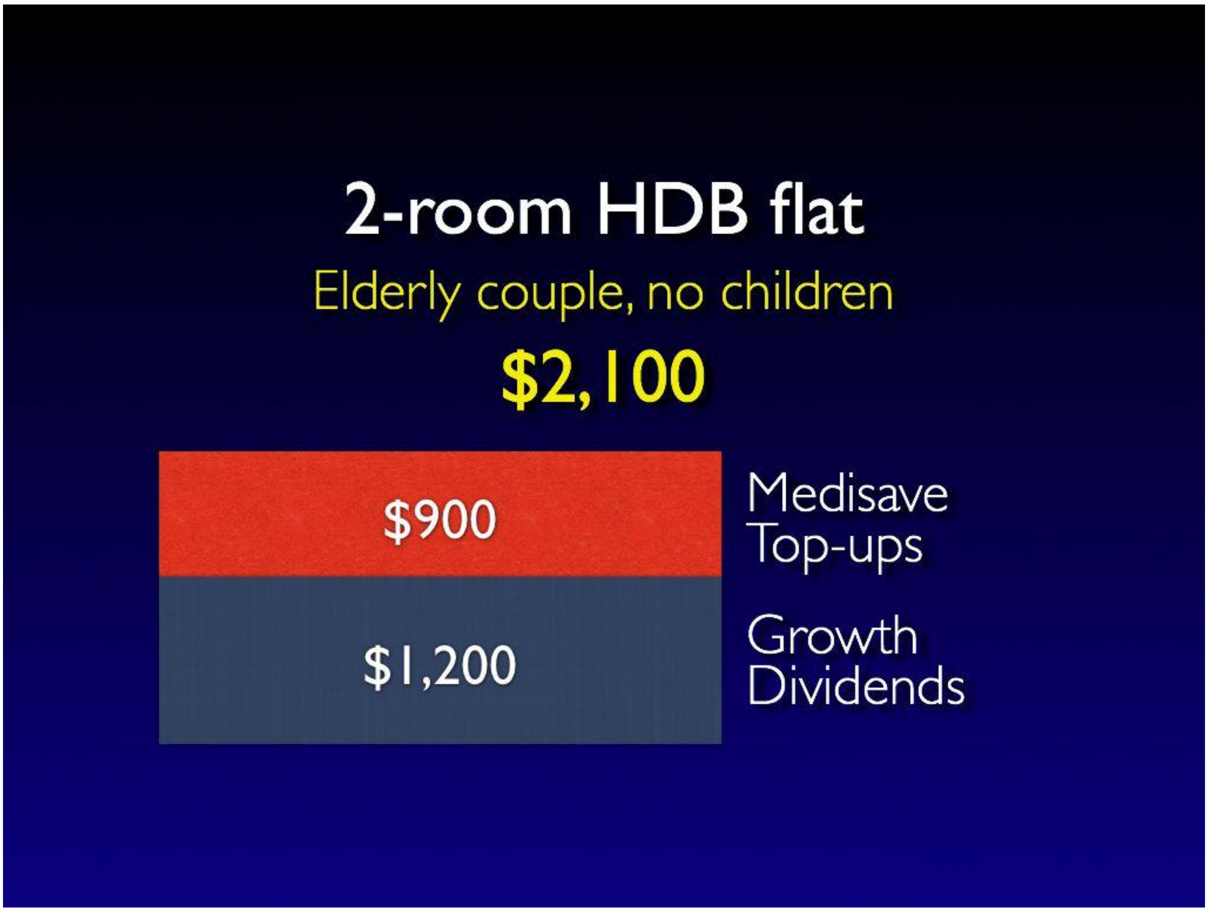
5.41 The Growth Dividends will cost the Government $865* million this year.

5.42 For government pensioners, the Government has decided to increase the Singapore Allowance further by $20 per month, and raise the gross pension ceiling from $1,150 to $1,170. This will give an additional $3 million a year to pensioners residing in Singapore.

5.43 There are some families who may need additional support, in meeting rising costs, beyond the significant sums they would receive in the GST Offset Package and the Growth Dividends that we are providing this year, as well as beyond the existing Government assistance schemes. Last year, as part of the GST Offset Package, we provided CCCs, Self-Help Groups (SHGs) and VWOs with extra funds to help needy families. We gave these groups $10 million over five years. This year, we will give these groups an additional $10 million. This would give them an extra $20 million on top of regular funding over the five-year period. They are best placed to decide on which families need additional assistance. Over the last year alone, about 8,000 low-income families have been helped by the CCC ComCare Fund.

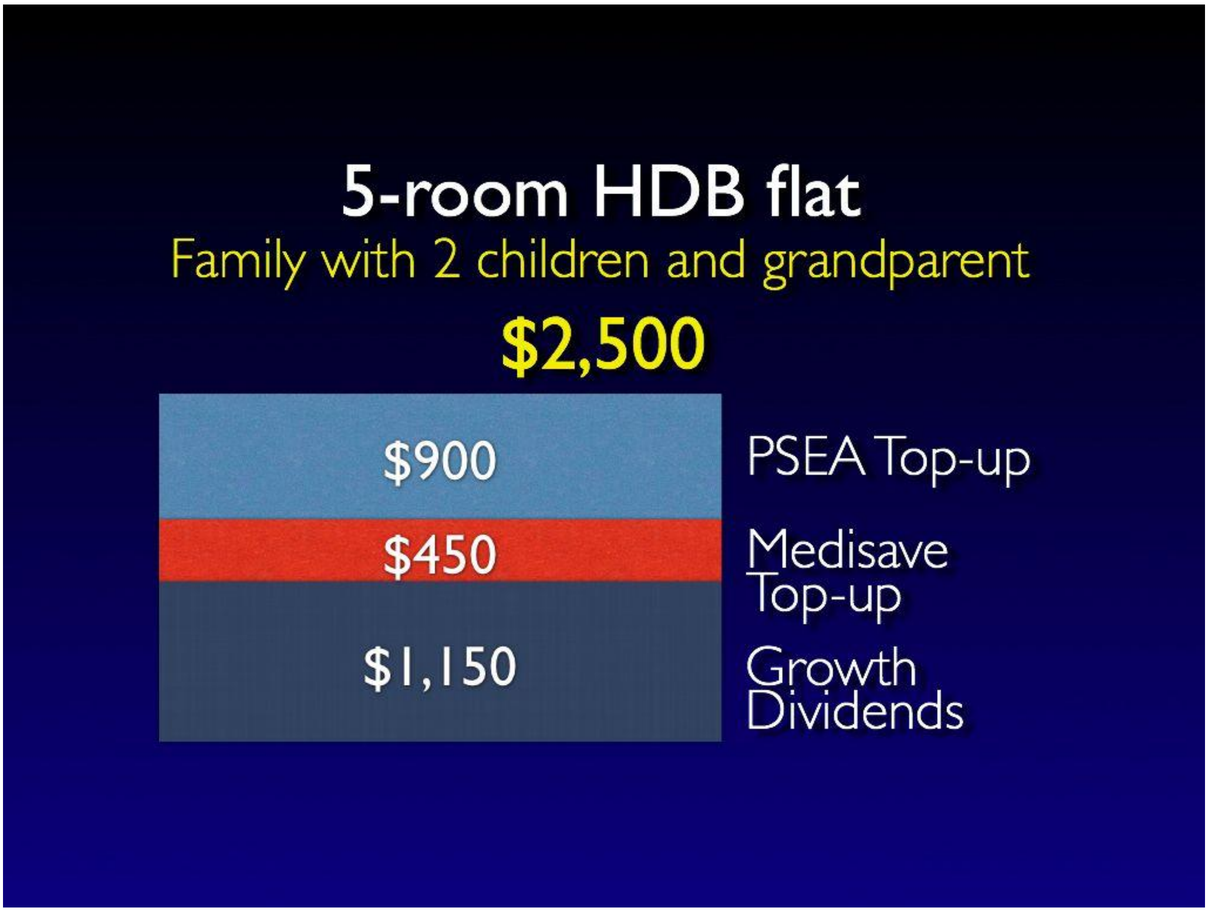
5.44 Taking together all the measures in this year's surplus sharing package a retiree household in a two-room flat will receive $2,100, comprising their Growth Dividends and Medisave Top-ups. This is on top of the $1,300 that they will also be receiving this year as part of the GST Offset Package introduced last year (Chart 4).

