BUDGET 2016

Partnering for the Future

BY
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Budget 2016 was announced on March 24 by Finance Minister Heng Swee Keat. With the theme "Partnering for the Future", it exemplifies the benefits of collaboration at the national level. For Singapore to continue thriving in the next 50 years, everyone – businesses, trade associations, government and individuals – has an important role to continuously engage, innovate and collaborate with each other. Budget 2016 seeks to transform our economy through enterprise and innovation while building a caring and resilient society.

The government expects an overall budget surplus of $3.4 billion (0.8% of gross domestic product) for FY 2016. Total spending is expected to be $5 billion – 7.3% higher than FY 2015. Minister Heng said the rise in expenditure in FY 2016 will be supported by increases in both operating revenue and higher net investment return contributions. He highlighted the need for prudence and expects growth in the long term to be more challenging, as expenditure needs are likely to grow faster than revenues.

Notwithstanding the current sluggish economic environment, Minister Heng urged Singaporeans not to be overly pessimistic, lest it becomes a self-fulfilling prophecy. This article highlights the key measures in Budget 2016, and why they matter to you.

ADDRESSING NEAR-TERM CONCERNS

In view of the cyclical headwinds, the government has raised the existing rate of Corporate Income Tax Rebate from 30% to 50% of tax payable for YA 2016 and YA 2017, to help companies tide over this challenging period. With the rebate cap of $20,000 per YA kept intact, the enhancement of the rebate is targeted mainly at supporting smaller SMEs (Illustration 1).

Illustration 1 Increase in rate of corporate income tax rebate

	Company A		Company B	
	Rebate		Rebate	
	30%	50%	30%	50%
Corporate tax payable ($)	40,000	40,000	100,000	100,000
Rebate ($) (capped at $20,000)	(12,000)	(20,000)	(20,000)	(20,000)
Net tax payable ($)	28,000	20,000	80,000	80,000

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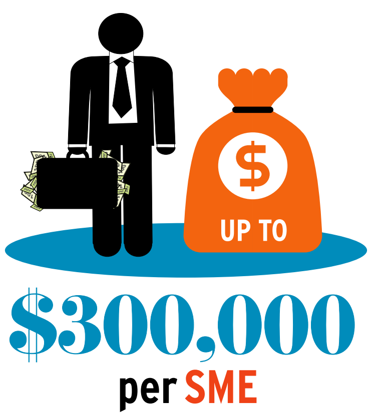
EXPECTED OVERALL BUDGET SURPLUS FOR FY 2016

SME WORKING CAPITAL LOAN FROM 2016



Govt co-shares 50% default risk of these loans with participating financial institutions

Another initiative to support SMEs is the new SME Working Capital Loan scheme. As cashflow is the lifeline of businesses, this scheme offers loans of up to $300,000 per SME. To encourage lending to SMEs, the government will co-share 50% of the default risk of these loans with participating financial institutions. This loan scheme will be available for three years, beginning 2016.

Amid a tight labour market, the government has extended the Special Employment Credit (SEC) till 2019 to encourage businesses to employ silver-haired members of our population. This group is a practical alternative source of labour in the long run due to Singapore's ageing population. With life expectancy on the rise, people will also need to stay economically active longer. The SEC provides employers with a wage offset for workers aged 55 and above who earn up to $4,000 a month.

As for foreign worker levy, the government will defer levy increases for the Marine and Process sectors for one year, due to the challenging business conditions and reduction in the number of Work Permit holders in these sectors. The Manufacturing Work Permit levies will remain unchanged this year, as announced in Budget 2015. The government will proceed with levy increases for Services and Construction Work Permit and S Pass holders in every sector. This may lead to an increase in manpower costs for firms in the accountancy and financial services which hire foreigners. This is a clear message that the government remains committed to reducing excessive reliance on foreign labour. Companies should explore ways to raise productivity and/or hire Singaporeans who are capable and willing to take on the job.

> "The government's decision to allow the popular PIC scheme to lapse and effectively replacing this with the Automation Support Package (ASP) is courageous and strategic. ASP is more targeted and better focused on SMEs."

PROFESSOR SUM YEE LOONG
ISCA HONORARY TECHNICAL ADVISOR AND SIATP BOARD MEMBER

ECONOMIC TRANSFORMATION THROUGH INNOVATION IN THE LONGER TERM

To drive longer-term economic transformation and to take Singapore to the next phase of development, the government will set aside $4.5 billion for firms and industries under a new Industry Transformation Programme (ITP). ITP adopts a more targeted and sector-based approach to help local firms build skills, scale up and internationalise. The three key thrusts of ITP are transforming enterprises, transforming industries and transforming through innovation.

1. Transforming enterprises

To help firms access the many grants from various agencies more easily, the government will launch the Business Grants Portal in the fourth quarter of 2016. The Portal will organise these grants along core business needs of (i) capability building, (ii) training and (iii) international expansion.

ISCA's Pre-Budget Survey and Roundtable highlighted businesses' desire for a more streamlined approach for grant application and administration. We are heartened that the government has responded to the feedback with a centralised Portal. Ideally, this one-stop Portal will make it easier for businesses to navigate the plethora of grants more efficiently.

As the government rolls out new measures to support enterprises, it is also rationalising existing tax measures to remain prudent and effective. The government will phase out the Productivity and Innovation Credit (PIC) scheme, and has put in place the Automation Support Package (ASP) to drive automation and raise productivity. The PIC scheme will lapse after YA 2018; the cash payout rate under the PIC scheme will also be reduced from the current 60% to 40% for qualifying expenditures incurred from 1 August 2016.

