

SINGAPORE BUDGET 2015

Building Our Future, Strengthening Social Security



BY
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udget 2015 was announced by Deputy Prime Minister (DPM) and Minister for Finance Tharman Shanmugaratnam on February 23. This being Singapore's 50th year of independence, the "Jubilee Budget" is focused on securing Singapore's future and strengthening social security, and envisions a future that "enables us to realise the best in ourselves".

Outlining his vision for the Budget, DPM Tharman emphasised that "we must reach our next frontier as an economy, with firms driven by innovation, and higher incomes coming from deep skills and expertise in every job. We must ensure a society that is fair and just, where everyone has a chance to move up and do well regardless of where they start. And we must complement a culture of personal effort and responsibility with stronger collective responsibility, especially for our elderly".

To achieve this, the Budget takes major steps in four key areas.



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Over
\$1 billion
Average annual
spending on
continuing
education and
training till 2020



\$500

**Initial SkillsFuture
Credit for each
Singaporean
aged 25 years
and above,
available
from 2016**

1) DEEP SKILLS IN EVERY JOB

The first key area focuses on investing in the skills of the future, and empowering every individual to learn and develop throughout life. There will be significant expenditure in this area, with the government set to increase continuing education and training spending to an average of over \$1 billion per year from now to 2020, and further committing to topping up the national productivity fund by \$1.5 billion this year.

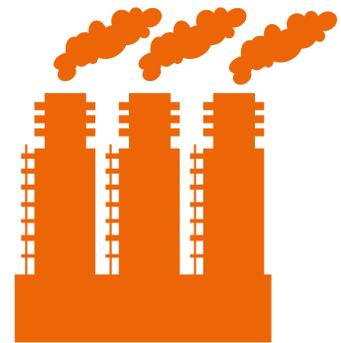
The slew of initiatives related to lifelong learning (Table 1) announced during the Budget can be a boon for small and medium-sized enterprises (SMEs), which may have few or no resources or monies to spend on their employees to acquire deep skills. In particular, small and medium-sized accounting firms that are aiming to grow their value-added services and offerings, but have to increase the competencies and specialisation of their staff to do so, may find the initiatives invaluable in supporting their staff to upskill themselves.



“This Budget is focused on building Singapore’s future. We must reach our next frontier as an economy, with firms driven by innovation, and higher incomes coming from deep skills and expertise in every job.”

Table 1 Key Initiatives Related to Lifelong Learning

1	Develop a professional core of Education and Career Counsellors for our schools and Institutes of Higher Learning (IHL) and improve internships in IHL
2	Introduce SkillsFuture Earn and Learn Programme in 2015 for fresh Polytechnic and ITE graduates
3	For MOE/WDA-funded courses, enhance education and training subsidies to a minimum of 90% of training costs for all Singaporeans aged 40 and above
4	Implement new modes of learning through short modular courses, weekend workshops and online learning
5	Provide Study Awards to support development of specialist skills or other competencies for those who already have specialist skills
6	Introduce Fellowships funded by SkillsFuture Jubilee Fund to develop Singaporeans to achieve mastery in their respective fields
7	Create SkillsFuture Credit for each Singaporean 25 years old and above – initial \$500 credit from 2016, further top-ups at regular intervals
8	Implement Leadership Development Initiative to support companies which commit to develop Singaporeans for leadership roles
9	Develop a shared pool of mentors that SMEs can tap on to overcome training capabilities and capacity constraints



\$1.5
billion

Top-up to national productivity fund this year

For example, with the SkillsFuture Credit, all Singaporeans aged 25 years and above will receive an initial credit of \$500 from 2016 and further top-ups at regular intervals thereafter. These credits do not expire but can only be used for education and training. Further, the SkillsFuture Study Award – which will support the development of specialist skills or other competencies such as business or cross-cultural skills, and the SkillsFuture Fellowships – which will develop Singaporeans to achieve mastery in their respective fields, are especially significant because they will provide Singaporean workers with good support and opportunities to upgrade their skills

and competencies to a high level. Accounting firms should also leverage on these initiatives to develop the cross-cultural skills and business acumen necessary to take full advantage of the upcoming ASEAN Economic Community.

Further, the SkillsFuture Leadership Development Initiative, which will work with companies to grow Singaporean corporate leaders, complements the other SkillsFuture initiatives. This should provide more structure and comprehensive support for Singaporeans, including accountants, throughout their careers, and thus build more Singaporeans for capable leadership or C-Suite roles.