Chart 4 – Benefits that a retiree household in a two-room flat will receive



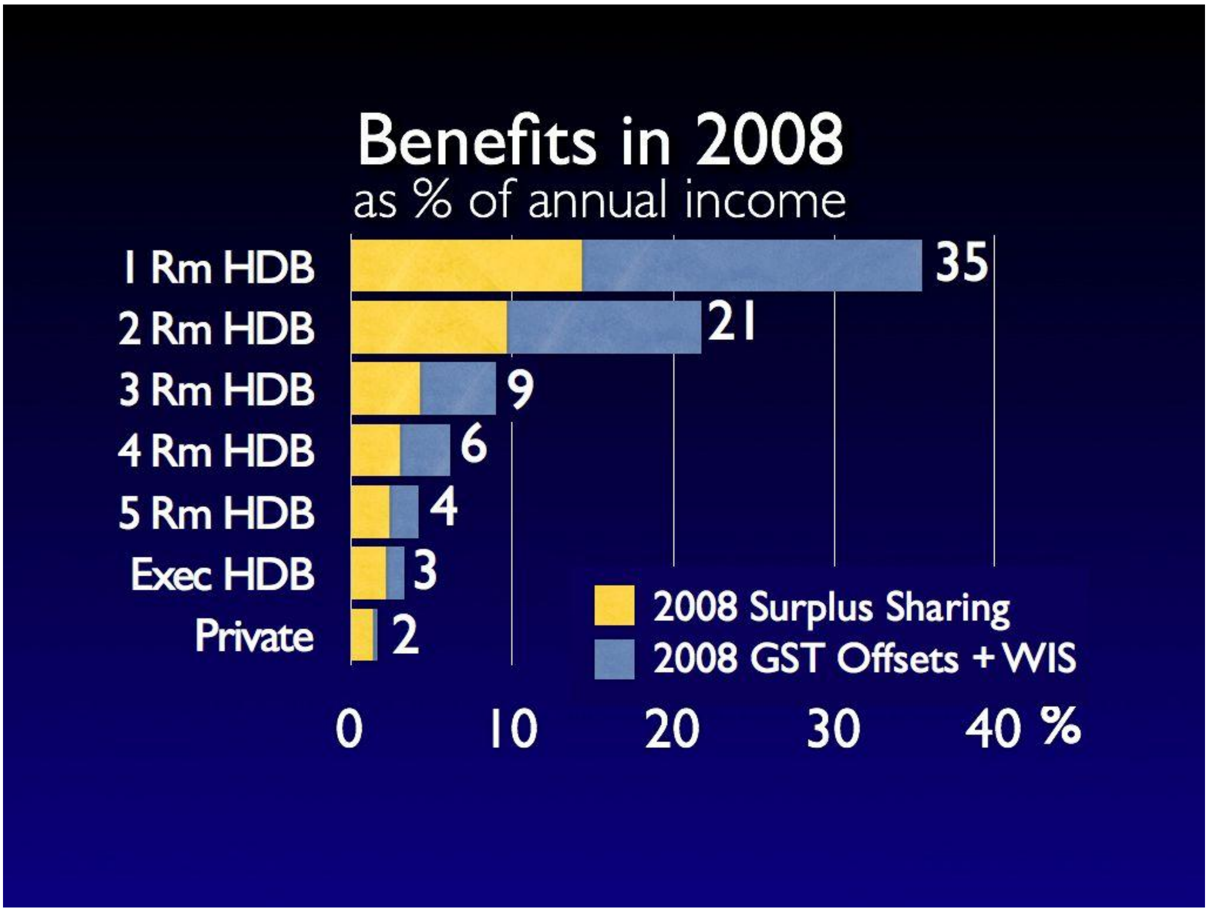
5.45 Take a middle-income family living in a five-room flat, which is also typically a larger family, comprising two working parents with two children, one in primary school and one in secondary school, and one grandparent. They will receive a total of $2,500 - $1,150 in Growth Dividends, $900 in PSEA top-ups, $450 Medisave top-up. This $2,500 is on top of the $1,900 that they will also be receiving this year as part of last year's GST Offset Package (Chart 5).

Chart 5 – Benefits that a middle-income family living in a five-room flat will receive



5.46 Overall, the rebates and dividends are weighted towards middle and lower-income households. Higher-income households will receive more in absolute dollars, because of the rebate on the higher personal income taxes that they are paying. However, lower and middle-income households will get more as a percentage of their incomes from the 2008 surplus sharing exercise. This is even more so if we include what they will receive this year as part of the GST Offset Package that was introduced last year and the WIS. When you put the two together - what they will receive this year in benefits from last year's package plus this year's package - will be a very substantial proportion of incomes at the lower end. The distribution is also highly progressive (Chart 6).

Chart 6 – Benefits that will be received in 2008 as a percentage of annual income



5.47 In total, we will be giving out $1.8 billion worth of benefits to Singaporeans as part of this surplus sharing package. This is our approach. When we have higher than expected economic growth and strong surpluses, we will share the benefits with Singaporeans while setting aside sufficient resources to meet future needs and challenges.

(6) CONCLUSION

FY2008 Budget Position

6.1 Mr Speaker, Sir, let me now summarise the FY2008 budget position. Before taking into account Net Investment Income Contributions, Special Transfers and the tax changes introduced in this year's Budget, we expect a surplus of $3.2 billion for FY2008. The various tax changes I have introduced will reduce FY2008 operating revenue by $0.5 billion. Further, the special transfers and tax rebates provided as part of the surplus sharing package this year, as well as the special transfers for FY2008 that were committed in the GST Offset Package last year, will cost an additional $2.8 billion. Together, these tax and transfer initiatives will bring the budget balance down to close to zero.

6.2 This is before adding Net Investment Income Contributions to our revenues, and setting aside funds to top up our various endowment funds and the National Research Fund, as well as the provisions we are making for other long term needs such as V- and D-Bonuses and the L-Bonus. The net effect of these additions is to bring the Overall Budget Balance for FY2008 to a deficit of $0.8 billion.

6.3 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 FY2007 and FY2008 can be found in Annex D.

Going Forward with Strength

6.4 Mr Speaker, Sir, this year's Budget takes place amidst a time of increasing uncertainty in the global economy. Around the world, growth is slowing and inflation is picking up, especially for food prices. It is a concern for us all in Singapore.

6.5 We are able to deal with the immediate problems and weather any short term difficulties that Singapore might face. This is because our fundamentals are strong, we continue to attract major new investments, and we expect employment to remain high. Our low-income households in particular are seeing more members getting jobs.

6.6 This Budget is about developing the capabilities of our people and enterprises, so that we stay in the top league of global cities for years to come. The Budget is also about our social resilience – holding together as a community, and providing assurance for Singaporeans as we age.

6.7 This Budget will enhance the breadth of opportunities available for Singaporeans to discover and stretch their potential, from young and right through their lives. Our schools are unique in the extent of social mobility that they make possible, in each new generation, providing every child the best chance to do well and move up. Take Mumtaz d/o Mohamed Yusoff, 17 this year. She lives with her mother, who is the family's sole breadwinner, and two older brothers in a one-room flat. She receives financial assistance from MOE. In last year's GCE 'O' Level exams, Mumtaz scored distinctions in all her nine subjects. On top of that, she was also given the Tanjong Katong Girls' School's Outstanding Service Award 2007, for being a role model of leadership through service to others. Mumtaz is now at Meridian Junior College, where she continues to strive to do well, and to aspire, knowing that family circumstance will never hold her back.

6.8 We are enhancing the bursaries for lower and middle-income students at our polytechnics and universities, to give them further assurance that they can advance their learning to the fullest, without having to incur excessive financial burdens at the start of their working careers. We are also investing in a whole range of continuing education opportunities, from certificates to diplomas to degrees, to encourage Singaporeans to keep upgrading and re-skilling once they are in the workforce.

6.9 This Budget seeks to make innovation pervasive in our economy. In every industry, we have to raise our game, and differentiate ourselves in quality and value. Chew's Agriculture, a local farm, has been experimenting with "designer eggs" over the last decade. They produce eggs enriched with Omega-3 and Vitamin E, and now the latest – eggs enriched with cordyceps (often cited for properties similar to ginseng). Together with home-grown biotech firm, AP Nutripharm, they created "cordyceps eggs" by raising chickens on specially formulated feed. I hesitated to raise the example at this time because these are not the cheapest eggs in the market. But I am told that with the price of cordyceps having increased sixfold in the past six years, the eggs represent excellent value for those who believe in its many stated benefits.

6.10 The Budget provides more favourable tax treatment for our SMEs and further encourages wealth creation. After we have amended the Constitutional framework for drawing Investment Income from our reserves, we will be able to consider further improvements to our competitiveness. We are finalising the details, and will present a Constitutional Amendment Bill to Parliament later this year.

6.11 The Government has taken major steps to help lower-income households benefit from our economic progress. This is why we introduced Workfare, and why we have made major changes to the CPF system, including the higher interest rates that benefit those with smaller balances. This year's Budget provides special support for the older Singaporeans, who will be among the first to join the CPF LIFE scheme, including those who are not automatically included as they have limited CPF monies but who want to participate in LIFE.

6.12 We have also focused on the needs of the lower-income group especially, when we are able to distribute surpluses. Last year's GST Offset Package, which Singaporeans will continue to receive this year and over the next two years, plus this Budget's surplus sharing package provide a significant boost to their incomes. Both these exercises also give the middle-income group support at a time when they too face higher costs of living.

6.13 Whether we succeed as an economy, and whether we remain a resilient society, however, will not depend on how much we hand out, how much we top-up each year, or how large the bonuses are. We will ultimately succeed and remain a country that all Singaporeans feel proud of, if we continue to be a place where every Singaporean can aspire, where there is opportunity to develop every skill and talent, and where everyone does his utmost to do better and surprise with his abilities. That is how together, we will stay ahead, keep amazing the world and achieve a better quality of life for all Singaporeans.

6.14 Mr Speaker, Sir, I beg to move.

<u>**ANNEX A: Enhancements to Financial Assistance for Tertiary Education**</u>

The Government will significantly enhance bursaries given to students from the lower-income group and provide more assistance to those in the middle-income brackets, to help students meet the cost of tertiary education.

For University Students

The Government will:

- Increase the grant quantum of the CDC/CCC-University Bursary from $1,000 to $1,600 a year for students from households with per capita income of up to $500 a month.
- Increase the grant quantum of the MOE Bursary from $800 to $1,200 a year for students from households with per capita income of up to $1,200 a month.
- Extend the MOE Bursary at a quantum of $800 a year for students from households with per capita income of up to $1,700 a month.
- Extend the Study Loan Scheme to students from households with per capita income of up to $2,400 a month.

Per capita household income refers to the total income of all those living in the household divided by the number of people in the household.

All students, regardless of household income level, will continue to be eligible for the Tuition Fee Loan Scheme, which provides a loan of up to 90% of tuition fees payable.

<table>
<tr><th rowspan="2">Monthly Per Capita Household Income</th><th colspan="3">Financial Assistance Schemes*</th></tr>
<tr><th>CDC/CCC Bursary</th><th>MOE Bursary</th><th>Study Loan</th></tr>
<tr><td>$500
Up to the 20th percentile</td><td>Increase from $1,000 to $1,600 a year</td><td rowspan="2">Increase from $800 to $1,200 a year</td><td>20% of tuition fees plus living allowance of $3,600 a year</td></tr>
<tr><td>$1,200
Up to the 50th percentile</td><td></td><td>10% of tuition fees plus living allowance of $3,600 a year</td></tr>
<tr><td>$1,700
Up to the 66th percentile</td><td></td><td>Extend bursary of $800 a year</td><td rowspan="2">Extend Study Loan Scheme (10% of tuition fees plus living allowance of $3,600 a year)</td></tr>
<tr><td>$2,400
Up to the 80th percentile</td><td colspan="2"></td></tr>
</table>

* Eligible students may not receive both the CDC/CCC and MOE Bursary at the same time.

For Diploma Students

The Government will:

- Increase the grant quantum of the CDC/CCC-Polytechnic Bursary from $1,000 to $1,200 a year, for students from households with per capita income of up to $500 a month.
- Introduce a new MOE Bursary Scheme of $800 a year for students from households with per capita income of up to $1,200 a month.
- Extend the CDC/CCC Bursary and MOE Bursary to students enrolled at MOE-funded diploma programmes in the arts institutions, LaSalle and Nanyang Academy of Fine Arts (NAFA).
- Extend the Study Loan Scheme to students from households with per capita income of up to $2,400 a month.

Per capita household income refers to the total income of all those living in the household divided by the number of people in the household.

All diploma students, regardless of income level, will continue to be eligible for the Tuition Fee Loan Scheme, which provides a loan of up to 75% of tuition fees payable.

<table>
<tr><th rowspan="2">Monthly Per Capita Household Income</th><th colspan="3">Financial Assistance Schemes*</th></tr>
<tr><th>CDC/CCC Bursary</th><th>MOE Bursary</th><th>Study Loan</th></tr>
<tr><td>$500
Up to the 20th percentile</td><td>Increase from $1,000 to $1,200 a year</td><td rowspan="2">New bursary of $800 a year</td><td rowspan="2">25% of tuition fees plus increase in living allowance from $1,000 to $2,000 a year</td></tr>
<tr><td>$1,200
Up to the 50th percentile</td><td></td></tr>
<tr><td>$1,700
Up to the 66th percentile</td><td></td><td></td><td rowspan="2">Extend Study Loan Scheme (25% of tuition fees plus living allowance of $2,000 a year)</td></tr>
<tr><td>$2,400
Up to the 80th percentile</td><td></td><td></td></tr>
</table>

* Eligible students may not receive both the CDC/CCC and MOE Bursary at the same time.

ANNEX B-1: Tax Change to Encourage Continual Upgrading

Course Fee Relief

S/N	Name of Tax Change	Current Treatment	New Treatment
1	Course fee relief: To encourage continual upgrading	(a) For vocational qualifications, taxpayers can claim tax relief if the course is relevant to their current trade, business, profession, vocation or employment or they make a relevant career switch within two years after completion of the course. (b) For courses leading to an academic or professional qualification, the claim can only be made in the year the expense is incurred.	(a) For approved vocational qualifications, taxpayers can claim tax relief regardless whether the course is relevant to their current trade, business, profession, vocation or employment. (b) For courses leading to an approved academic, professional or vocational qualification, the claim can be made within 2 years of assessment from the year of assessment ("YA") relating to the year in which he completed the courses. This will benefit taxpayers who may not be able to benefit from the relief in the YA for which the expense is actually incurred. The taxpayer should claim the tax relief, as soon as he has assessable income above $22,000, within the two YAs from the YA relating to the year in which he completes the course. These changes will take effect from YA2009.

ANNEX B-2: Research and Development (R&D) Tax Measures

1) Liberalisation of R&D Tax Deduction

a) Enhanced deduction for R&D expenses

Existing Tax Treatment

- Currently, taxpayers carrying on a manufacturing trade or business or a trade or business for the provision of any services enjoy tax deduction, under section 14D of the Income Tax Act (ITA), for expenses they incur on R&D[4]. The deduction is available for expenses on R&D, irrespective of whether the R&D is done in-house by the taxpayer itself or by a R&D organisation on behalf of the taxpayer, whether done in Singapore or abroad[5].

- The tax deduction under section 14D is equal to 100% of the amount of qualifying R&D expenditure.

New Tax Treatment

- With effect from YA2009, taxpayers that incur expenses in respect of R&D activities carried out in Singapore will qualify for a tax deduction of 150% of the amount of R&D expenses incurred. The 150% tax deduction will be granted to R&D which the company itself does in Singapore, or outsources to an R&D organisation in Singapore. This higher tax deduction will be available for the years of assessment from YA2009 to YA2013.

- R&D expenditure incurred in respect of R&D activities that the taxpayer has outsourced to an R&D organisation outside of Singapore will continue to qualify for deduction under section 14D. The tax deduction will, however, remain unchanged at 100% of the qualifying R&D expenditure incurred.

b) Removal of "related to that trade or business" requirement under Section 14D and Section 14E of the Income Tax Act (ITA)

Existing Tax Treatment

- Besides the 100% tax deduction available under section 14D of the ITA, taxpayers carrying on a manufacturing trade or business or a trade or business for the provision of any services can also be granted a further tax deduction under section 14E on approval

[4] Section 2 of the Income Tax Act defines R&D as any systematic or intensive study carried out in the field of science or technology with the object of using the results of the study for the production or improvement of materials, devices, products, produce, or processes, but does not include —
(a) quality control or routine testing of materials, devices or products;
(b) research in the social sciences or the humanities;
(c) routine data collection;
(d) efficiency surveys or management studies; or
(e) market research or sales promotion.

[5] Where a taxpayer pays an R&D organisation overseas to do R&D on its behalf, the taxpayer is granted the tax deduction under section 14D of the ITA only if the taxpayer undertakes that the benefit of the R&D to be done accrues to itself.

basis for R&D done in Singapore either by the taxpayer itself or by a R&D organisation in Singapore on its behalf. Tax deductions under section 14D and section 14E of the ITA are granted on the condition that the R&D done is *related to the trade or business of the taxpayer*.

New Tax Treatment

- With effect from YA2009, taxpayers carrying on a manufacturing trade or business or a trade or business for the provision of services will be allowed to claim deductions for R&D expenses that are <u>not</u> incurred in respect of their existing trade or business. These claims will, however, be subject to the condition that the R&D expenses are incurred in respect of R&D activities done in Singapore either by the taxpayer itself or by a R&D organisation in Singapore on its behalf. The change applies to both section 14D and section 14E deductions, and will be effective for years of assessment from YA2009 to YA2013.

- Expenses incurred on R&D that is outsourced to an R&D organisation outside Singapore will continue to be granted the 100% deduction under section 14D, only if the R&D done is related to the trade or business of the taxpayer.

2) R&D Tax Allowance

- The R&D tax allowance is a new incentive available to companies in Singapore that have chargeable income. Under the incentive, companies with chargeable income will be granted an R&D allowance for each year of assessment falling within the period from YA2009 to YA2013, at a prescribed rate based on the chargeable income for the year of assessment. The R&D allowance granted can be used to offset chargeable income for the next three years of assessment provided the qualifying conditions are met.

- The prescribed rate at which R&D tax allowance is granted shall be 50% of the first $300,000 of a company's chargeable income[6] or such lower amount where the company's chargeable income[6] is less than $300,000, for each year of assessment from YA2009 to YA2013. The maximum R&D tax allowance granted for each qualifying year of assessment is therefore $150,000 (i.e. 50% of $300,000).

- The R&D tax allowance can be utilised to offset chargeable income for the next three years of assessment (following the year of assessment that it is granted), if the company incurs, in the basis periods of those three years of assessment of utilisation, qualifying R&D expenditure in excess of a base amount (i.e. incremental qualifying R&D expenditure). Any R&D tax allowance that remains unutilised as at the end of the three years of assessment will be disregarded.

- Qualifying R&D expenditure refers to R&D expenditure that:
  - qualifies for deduction under section 14D of the Income Tax Act; and
  - the company incurs in respect of R&D activities undertaken directly (i.e. in-house) by the company in Singapore

[6] Chargeable income after R&D tax allowance utilised (if any), start-up exemption (where applicable) and partial tax exemption (PTE).

For the purpose of computing the amount of qualifying R&D expenditure, government grants (if any) and R&D expenses which the company incurs for all outsourced R&D (whether outsourced to an R&D organisation in Singapore or abroad) will not be considered as part of the qualifying R&D expenditure.