**Minimum
90%
fee subsidy**

For MOE/WDA-funded courses to enhance education and training





\$1 billion Top-up to National Research Fund

2) PROMOTE INNOVATION AND INTERNATIONALISATION

The second key area focuses not only on the continued restructuring of the economy but also on supporting the next wave of business successes by encouraging innovation and internationalisation.

While it was made clear that the government is only adjusting the pace of foreign worker measures and not changing direction, the deferment of this year's round of announced levy increases for S Pass and Work Permit Holders provides some respite for businesses which have been affected by the tight labour market. The government has acted upon feedback regarding business cost challenges; there were also extensions of other measures aimed to give some relief to businesses, such as the Wage Credit Scheme or Temporary Employment Credit.

Further, as Singapore moves to the next phase of its restructuring efforts, there will be more support for innovation. There will also be more help for companies to internationalise as they look to grow revenues. In this respect, various initiatives which seek to spur innovation were announced. DPM Tharman committed to strengthening grant support for every form of innovation to help firms capture greater value from R&D and catalyse enterprise financing, commenting that "every form of innovation counts, and must be supported".





PHOTO: SHUTTERSTOCK



concessionary tax rate
On incremental income
from qualifying
internationalisation
activities

A host of schemes were developed and refined to support the vision for more innovation (Table 2). While all these are good schemes with specific purposes, companies may easily be overwhelmed by the sheer number of schemes and the technicalities in applying for them. It may be worth the government's effort to consolidate these schemes under the purview of a single agency. The agency can take a holistic and hassle-free approach to provide relevant information and assistance to companies applying for the schemes.

Besides direct support for our enterprises, the government could



From 5% to 25%
Allowance rate in revised
M&A scheme

possibly look into how we can tap on our worldclass universities or educational institutions to spur innovation. More support could be given to promote active collaboration between our enterprises and universities.

Amid the uncertain global economic outlook, the government is also sparing no efforts in trying to help Singaporeans and Singapore companies succeed overseas.

An International Growth Scheme targeted at larger Singapore companies venturing overseas was introduced in Budget 2015. This scheme aims to support high-potential

Table 2 Key Initiatives to Support Innovation

1	Capability Development Grant (CDG)
2	Collaborative Industry Projects (CIP)
3	Partnerships for Capability Transformation (PACT)
4	Market Readiness Assistance (MRA)
5	Global Company Partnership (GCP) grants
6	Venture Debt Risk-Sharing Programme
7	SPRING's Startup Enterprise Development Scheme (SEEDS)
8	Business Angel Scheme (BAS)

Singapore companies in their overseas expansion while they continue to anchor their key functions, such as headquarter functions, in Singapore.

To complement the International Growth Scheme in supporting Singapore businesses expanding overseas, the government will also be enhancing the existing Double Tax Deduction (DTD) for Internationalisation scheme to cover qualifying manpower expenses incurred for Singaporeans posted to new overseas entities. This enhancement seeks to provide greater support to businesses expanding abroad, and should create more skilled jobs and opportunities for Singaporeans to work overseas.

In its effort to support companies, especially SMEs, to accelerate their growth plans through strategic acquisitions, the government extended and enhanced the Mergers & Acquisitions (M&A) scheme. The revised M&A scheme provides a more generous allowance rate of 25% (up from 5%) while keeping the deduction cap at \$5 million. In effect, this change will allow companies to derive more tax benefits from smaller acquisitions, while not affecting the level of support for larger acquisitions.

The government also lowered the shareholding eligibility tier of the M&A scheme, making the scheme relevant for companies that are unable to acquire majority stakes in their respective target companies for reasons such as foreign ownership restrictions. On the flip side, the



revised M&A scheme will no longer be relevant for companies that wish to increase their shareholdings if they are already the majority stakeholders of their respective target companies.

All in all, the schemes announced in Budget 2015 have the potential to achieve the government's objective of spurring internationalisation. The devil is in the implementation. The intent and spirit of the schemes should not be dampened by incentive conditions that are overly prescriptive.

3) INVEST IN ECONOMIC AND SOCIAL INFRASTRUCTURE

The next area of focus looks at making investments in Singapore's infrastructure, and also in supporting families and strengthening communities.

Major investments in infrastructure earmarked in this year's Budget include the development of Changi Airport's new terminal, T5; improvements in public transport, and developing heartlands into vibrant homes and communities, and expanding every dimension of the healthcare system.