- The base amount of qualifying R&D expenditure is set at the level of the company's qualifying R&D expenditure incurred for the base year. The fixed base year for existing companies is the basis period for Year of Assessment 2008.

- R&D tax allowances cannot be transferred among related companies under group relief.

- Example: Mechanics of R&D Tax Allowance Scheme

	YA2009	YA2010	YA2011	YA2012
TAX COMPUTATION				
Chargeable income (before Partial Tax Exemption (PTE))	500,000	300,000	250,000	400,000
Less: R&D Tax Allowance utilised (A) = lower of (B-C) or D	0	100,000	98,750	36,563
Adjusted chargeable income before PTE	500,000	200,000	151,250	363,437
Adjusted chargeable income after PTE	347,500	97,500	73,125	210,937
R&D Expenses **(B)**	100,000	200,000	300,000	400,000
Base Year R&D **(C)**	100,000	100,000	100,000	100,000
Incremental R&D Exp (B-C)	**NA**	**100,000**	**200,000**	**300,000**
R&D Tax Allowance Account				
R&D Tax Allowance b/f:				
YA2009	0	150,000	50,000	0
YA2010	0	0	48,750	0
YA2011	0	0	0	36,563
Total R/D Tax Allowance b/f (D)		150,000	98,750	36,563
Less: R&D Tax Allowance utilised (A)	0	-100,000	-98,750	-36,563
Add: Current year R&D Tax Allowance (E) = 50% * adjusted chargeable income after PTE	150,000	48,750	36,563	105,469
R&D Tax Allowance c/f = D-A+E	150,000	98,750	36,563	105,469

Note:

A = Utilisation of R&D tax allowance is capped at the lower of incremental R&D expenses or the R&D tax allowance brought forward (i.e. excluding R&D tax allowance earned in current YA).

B = This refers to the actual amount of R&D expenses incurred, and not the quantum of the tax deduction.

C = R&D expenses incurred in basis period for YA2008 i.e. financial year 2007.

D = Unutilised R&D Tax Allowance brought forward from up to the preceding 3 YAs.

E = Capped at 50% of the first $300,000 chargeable income (after R&D tax allowance utilised (if any), start-up exemption (where applicable) and partial tax exemption (PTE)), or such lower amount where the chargeable income (after R&D tax allowance utilised (if any), start-up exemption (where applicable) and PTE) is less than $300,000

3) R&D Incentive for Start-up Enterprises (RISE)

- This is a new incentive which provides government grants to R&D-intensive start-ups that do not generate taxable profits in their first three years of assessment, subject to qualifying conditions.

- R&D-intensive start-ups invest a significant amount of R&D into developing their products. It often takes time for these products to generate profits, so the start-ups may not have chargeable income in the initial years. For start-ups who do not yet have chargeable income, they are unable to benefit from R&D tax incentives such as the R&D tax allowance. For tax purposes, these start-up companies are allowed to carry forward their losses currently. Nonetheless, this carry-forward of losses may not be of immediate assistance to ease the cashflow challenges these R&D-intensive start-ups may face in their initial years.

- To make Singapore more attractive for R&D-intensive start-ups and to encourage start-up companies to invest more in building up their in-house R&D capabilities in Singapore, the *R&D Incentive for Start-up Enterprises (RISE)* will be introduced.

- Under RISE, a qualifying start-up company is allowed to convert up to $225,000[7] of tax losses into cash computed at a prescribed rate, if it spends at least $150,000 expenses on ongoing R&D done in Singapore in the basis period for the year of assessment of claim.

- The start-up can therefore choose either to convert its losses in exchange for cash under the RISE scheme, or carry forward the losses for offset against its subsequent chargeable income in future years of assessment. If the start-up company chooses to convert its losses under RISE into cash instead of carrying forward the losses, the losses of the start-up company to be carried forward will be correspondingly reduced by the amount of the converted losses.

- Qualifying start-up companies can claim for cash grants under RISE for the years of assessment from YA2009 to YA2013.

- To qualify for RISE, the start-up company needs to meet all of the following conditions:
  a) It satisfies the criteria for the general start-up corporate tax exemption, that is, it is a company that:
    (i) is incorporated in Singapore;
    (ii) is tax resident of Singapore;
    (iii) has total share capital which is beneficially held, directly or indirectly, by no more than 20 persons –
      (1) all of whom are individuals, or

[7] This is 150% of $150,000 of R&D expenditure, in view of the concession to allow deduction of 150% of expenses incurred on R&D carried out in Singapore.

(2) of which at least one is an individual shareholder holding at least 10% of total number of issued ordinary shares throughout the basis period relating to the years of assessment of claim.

b) Its first three years of assessment fall within the period of YA2009 to YA2013;
c) It does not have taxable profits or chargeable income in all preceding years prior to the year of assessment of claim;
d) It incurs at least $150,000 qualifying expenditure on R&D in the basis period for the year of assessment of claim.

- Qualifying Expenditure on R&D means:

(a) Expenditure which the company incurs on R&D that the company undertakes directly (in-house) in Singapore. Expenditure on R&D that is funded by government grants (if any) or expenditure that the company incurs for R&D outsourced to a R&D organisation (whether in Singapore or abroad) will not be considered as part of qualifying expenditure on R&D (i.e. will be netted off from the total R&D expenditure incurred); and
(b) The R&D concerned must still be ongoing at the time of claim

- The amount of cash grant that a qualifying start-up company can claim for a year of assessment (during Years of Assessment 2009 to 2013) will be computed based on the prescribed rate as follows:

    - Amount of tax losses that can be converted is the lower of -
        (a) the actual losses for the year of assessment of claim; or
        (b) the tax deduction for up to $150,000 qualifying R&D expenditure incurred in the basis period for the year of assessment of claim.

        Hence, the maximum amount of losses that can be converted is $225,000 for each year of assessment of claim.

    - Amount of cash grant equals 9% of the amount of losses to be converted. The maximum amount of cash grant is thus $20,250 for each year of assessment of claim.

The 9% rate is equivalent to the effective marginal tax rate for companies with chargeable income between $10,000 - $300,000 (taking into account the prevailing partial tax exemption of 50% for this chargeable income range).

IRAS will release further implementation details (including anti-avoidance measures) for the above R&D tax changes by September 2008.

WORKED EXAMPLES OF THE R&D TAX ALLOWANCE AND 150% TAX DEDUCTION

Example 1

Company has accounting profits of $300,000 in Year 1. It did not do any R&D.

In Year 2, it incurred incremental R&D spending of $150,000, and its accounting profit is $150,000. The R&D expenditure relates to R&D that the company itself carried out in Singapore.

Tax Computation:

	Year 1	**Year 2**	
Net profit per accounts (A)	300,000	150,000	
Add: R&D expenditure	0	150,000	
	300,000	300,000	
Less: R&D deductions	0	(225,000)	Note 1
Less: R&D Tax Allowance utilised		(73,750)	
Chargeable Income	300,000	1,250	
Less: Partial Tax Exemption	(152,500)	(938)	Note 2
Adjusted chargeable income	147,500	312	
Tax payable @ 18% (B)	26,550	56	
Effective tax rate (B)/(A)	8.85%	0.04%	
Current YA's R&D Tax Allowance c/f	73,750	156	Note 3
Tax savings from R&D incentives		26,494	Note 4

Note 1: 150% of expenditure incurred for R&D done in Singapore.

Note 2: 75 % of the first $10,000 and 50% of up to the next $290,000 of the company's chargeable income is tax exempt.

Note 3: Current year of assessment's R&D Tax Allowance is computed at 50% of the chargeable income after partial tax exemption (i.e. adjusted chargeable income in the table above), up to a maximum of $150,000 of R&D Tax Allowance per year of assessment

Note 4: The tax savings is the difference between the taxes it would have paid without the R&D tax deductions and R&D Tax Allowance ($26,550) and the tax payable for Year 2 ($56).

Example 2

Company has accounting profits of $1,000,000 in Year 1. It did not do any R&D.

In Year 2, it incurred incremental R&D spending of $150,000, and its accounting profit is $850,000. The R&D expenditure relates to R&D that the company carried out in Singapore.

Tax Computation:

	Year 1	**Year 2**	
Net profit per accounts (A)	1,000,000	850,000	
Add: R&D expenditure	0	150,000	
	1,000,000	1,000,000	
Less: R&D deductions	0	(225,000)	Note 1
Less: R&D Tax Allowance		(150,000)	
Chargeable Income	1,000,000	625,000	
Less: Partial Tax Exemption	(152,500)	(152,500)	Note 2
Adjusted chargeable income	847,500	472,500	
Tax payable @ 18% (B)	152,550	85,050	
Effective tax rate (B)/(A)	15.26%	10.01%	
Current YA's R&D Tax Allowance c/f	150,000	150,000	Note 3
Value of savings from R&D incentives		67,500	Note 4

Note 1: 150% of expenditure incurred for R&D done in Singapore.

Note 2: 75 % of the first $10,000 and 50% of up to the next $290,000 of the company's chargeable income is tax exempt.

Note 3: Current year of assessment's R&D Tax Allowance is computed at 50% of the chargeable income after partial tax exemption (i.e. adjusted chargeable income in the table above), up to a maximum of $150,000 of R&D Tax Allowance per year of assessment

Note 4: The tax savings is the difference between the taxes it would have paid without the R&D tax deductions and R&D Tax Allowance ($152,550) and the tax payable for Year 2 ($85,050).