While these investments will significantly increase development expenditure to about \$20 billion in the coming fiscal year, and to about \$30 billion by the end of the decade, they are intended to help Singapore meet the economic and social challenges of the future. They will stand the country in good stead



"We must ensure a society that is fair and just, where everyone has a chance to move up and do well regardless of where they start. And we must complement a culture of personal effort and responsibility with stronger collective responsibility, especially for our elderly."



as it embarks on building the next era of jobs and incomes, and a higher quality of life for its citizens.

More is also being done to build social capital (Table 3). A variety of initiatives have been introduced to provide support for families and to strengthen community. In particular, initiatives such as the reduction in the Foreign Domestic Worker concessionary levy and the topping up of the Child Development Account, will reduce the cost burden on families.

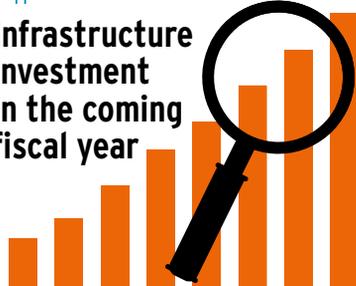
Further, the introduction of the Partner Operator (POP) Scheme, which seeks to enhance the quality of child care, even as costs are kept low, is also significant. Indeed, this focus on the quality of child care is important because high-quality child care is also part of a good education system which in turn is key to a future generation of competitive Singaporean workers.

Table 3 Key Initiatives to Increase Social Capital

1	Enhance affordable, quality child care by: (i) Introducing a new Partner Operator (POP) scheme to complement the Anchor Operator scheme so that parents will benefit from lower fees and higher quality of child care
	(ii) Topping-up the Child Development Account to help families pay for pre-school fees. The top-up will cost \$126 million and benefit 230,000 children
2	Waive exam fees for national examinations for Singaporean students in government-funded schools and for Singaporean students enrolled in ITEs and Polytechnics
3	Provide a \$150 top-up to the Edusave accounts of Singaporean students aged seven to 16 years
4	Enhance the MOE Financial Assistance Scheme (FAS) and top-up the Post Secondary Education Accounts (PSEA) of Singaporeans aged 17 to 20 years
5	Enhance the GST Voucher (GSTV) Scheme through the enhancement of \$50 for GSTV-Cash across the board from 2015 onwards and one-off GSTV-Seniors' Bonus in 2015 to assist seniors with daily expenses, for eligible individuals
6	Provide Service and Conservancy rebates (one- to four-room flats) ranging from two to three months
7	Provide personal income tax rebates of 50% capped at \$1,000 for YA 2015
8	Reduce Foreign Domestic Worker (FDW) concessionary levy from \$120 to \$60 per month and extended to households with children aged 16 years and below

\$20 billion

Infrastructure investment in the coming fiscal year



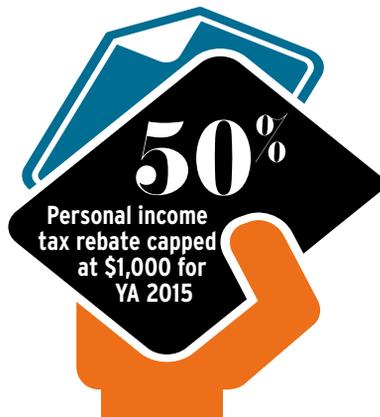
From 250% to 300%



Increase in tax deduction for donations made in 2015



Top-up to Edusave accounts of Singaporean students aged seven to 16 years



These measures will help ease the challenges faced by many Singaporeans in their daily lives, and address concerns raised by citizens. As highlighted by ISCA President Gerard Ee during the ISCA Pre-Budget Roundtable 2015, "How can we free up the individual from the pressures of family life and home so that, at whatever level, they can function to their optimal level at the work place? I think that is what's missing when we talk about social capital".

4) STRENGTHEN SOCIAL SUPPORT

The fourth area of focus seeks to strengthen overall social support, with particular attention paid to bolstering retirement adequacy. To do so, the CPF ceiling will be raised from \$5,000 to \$6,000. The contribution cap within the Supplementary Retirement Scheme will also be raised with effect from January 2016. Further, contribution rates for older workers aged between 50 and 65 will be raised by between 0.5% and 2%. An additional 1% interest will also be given on the first \$30,000 of CPF balances from the age of 55.

The measures to enhance CPF savings will help Singaporeans accumulate more savings during their working years and also help them save more for their retirement needs.

However, some of these measures may increase the employers' cost of hiring workers, especially the hiring of older workers. In this regard, there is also some support for businesses in the Budget. Specifically, DPM Tharman announced that an additional Special Employment Credit of up to 3% of wages for workers aged 65 will serve to offset the higher cost of employing older workers.