ANNEX B-3: Enhancing Business Competitiveness

Promoting Enterprise and Supporting Growth of Companies

S/N	Name of Tax Change	Current Treatment	New Treatment
1	Liberalize start-up exemption scheme to encourage entrepreneurship	The start-up exemption scheme allows the following tax exemption to an eligible start-up company during their first 3 years of assessment of their incorporation: a) full tax exemption on the first $100,000 of chargeable income; and b) partial tax exemption on 50% of the next $200,000 of chargeable income. An eligible start-up is a company that: (a) is incorporated in Singapore; (b) is tax resident of Singapore; and (c) has total share capital which is beneficially held, directly or indirectly, by no more than 20 persons all of whom are individuals throughout the basis period for that YA.	With effect from YA2009, an eligible start-up will be a company that: (a) is incorporated in Singapore; (b) is tax resident of Singapore; (c) has total share capital which is beneficially held, directly or indirectly, by no more than 20 persons – (i) all of whom are individuals, or (ii) of which **at least one is an individual shareholder holding at least 10% of total number of issued ordinary shares** throughout the basis period relating to the YA of claim. The change will also apply to existing companies still within the first 3 years of assessment of incorporation. For example, a company with corporate shareholders that was incorporated on 1 July 2006 (with a 30 June financial year-end) will be eligible for the start-up exemption in YA2009 and 2010 if it qualifies as an eligible start-up company. This will signal the Government's continued efforts to support entrepreneurship, and particularly recognise start-ups funded by corporations such as venture capitalists.

2	Changes to employee equity- based remuneration schemes to encourage entrepreneurship	Currently, gains derived by employees from the exercise of employee stock options (ESOPs) or employee share awards (ESOWs) plans will be accorded the following tax treatment if the ESOPs or ESOWs were granted under the following employee equity-based incentive schemes: (a) Company Employee Equity-based Remuneration scheme (CEEBR) - Employees of qualifying companies can enjoy full tax exemption on the first $2,000 of their gains from stock options or share awards, and 25% tax exemption on subsequent gains, if certain criteria are met. The full or partial exemption will apply to $1 million of gains arising over 10 years. (b) Entrepreneurial Employee Equity Based Remuneration Scheme (EEEBR Scheme) - Employees of companies with a gross asset value of $100 million or less can enjoy tax exemption on 50% of up to $10 million of qualifying gains arising over a period of 10 years, if certain	The various employee equity-based incentive schemes will be repackaged as one new umbrella incentive scheme, namely the Employee Remuneration Incentive Scheme (ERIS). Under ERIS, there will be 3 different tiers of incentive as follows: (a) ERIS (All Corporations) - The Company Employee Equity-based Remuneration Scheme (CEEBR) will be re-named as the ERIS (All Corporations) (i) To qualify for ERIS (All Corporations), the company will be required to issue stock options or share awards to at least 25% of its employees, instead of 50% as is currently required under CEEBR. The change for ERIS (All Corporations) will take effect for stock options and share awards granted after 15 February 2008. IRAS will release a circular on the revised ERIS (All Corporations) by April 2008. (b) ERIS (SMEs) - The Entrepreneurial Employee Equity-based Remuneration Scheme (EEEBR) will be re-named ERIS (SMEs). (c) ERIS (Start-Ups) - We will introduce a new incentive tier for start-ups, known as ERIS (Start-Ups).

		conditions are met.	ERIS (Start-Ups) will allow qualifying employees of qualifying start-up companies (same conditions as current EEEBR) to enjoy personal income tax exemption on 75% of qualifying gains from ESOP or ESOW Plans, up to $10 million qualifying gains over 10 years. This scheme will be effective for stock options and share awards issued during 16 February 2008 to 15 February 2013 in the first 3 years of incorporation by qualifying start-up companies. To qualify for *ERIS (Start-Ups)*, the start-up company must (1) have at least one individual shareholder holding at least 10% of the company, (2) be a Singapore incorporated company carrying on business in Singapore, and have (3) a market value of its gross assets at the time of grant of stock options or share awards of less than $100 million. IRAS will release details of the ERIS (Start-Ups) by March 2008. Gains that employees of a qualifying company derive from qualifying stock options or share awards are to be incentivised under only <u>1 tier</u> of ERIS, <u>and</u> the company has to satisfy the qualifying conditions applicable for the tier.
3	Tax Incentive for Fixtures & Fittings – provide tax relief for businesses on the costs they incur on upgrading	Currently, the costs of most fixtures, fittings and installations (unless they are part of an industrial building which qualifies for industrial building allowances) do not qualify for capital	A special allowance for fixtures and fittings will be introduced under a new tax incentive for fixtures and fittings. Under the incentive, a special allowance will be granted

	of business premises	allowances in Singapore because they are part of the premises in which the business is carried on and do not qualify as "plant and machinery" for capital allowance purpose. They also generally do not qualify for deductions under section 14 of the Income Tax Act (ITA)[8].	for expenditure on all fixtures, fittings, and installations ("attached fixtures"), except those expenses relating to structural works and expansion of space. The special allowance is to be written off over three years, and is subject to a cap of $150,000 every three years per business entity. This will be applicable to qualifying expenditure on attached fixtures incurred during the period from 16 February 2008 to 15 February 2013. The objective of this proposal is to provide tax relief to businesses which have to incur costs of attached fixtures as part of their renovation expenses, in particular the smaller businesses in the services sector.
4	Unilateral tax credit for all foreign-sourced income – eliminate double taxation when our tax residents earn foreign-sourced income from countries with which Singapore has yet to conclude an Avoidance of Double Taxation treaty (DTA)	Currently, foreign-sourced income received in Singapore is subject to tax in Singapore unless specifically exempt from tax[9]. In the case of resident taxpayers deriving foreign-sourced service income, royalties, dividends, employment income and foreign branch profits from non-DTA countries, unilateral tax credits may be granted in respect of foreign tax paid on such income.	With effect from YA2009, unilateral tax credits will be extended to Singapore residents on all types of foreign-sourced income that are remitted to Singapore from non-DTA countries. The extension of unilateral tax credits to all foreign-sourced income from non-treaty countries is consistent with Singapore's growth as a business hub – by encouraging more businesses to expand overseas and drawing more companies into Singapore. The extension would make it less costly for businesses to directly fund their overseas investments in non-DTA countries by relieving double-taxation on the foreign income that is remitted to Singapore.

[8] These costs are not deductible under section 14 of the ITA because they are capital expenditure. However, the costs of subsequent replacements (provided no element of improvement) are deductible.
[9] Exemption is available through the Foreign-Sourced Income Exemption (FSIE) regime under sections 13(8) and 13(9) of the ITA.

Promoting the Financial Sector

S/N	Name of Tax Change	Current Treatment	New Treatment
1	Extension and enhancements to the Financial Sector Incentive (FSI) scheme	The FSI Scheme offers a concessionary tax rate of 5% on income from qualifying high growth and high value-added activities and 10% on income from qualifying financial activities that are important to Singapore's financial centre development objectives. Under the following Enhanced-Tier awards, a FSI company enjoys a concessionary tax rate of 5% on the income derived from qualifying activities: (a) FSI-Bond Market (FSI-BM) (b) FSI-Equity Market (FSI-EM) (c) FSI-Derivatives Market (FSI-DM) (d) FSI-Credit Facility Syndication (FSI-CFS) (e) FSI-Project Finance (FSI-PF) The scheme is due to expire on 31 December 2008.	The FSI Scheme will be renewed for a period of five years from 1 January 2009 till 31 December 2013 (both dates inclusive). In addition, the following enhancements will be made: (a) A new Enhanced-Tier award [FSI-Islamic Finance ("FSI-IF")] will be introduced to grant a concessionary tax rate of 5% on the qualifying income derived from the following qualifying Shariah-compliant activities, subject to conditions: (i) lending and related activities; and (ii) fund management and other investment advisory activities. The approval period for this FSI-IF award is from 1 April 2008 to 31 March 2013 (both dates inclusive). Once approved, the successful applicant will enjoy the 5% tax rate for five years. There will be no extension of the approval period beyond 31 March 2013 or incentive tenure beyond five years. (b) The scope of qualifying activities under the existing FSI-BM Enhanced-Tier award will be expanded to include trading of Qualifying Debt Securities (QDS) and Qualifying Project Debt Securities (QPDS) with effect from 16 February 2008; and

S/N	Name of Tax Change	Current Treatment	New Treatment
			(c) The scope of qualifying activities under the existing FSI-DM Enhanced-Tier award will be expanded to include trading of exchange-traded financial derivatives with effect from 16 February 2008. MAS will release the details by end May 2008.
2	Enhancement to the Offshore Insurance Business (OIB) Incentive	An insurer, other than a captive insurer, a marine and hull liability insurer or an insurer underwriting specialised insurance risks, enjoys a 10% concessionary tax rate on income from offshore life or general insurance business. For the latter, tax exemption is granted on income from underwriting qualifying offshore insurance risks.	To create a conducive environment for Islamic Finance, for offshore Islamic insurance (*takaful*) or reinsurance (*retakaful*) business, a 5% concessionary tax rate will be granted to an insurer (other than a captive insurer, a marine and hull liability insurer or an insurer underwriting specialised insurance risks), subject to conditions. The approval period for this 5% tax rate is from 1 April 2008 to 31 March 2013 (both dates inclusive). Once approved, the successful applicant will enjoy the 5% tax rate for five years. There will be no extension of the approval period beyond 31 March 2013 or incentive tenure beyond five years. MAS will release the details by end May 2008.
3	Extend and enhance the Qualifying Debt Securities (QDS) Incentive	The QDS scheme offers the following tax concessions for the qualifying income from QDS derived by the following persons, subject to conditions: (a) tax exemption for qualifying non-residents and qualifying individuals;	To promote the development of our debt market, the QDS scheme will be renewed for a period of five years from 1 January 2009 to 31 December 2013 (both dates inclusive). In addition, with effect from 16 February 2008 to 31 December 2013 (both dates inclusive), the scheme is enhanced to exempt all investors from income tax on qualifying income derived from QDS that are:

S/N	Name of Tax Change	Current Treatment	New Treatment
		(b) 10% concessionary tax rate for companies and bodies of persons. 'Qualifying income' refers to interest, discount, prepayment fees, redemption premiums and break costs. The QDS scheme is due to expire on 31 December 2008.	(a) debt securities with a tenure of at least 10 years; (b) Islamic bonds or *sukuks*, subject to the condition that any amount payable by the issuer to the investors of *sukuks* is not deductible against any income of the issuer accruing in or derived from Singapore, and the proceeds from the issuance are used outside Singapore. All other conditions under QDS scheme remain applicable. MAS will release the details by end May 2008.
4	Extension of tax exemption on income derived by primary dealers from trading in Singapore Government Securities	Tax exemption is granted on income derived by primary dealers from trading in Singapore Government Securities during the period from 28 February 2003 to 27 February 2008.	To encourage trading in Singapore Government Securities, the period of tax exemption on income derived by primary dealers from trading in Singapore Government Securities is extended from 28 February 2008 to 31 December 2013 (both dates inclusive).
5	Extension and enhancement of Approved Special Purpose Vehicle (ASPV) Incentive	The following tax concessions are granted to an ASPV engaged in asset securitisation transaction: (a) tax exemption on income derived by an ASPV from approved asset securitisation transactions entered into during the period from 27 February 2004 to 31 December 2008; (b) GST recovery on its business	To develop the structured debt market, the ASPV scheme will be renewed for a period of five years from 1 January 2009 to 31 December 2013 (both dates inclusive). In addition, the existing condition under the scheme, which requires all debt securities issued by ASPV to be QDS, will be lifted. The removal of the condition will take effect for the period from 16 February 2008 to 31 December 2013.

S/N	Name of Tax Change	Current Treatment	New Treatment
		expenses incurred during the incentive period, at a fixed rate of 76%; (c) remission of stamp duties on the instrument of transfer of assets to the ASPV for approved asset securitisation transaction; and (d) tax exemption on payments made during the period 27 February 2004 to 31 December 2008 (both dates inclusive) to qualifying non-resident on over-the-counter financial derivatives in connection with an asset securitisation transaction . Where the over-the-counter financial derivatives contract took effect, renewed or extended during the period from 15 February 2007 to 31 December 2008 (both dates inclusive), any qualifying payment made to qualifying non-resident under such contract is tax exempt.	MAS will release the details by end May 2008.
6	Extension and enhancement to the tax incentives to promote project financing.	To catalyse the growth of the project finance industry, the following package of tax incentives is granted, subject to conditions: (a) tax exemption on qualifying income derived by investors from	To further promote the project finance industry, the package of tax concessions is extended from 1 January 2009 to 31 December 2011 (both dates inclusive). In addition, with effect from 1 April 2008 to 31 December 2011 (both dates inclusive), a new tax incentive is introduced to grant a 10% concessionary tax

S/N	Name of Tax Change	Current Treatment	New Treatment
		qualifying project debt securities; (b) tax exemption on foreign-sourced interest income received by qualifying entities listed on the Singapore Exchange (SGX) from offshore qualifying infrastructure projects/assets. (c) remission of stamp duties payable on the instrument of transfer relating to qualifying infrastructure projects/assets to entities listed or to be listed on the SGX; and (d) 5% concessionary tax rate on income derived by a Financial Sector Incentive (project finance) company from arranging, underwriting and distributing any qualifying project debt security, qualifying project loan and from provision of project finance advisory services related to a qualifying infrastructure project. The above tax incentives are valid from 1 November 2006 to 31 December 2008.	rate, for a period of up to 10 years on income derived by a company, from the provision of management services to business trusts and funds that own offshore infrastructure assets and list in Singapore. MAS will release the details by end May 2008.
7	10% concessionary tax rate for Insurance and	Income of insurance and reinsurance brokers is currently subject to tax at	To develop Singapore as a leading offshore insurance and risk management center in the region, fees and

S/N	Name of Tax Change	Current Treatment	New Treatment
	Reinsurance Brokers	the normal corporate income tax rate.	commissions derived from the provision of insurance broking and advisory services by qualifying licensed direct and reinsurance brokers to non Singapore-based clients will enjoy a 10% concessionary tax rate, for a period of up to 10 years. The approval period is from 1 April 2008 to 31 March 2013 (both dates inclusive). MAS will release the details by end May 2008.
8	Tax exemption for family-owned investment holding companies	Income of investment holding companies is currently subject to tax at the normal corporate income tax rate.	A new family-owned investment holding company (FIHC) incentive scheme will be introduced to create positive spinoffs to the financial sector. This scheme grants tax exemption to qualifying family-owned investment holding companies to the extent that the tax exemption mirrors the tax exemption on qualifying locally-sourced investment income and foreign-sourced income (FSIE) granted to individuals. The incentive is valid from 1 April 2008 to 31 March 2013 (both dates inclusive). MAS will release the details by end May 2008.
9	GST remission to allow for recovery of input tax for expenses incurred during the qualifying period by listed Real Estate	REITs and Business Trusts that mainly derive only non-taxable dividends/distribution incomes from special purpose vehicles (SPVs)/sub-trusts cannot claim input tax on their business expenses.	We will allow listed REITs and registered business trusts in infrastructure business, ship leasing and aircraft leasing to claim input tax on business expenses incurred, irrespective of whether they hold the underlying assets directly or indirectly through multi-tiered structures such as SPVs/sub-trusts.

S/N	Name of Tax Change	Current Treatment	New Treatment
	Investment Trusts (REITs) and registered business trusts in infrastructure business, ship leasing and aircraft leasing		The above initiative is an enhancement of the Budget 2006 GST concession to allow recovery of input tax incurred by SPVs of S-REITS (REITS listed in Singapore). Hence, the remission is for the same qualifying period as the Budget 2006 concession (i.e. applicable to expenses incurred between 17 February 2006 and 17 February 2010). More details will be released by IRAS by end February 2008.

Enhancing the Maritime Sector

S/N	Name of Tax Change	Current Treatment	New Treatment
1	Provision of tax certainty on treatment of gains from sale of vessels	Currently, as an administrative concession, any gains derived by shipping companies from the sale of vessels are not subject to income tax provided the vessels are registered with the Singapore Registry of Ships (SRS) or owned by Approved International Shipping Enterprises (AIS). The administrative concession is granted for a period of five years, from YA 2005 to YA 2009, to provide tax certainty to vessel owners that the gains from the sale of vessels are treated as capital in nature and are hence not taxable.	To further grant tax certainty to the shipping industry, the administrative concession will be extended for another 5 years up to YA 2014. It will also be expanded to include gains from the sale of ships which will subsequently be leased back and gains from the sale of shares in a Special Purpose Company (SPC) which holds ships. MPA will release the details by May 2008.
2	Inclusion of foreign exchange gains and gains from risk management activities as qualifying income under Sections 13A and 13F of the ITA	Currently, as an administrative concession, gains from risk management activities derived by shipping companies in respect of vessels that are registered with the SRS or vessels owned by AIS companies are automatically treated as hedging gains relating to their shipping trade and are hence exempt from tax. The administrative concession is granted for a period of 5 years from YA 2006 to YA 2010.	To address the growing importance of risk management as a value-added maritime ancillary activity, foreign exchange gains and gains from risk management activities derived by shipping companies in respect of vessels that are registered with the SRS or vessels owned by AIS companies will be treated as income of the shipping companies qualifying for tax exemption either under Sections 13A or 13F of the ITA with effect from YA 2009. The tax exemption will be granted only if the foreign exchange gains and gains from risk management activities are in connection with and incidental to the core shipping operations and the shipping companies do not engage in activities that are considered as trading in derivatives.

S/N	Name of Tax Change	Current Treatment	New Treatment
3	Enhancements to the Maritime Finance Incentive (MFI)	Under the MFI, (a) An Approved Shipping Investment Enterprise (ASIE), which is either a company or business trust, enjoys full tax exemption on its leasing income (by way of operating or finance leases) in respect of leasing of: (i) Sea-going ships to offshore lessees or AIS; or (ii) Singapore–flag sea-going ships (b) An approved shipping investment management company enjoys a 10% concessionary tax rate on qualifying income derived from the management of an ASIE. The MFI scheme is available for application from 1 March 2006 to 28 February 2011.	To aid Singapore's drive towards establishing herself as Asia's premier International Maritime Centre ("IMC'), the MFI will be enhanced as follows: (a) Leasing of containers will now be included under the MFI with effect from 1 April 2008. Under this expansion, (i) An Approved Container Investment Enterprise (ACIE) will enjoy either a concessionary tax rate of 5% or 10% on its income from leasing sea containers (by way of operating or finance leases) to onshore and offshore lessees. The applicable tax rate will depend on the level of Local Business Spending ("LBS") and headcount commitments; (ii) An approved container investment management company will enjoy a 10% concessionary tax rate on its management fee income derived in connection with the management of an ACIE; (iii) MFI status will be granted to an ACIE and approved container investment management company from 1 April 2008 to 28 February 2011. Once granted, the tenure for the ACIE is for a period not exceeding 10 years. As for the approved container investment management company, management fee income derived from 1 April 2008 from managing an ACIE will be taxed at 10%. (b) Partnerships will be allowed to apply for and

S/N	Name of Tax Change	Current Treatment	New Treatment
			enjoy the MFI with effect from 1 April 2008. MPA will release the details by May 2008.