Another key measure to strengthen social support is the introduction of the Silver Support Scheme. It will provide a supplement of between \$300 and \$750 per quarter to eligible seniors based on assessments of lifetime wages, level of household support, and housing type. The scheme will lend support to the bottom 20% of Singaporeans aged 65 and above, with a smaller degree of support also extended to cover the bottom 30% of seniors. Together with Workfare, total government spending on this system of progressive social



From **\$5,000**
to
\$6,000 
CPF ceiling increase

 Between
0.5%
and **2%**
Increase in
older-worker CPF
contribution rates

 **ADDITIONAL**
1%
On first \$30,000 of CPF
balances from age 55



Between
\$300 to \$750
Quarterly supplement
for eligible seniors

support is expected to reach about \$1 billion per year.

Overall, the Silver Support Scheme will serve to foster stronger collective responsibility, and create a more inclusive society where lower income seniors, many of whom would have contributed to Singapore during their prime productive years, are afforded a meaningful level of support.

PRESERVING A FAIR AND SUSTAINABLE FISCAL SYSTEM

Government expenditure is expected to increase over the medium to long term. This increase is attributable mainly to three areas – healthcare spending, improvements to public transport, and the development of Changi Airport T5. Government spending is projected to reach about 19% to 19.5% of GDP on average over the next five years, roughly 1% of GDP higher than current revenues. It is therefore prudent that Singapore strengthens its revenue base to support the increase in spending through the rest of the decade.

To do so, two key measures were announced. First, the Net Investment Returns (NIR) framework will be

enhanced to include Temasek. While the current framework allows the government to spend up to 50% of the expected long-term real returns on its net assets managed by MAS and GIC, the new framework will allow the spending rule to be based on the total expected returns of all three investment entities (MAS, GIC and Temasek).

However, as noted by DPM Tharman in his Budget Speech, Temasek’s equity-only portfolio is inherently more volatile and subject to more pronounced investment cycles than the MAS and GIC portfolios. Consequently, even with its geographically and sectorally diversified investment portfolio, projections of Temasek’s expected long-term returns are likely to be less accurate. As such, it might be prudent for Temasek to adopt a more conservative investment strategy in return for greater stability in its returns going forward.

The second key measure announced was the increase in personal income taxes for the top 5% of income earners. In its effort to continue refining and making



19%
to **19.5%** of GDP
Projected average
government spending
over the next five years



**Temasek,
MAS, GIC**
Spending rule
based on
returns of three
investment entities

From **20%**
to **22%**



Top marginal
income tax
rate from
YA 2017

the personal income tax regime more progressive, the government has taken the bold step of increasing the top marginal income tax rate from 20% to 22%. This increase will take effect from YA 2017.

DPM Tharman commented, "It is fair that this enhanced support for those with low incomes should come chiefly from revenues contributed by the high-income group. Those with higher incomes have also been seeing stronger growth in incomes than the average Singaporean in recent years."

The increase in personal income tax rates for top income earners





“We must go forward with the blend of imagination and practicality that brought Singapore this far in 50 years. With hard heads, but warm hearts too, so that we all move up together”.

may have come as a surprise for some. As an island-nation with no natural resources, Singapore has always maintained a competitive personal income tax regime to attract top talents. While a top marginal income tax rate of 22% is still low by international standards, it remains to be seen if the change will affect the country’s competitiveness in attracting top talents, especially against jurisdictions such as Hong Kong (which has a top marginal personal income tax rate of 17%).

An unintentional consequence of this change may be a rise in the number

of incorporation of companies. As the gap between the corporate income tax rate (currently at 17%) and the top marginal personal income tax rate widens, sole proprietorships and partnerships, which are taxed based on individual tax rates, may lose some of their shine as viable alternative business vehicles to companies, which are subject to corporate tax rates, for sizeable businesses.

MOVING INTO THE FUTURE

Overall, this year’s Budget builds on the fundamental policy shift, announced by Prime Minister Lee Hsien Loong in his New Year Message, to give Singaporeans greater assurance at each stage of life, more opportunities, and a better home for

all. The Budget seeks to invest in the skills of the future, continue with the restructuring of the economy, support continued business successes through innovation and internationalisation, invest in economic and social infrastructure for the future, and strengthen assurance in retirement.

In the words of DPM Tharman, “Budget 2015 takes us into our future”, and with that, “we must go forward with the blend of imagination and practicality that brought Singapore this far in 50 years. With hard heads, but warm hearts too, so that we all move up together”. ISCA

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