Talent Attraction

S/N	Name of Tax Change	Current Treatment	New Treatment
1	Further tax deduction for talent relocation expenses: Extend the existing incentive (expiring in 2008)	The Further Tax Deduction for Overseas Talent Recruitment Scheme (FTD Scheme) allows employers to claim a further tax deduction for the relocation and recruitment expenses[10] incurred in the hiring of top global talent. This includes foreign talent (P Pass holders) and returning Singaporeans or Permanent Residents of equivalent standing (by qualifications and salary). The scheme expires in 2008.	In recognition of increasing competition for top global talent, the scheme will be further extended for five years to 2013.
2	Not-Ordinarily-Resident (NOR) Scheme: Enhancement and refinement of administrative features	(a) A NOR taxpayer is granted a five-year qualifying period to enjoy the tax concessions under the NOR scheme. (b) To qualify for the time apportionment concession, the NOR taxpayer's Effective Tax Rate (ETR) must be at least 10%.	(a) The five-year qualifying period under the NOR scheme is retained. (b) The 10% minimum ETR condition will be replaced by another condition - taxpayer's Singapore employment income threshold must be at least $160,000. (c) The scope of time apportionment concession will be

[10] More information on the existing FTD scheme can be found at: http://www.contactsingapore.org.sg/home/index.php/eng/employers/information_for_employers/further_tax_deduction

S/N	Name of Tax Change	Current Treatment	New Treatment
		(c) Time apportionment concession does not cover certain perquisites, leave pay and director’s fees. (d) To qualify for tax exemption of employer’s contribution to non-mandatory overseas pension schemes, NOR taxpayer must neither be a Singapore citizen nor a Singapore permanent resident. (e) For NOR taxpayers enjoying the tax exemption on employer contributions to non-mandatory overseas pension scheme, the employer is allowed to claim a tax deduction for the contributions.	expanded to cover perquisites and leave pay that are currently not available for this concession. Director’s fees will continue to be excluded from the scope of apportionment. (d) Besides being a non-Singapore citizen or a non-Singapore permanent resident, NOR taxpayer must now derive a minimum Singapore employment income of $160,000 to enjoy tax exemption of employer’s contributions to non-mandatory overseas pension schemes. (e) NOR taxpayers will enjoy tax exemption on their employer contributions to non-mandatory overseas pension funds, subject to the new condition that the employer must not claim a deduction for the contributions. The changes will take effect from YA2009. IRAS will release a circular on the revised NOR scheme by May 2008.

ANNEX B-4: Estate Duty

Estate Duty

S/N	Name of Tax Change	Current Treatment	New Treatment
1	Removing Estate Duty from our tax regime	Estate duty is payable on the principal value of all property passing or deemed to pass on the death of any individual (subject to exemption on the first $9m of all residential properties and the first $600,000 for non-residential assets).	Estate duty will be removed for deaths occurring on and after 15 February 2008.

ANNEX B-5: Special Tax and Liquor Duties

Special Tax

S/N	Name of Tax Change	Current Treatment	New Treatment
1	**Revised Special Tax Structure for Euro-IV Private Diesel Cars**	Currently, an owner of a Euro-IV private diesel car pays both a road tax and a special tax which is 4 times the annual road tax. Based on the road tax rate effective in July 2008, a 1,600 cubic centimetres (cc) car attracts a special tax of $2,972 (4 times the road tax of $743).	The special tax for Euro-IV cars will be revised from the current 4 times the road tax to an absolute-dollar tax based on the engine capacity of the car, at a rate of $1.25 per cc of engine capacity, subject to a minimum tax of $1,250. Hence, a typical 1,600 cc Euro-IV diesel car will pay a special tax of $2,000 (which is 1,600cc multiplied by $1.25 per cc). In this case, the computed special tax based on the engine capacity is greater than minimum tax of $1,250, so the minimum tax does not apply. The special tax of $2,000 imposed on the 1,600 cc car is roughly equivalent to 2.7 times its road tax. The revised tax structure will take effect from 1 July 2008.

Liquor Duties

S/N	Name of Tax Change	Current Treatment	New Treatment
1	**Rationalisation of Liquor Duties**	There are currently 13 categories of dutiable liquor (consisting of 19 dutiable items) on volumetric taxation basis. They are cider & perry, brandy, other spirits, whisky, rum, gin & geneva,	Taxing liquors on the basis of alcoholic content would be a more rational and fairer basis of taxation of an alcoholic beverage, as it ensures a direct relation between the alcoholic strength of a drink and its tax rate.

S/N	Name of Tax Change	Current Treatment	New Treatment
		vodka, liqueurs & cordials, bitters, sparkling wine, still wine, vermouth and shandy.	MOF will streamline the duty rate to $48 per litre of alcohol for cider & perry, and $70 per litre of alcohol for the other 12 types of liquor. The new rates will be effective on 15 February 2008.

Current and New Excise Duties for Liquor (with effect from 15 February 2008)

HS Code	Description	Current Excise Duty (per litre of beverage)	New Excise Duty (per litre of alcohol)
22041000	Sparkling wine	$9.50	$70.00
22042111	Still wine, 2 ltr or less, not exceeding 15% alc/vol	$9.50	$70.00
22042112	Still wine, 2 ltr or less, exceeding 15% alc/vol	$9.50	$70.00
22042911	Still wine, more than 2 ltr, not exceeding 15% alc/vol	$9.50	$70.00
22042912	Still wine, more than 2 ltr, exceeding 15% alc/vol	$9.50	$70.00
22051010	Vermouth and other grape wine flavoured with plants or aromatic substances, 2 ltr or less, not exceeding 15% alc/vol	$9.50	$70.00
22051020	Vermouth and other grape wine flavoured with plants or aromatic substances, 2 ltr or less, exceeding 15% alc/vol	$9.50	$70.00
22059010	Vermouth and other grape wine flavoured with plants or aromatic substances, more than 2 ltr, not exceeding 15% alc/vol	$9.50	$70.00
22059020	Vermouth and other grape wine flavoured with plants or aromatic substances, more than 2 ltr, exceeding 15% alc/vol	$9.50	$70.00
22060010	Cider & perry	$3.30	$48.00
22060040	Shandy	$0.80	$70.00

HS Code	Description	Current Excise Duty (per litre of beverage)	New Excise Duty (per litre of alcohol)
22082010	Brandy, not exceeding 46% alc/vol	$30.00	$70.00
22082030	Other spirits obtained by distilling grape wine or grape marc, not exceeding 46% alc/vol	$30.00	$70.00
22083010	Whisky, not exceeding 46% alc/vol	$30.00	$70.00
22084010	Rum & other spirits obtained by distilling fermented sugar-cane products, not exceeding 46% alc/vol	$30.00	$70.00
22085010	Gin & Geneva, not exceeding 46% alc/vol	$30.00	$70.00
22086010	Vodka, not exceeding 46% alc/vol	$30.00	$70.00
22087010	Liqueurs & cordials, not exceeding 57% alc/vol	$30.00	$70.00
22089070	Bitters and similar beverages, not exceeding 57% alc/vol	$30.00	$70.00

ANNEX B-6: Other Tax Changes

Tax changes to encourage voluntary savings through CPF and Supplementary Retirement Scheme (SRS)

S/N	Name of Tax Change	Current Treatment	New Treatment
1	**CPF Minimum Sum Topping-Up Scheme**	Individuals can claim tax relief for cash top-ups to their own Minimum Sum and top-ups to siblings, spouses[11], parents and grandparents' Minimum Sums, provided that the recipients are aged 55 and above. Total tax relief for self top-ups and family top-ups is capped at $7,000 per year of assessment (YA). Employers cannot make Minimum Sum cash top-ups for their employees.	Individuals can claim tax relief for top-ups by themselves or their employers to their own Minimum Sum and top-ups to siblings, spouses[12], parents and grandparents' Minimum Sums, regardless of the age of the recipients. Tax relief for top-ups by the member and his employer is capped at $7,000 per YA. There will also be a separate tax relief for family top-ups, which is capped at another $7,000 per YA. Employers can make Minimum Sum cash top-ups for their employees and receive a tax deduction on the entire top-up[13]. Employees are taxable on the employer's top-ups to their Minimum Sum. However, the employees may claim tax relief for the employer top-ups. Total tax relief for employer top-ups and self top-ups is capped at $7,000 per YA. These changes will take effect from YA2009.
2	**Voluntary**	Individuals cannot claim tax relief for	Individuals will now be able to claim tax relief for

[11] For top-ups to siblings/spouses, the recipient must have earned $2,000 or less in the preceding year for the tax relief to be claimed.
[12] For top-ups to siblings/spouses, the recipient must have earned $2,000 or less in the preceding year for the tax relief to be claimed.
[13] Any voluntary contributions to the CPF made by the individual or in the case where the individual is an employee, by his employer (whether on the employee's behalf or not), that are not specifically made to the Minimum Sum are still not allowed as tax deduction for the employer or tax relief for the employee.

S/N	Name of Tax Change	Current Treatment	New Treatment
	Contributions to Medisave Account	voluntary contributions specifically directed to the CPF member's own Medisave Account.	voluntary contributions that they make specifically to their own Medisave Account[14] up to a cap of ($26,393 less mandatory contributions[15]) per YA. These changes will take effect from YA2009.
3	**Supplementary Retirement Scheme**	Employers cannot directly contribute to their employees' SRS accounts.	Employers can contribute to their employees' SRS accounts, subject to the current contribution limits of $11,475 per year for Singapore Citizens and Permanent Residents, and $26,775 for foreigners for each employee. Employers will be able to claim full tax deduction for the contributions they make to their employees' SRS accounts. SRS members will be taxable on the contributions that their employers make to their SRS accounts. But, they can enjoy a tax relief up to the applicable contribution limit per YA for the SRS contributions which they or their employers make.
		SRS members can contribute up to the prevailing statutory retirement age. They can withdraw their SRS monies over 10 years from the prevailing statutory retirement age.	SRS members can contribute beyond the prevailing statutory retirement age, up to the point of their first penalty-free withdrawal. They can withdraw their SRS monies over 10 years from the point of their first penalty-free withdrawal.

[14] Voluntary contributions to the Medisave Account are capped at the prevailing Medisave Contribution Ceiling (MCC).
[15] Mandatory contributions are compulsory contributions by employers and employees required under the CPF Act. This includes CPF contributions on the Ordinary and Additional Wages for employees, and Medisave contributions by self-employed persons.

S/N	Name of Tax Change	Current Treatment	New Treatment
		Individuals without any earned employment income in the previous year cannot contribute to SRS in the current year.	Individuals without any earned employment income in the previous year can contribute to the SRS in the current year. These changes will take effect from YA2009.

Encouraging portable medical benefits

S/N	Name of Tax Change	Current Treatment	New Treatment
1	Tax deduction for expenses employers incurred for medical benefits for employees: To encourage portable medical benefits	Currently, the tax deduction limit for costs of medical benefits incurred by employers for their employees is generally 1% of total wage bill. However, companies which have implemented the Portable Medical Benefits Scheme (PMBS) or Transferable Medical Insurance Scheme (TMIS) can qualify for tax deduction for the costs they incur on medical benefits at 2% of total wage bill. This is to encourage more employers to adopt the PMBS or TMIS, which provide portable medical insurance coverage for employees that employees can continue to enjoy, if	With effect from YA2008, employers who provide their employees with inpatient medical insurance benefits in the form of portable medical shield plans can qualify for tax deduction at 2% of the total wage bill for medical expenses they incur for their employees. Employers can provide such portable medical shield plans, either by paying the insurance premiums on behalf of their employees to the insurance companies directly or by reimbursing the premiums into employees' Medisave accounts. To qualify, the employer must provide the portable medical shield plans for at least 20% of existing local employees employed as at the first day of the basis period for the YA, and every local employee who commences his employment during the basis period for that YA.

S/N	Name of Tax Change	Current Treatment	New Treatment
		they wish to, even when they switch jobs or retire[16].	The medical insurance expenses qualifying for the additional 1% of tax deduction will exclude premiums for policy riders [17] that cover deductibles and co-payments. In addition, with effect from YA2008, if employers make ad hoc contribution to employees' Medisave account (subject to a cap of $1,500 per employee per year), the 1% tax deduction limit will be lifted for these ad hoc contributions (but subject to the cap of 2% of total wage bill for total medical benefits expenses). Tax deduction for all other medical benefits will remain capped at 1% of total remuneration if employers are not on PMBS or TMIS or do not provide portable Shield plans for their employees (as above). The above changes are introduced in recognition that employers' provision of portable medical shield plans or ad hoc contributions to the Medisave accounts of employees achieve the same objective as the PMBS and TMIS, namely, to provide portability of medical benefits. MOM will release more details by March 2008.

[16] For more information on the PMBS and TMIS, please refer to Ministry of Manpower's circular at: http://www.mom.gov.sg/publish/etc/medialib/mom_library/Workplace_Standards/files2.Par.34919.File.tmp/Information%20booklet%20on%20PMBS%20&%20TMIS%20(Mar%202007).pdf .

[17] A policy rider is a provision or modification to an existing insurance policy that provides additional coverage to an insurance policy.

ANNEX C: LIFE Bonus (L-Bonus)

The CPF LIFE scheme will be introduced as a major new plank to assure Singaporeans of a stream of income for as long as they live. Singaporeans who turn 55 in or after 2013 and who have at least $40,000 in their CPF Minimum Sum will be automatically included in the scheme. Older Singaporeans and those with less in their Minimum Sum can opt in.

The Government will provide a Bonus, called the LIFE Bonus (L-Bonus), to encourage Singaporeans to enrol in the LIFE scheme.

- L-Bonus will be provided for the first five cohorts of Singaporeans who join the LIFE scheme i.e. those aged 46 to 50 in 2008, with up to $54,000 Assessable Income (AI) and live in a property of up to $11,000 Annual Value (AV) at the time of enrolment.
- Members in the oldest cohort, those aged 50 in 2008, can expect to receive between $2,200 and $4,000 (Table 1). The youngest cohort, those aged 46 today, will get 30 percent of what the 50 year-old receives.
- L-Bonus will also be extended to those aged above 50 in 2008 who opt in.
- For members with less than $40,000 in their Minimum Sum, but want to participate in the LIFE scheme, the Government will help them to do so and give them the L-Bonus as long as they are willing to make a reasonable contribution to their balances and accept lower monthly payouts.
- L-Bonus will be given to members at the point of enrolment in the CPF LIFE Scheme.
- This will cost the Government $770 million, which will be built up in a trust fund over three years, starting with a transfer of $260 million in 2008.

Table 1: L-Bonus for those aged 55 and older in 2013

	Annual Value (AV)	
Annual Assessable Income (AI)	**Up to $6,000**	**More than $6,000 and up to $11,000**
$24,000 or less	$4,000	$3,200
More than $24,000 and up to $54,000	$3,200	$2,200

Based on AV and AI cut-offs in 2008. Actual AV and AI cut-offs for the year of enrolment may vary.

ANNEX D: Budget for FY2007 and FY2008

	Revised FY2007	Estimated FY2008[@]	Change over Revised FY2007	
	$billion	$billion	$billion	%
OPERATING REVENUE	**39.65**	**39.84**	**0.19**	**0.5**
Corporate Income Tax	9.00	9.19	0.19	2.1
Personal Income Tax	5.56	5.94	0.38	6.9
Statutory Boards' Contributions	1.67	1.99	0.32	19.0
Assets Tax	2.57	2.49	(0.08)	(3.0)
Customs and Excise Tax	1.96	2.01	0.04	2.2
Goods and Services Tax	6.00	6.19	0.19	3.2
Motor Vehicle Related Taxes	2.12	2.00	(0.12)	(5.6)
Vehicle Quota Premiums	0.62	0.89	0.27	44.3
Betting Tax	1.71	1.80	0.10	5.6
Stamp Duty	3.80	2.40	(1.40)	(36.8)
Other Taxes	1.64	1.78	0.14	8.6
Other Fees and Charges	2.87	3.02	0.15	5.2
Others	0.13	0.13	(0.00)	(0.4)
Less:				
TOTAL EXPENDITURE	**33.30**	**37.45**	**4.15**	**12.5**
Operating Expenditure	26.22	29.00	2.78	10.6
Development Expenditure	7.09	8.45	1.37	19.3
PRIMARY SURPLUS/(DEFICIT)[*]	**6.35**	**2.38**		
Less:				
SPECIAL TRANSFERS	**2.20**	**5.40**	**3.21**	**146.0**
Growth Dividends	-	0.87		
Top-Up to CPF Medisave Accounts	-	0.22		
GST Credits	0.54	0.45		
Senior Citizens' Bonus	0.13	0.10		
Top-ups to Post-Secondary Education Account	0.20	0.50		
U-Save Scheme	0.15	0.13		
S&CC and Rental Rebates	0.06	0.06		
Other measures[#]	0.01	0.01		
Assistance to Small and Medium Enterprises (SMEs)	-	0.05		
CPF Deferment and Voluntary Deferment Bonus	-	0.35		
LIFE Bonus	-	0.26		
Top-up to ComCare Fund	-	0.20		
Top-up to Medifund	0.20	0.20		
Top-up to ElderCare Fund	-	0.40		
Top-up to Lifelong Learning Fund	0.10	0.80		
National Research Fund	0.50	0.80		
Workfare Income Supplement Scheme	0.30	-		
Add:				
NET INVESTMENT INCOME CONTRIBUTION	**2.30**	**2.22**	**(0.08)**	**(3.4)**
OVERALL BUDGET SURPLUS/(DEFICIT)	**6.45**	**(0.80)**		

Note: Due to rounding, figures may not add up.

[@] Incorporating measures announced in FY2008 Budget Statement
[*] 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 low-income households under the Public Transport Vouchers Scheme