The government's decision to allow the popular PIC scheme to lapse will not be a welcomed move. However, its replacement with ASP shows that the government is more targeted in addressing the productivity and innovation issue. This decision echoes the call by many to move away from broad-based support, as some were sceptical about its effectiveness in improving productivity.

FOREIGN WORKER LEVY INCREASES

- Services and Construction Work Permit and S Pass holders in every sector
- Marine and Process sectors Work Permit levies: Deferred by one year
- Manufacturing sector Work Permit levies: Unchanged

(announced in Budget 2015)

PHOTO SHUTTERSTOCK

Going forward, SMEs can scale up their automation efforts by tapping on ASP. This package comprises SPRING Singapore's Capability Development Grant which supports the roll-out or scaling-up of automation projects at up to 50% of the qualifying cost, capped at $1 million; Investment Allowance of 100% on the amount of approved capital expenditure, capped at $10 million per qualifying project, among others.

SMEs can also look forward to more support when they engage in Mergers and Acquisitions (M&A) as the government doubles the existing cap for qualifying M&A deals made from 1 April 2016 to 31 March 2020. With this enhancement, tax allowance of 25% and stamp duty relief will be granted for up to $40 million of consideration (instead of the current $20 million) paid for qualifying M&A deals per YA. This may help to spur larger SMEs to take the opportunity to grow and engage in larger M&A deals.

As there is limited room for domestic growth in Singapore, businesses should seek opportunities for growth outside of Singapore. To support this, the Double Tax Deduction (DTD) for Internationalisation scheme has been extended till 31 March 2020. DTD covers qualifying expenses incurred for activities such as participation in overseas business development and investment study trips.

It is encouraging that the government has heeded the call by many to announce extensions to key tax schemes early to reduce uncertainties. Some of the extensions announced in this Budget include the extension of upfront certainty of non-taxation of companies' gains on disposal of equity investments under Section 13Z of the Income Tax Act till 31 May 2022, the extension to the DTD for Internationalisation scheme till 31 March 2020, and the extension to the Finance and Treasury Centre scheme till 31 March 2021.

INDUSTRY TRANSFORMATION PROGRAMME

$4.5 billion

For targeted, sector-based approach

Automation Support Package

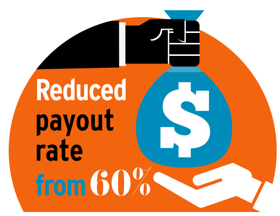
CAPABILITY DEVELOPMENT GRANT
Up to 50% of qualifying cost, capped at $1 million

INVESTMENT ALLOWANCE
100% on approved expenditure, capped at $10 million per project

IMPROVE SMEs' ACCESS TO LOANS
Government enhances risk-share with Private Financial Institutions from 50% to 70%

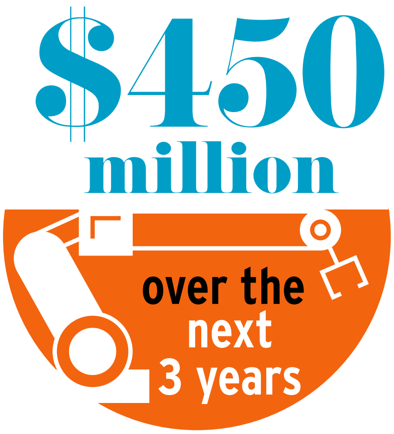
ACCESS OVERSEAS MARKETS
IE Singapore and SPRING Singapore to help businesses

PIC SCHEME LAPSES AFTER YA 2018



to 40%

NATIONAL ROBOTICS PROGRAMME



2. Transforming industries

The government will develop a one-stop trade information management system, National Trade Platform (NTP), to support firms, particularly those in the logistics and trade finance sectors. NTP will enable electronic data-sharing among businesses and government, thus cutting costs and streamlining processes for businesses. The government will make available over $450 million over the next three years under the National Robotics Programme to support robotics development and deployment across sectors. The sectors identified include healthcare, construction, manufacturing and logistics. The use of robotics in these labour-intensive sectors may help to alleviate the labour crunch and increase productivity.

In the spirit of collaboration, the government will increase outreach to the sectors by working even more closely with Trade Associations and Chambers (TACs). The government will introduce a new Local Enterprise and Association Development-Plus (LEAD-Plus) programme. This will build on the existing LEAD programme to provide wider funding support for TACs to attract talent, develop their capabilities, and strengthen their processes and services.

3. Transforming through innovation

To encourage companies to acquire intellectual property (IP) and in recognition of the varying useful lives of intellectual property rights (IPR), the government will now allow businesses the flexibility to write down the cost of acquiring IP over different periods of five, 10 or 15 years, instead of the current five years only. Following this change, the writing-down allowance for IPR acquisitions made in YA 2017 to YA 2020 may also be claimed over five, 10 or 15 years. This may be welcomed by companies that pay tax at incentivised rates, as they can now stretch their

> **"As the national accountancy body, we view the government's strategy in increasing outreach through Trade Associations and Chambers positively. We look forward to working closely with the government and our members to identify and address the sector's needs in a timely manner."**

GERARD EE
ISCA PRESIDENT

INDUSTRY-RESEARCH COLLABORATION, TO DEEPEN INDUSTRY CAPABILITIES IN INNOVATION AND R&D

$4 billion

under RIE 2020 Plan

PHOTO SHUTTERSTOCK

access talent in research institutes, and open up new markets. The Jurong Innovation District is envisaged to be the home for innovation for enterprise, learning and living. It will be a nexus for learning, innovation, research, and production for the future.

writing-down allowances to cover later years when their incentives have expired (Illustration 2).

To deepen industry capabilities in innovation and R&D, up to $4 billion under the Research, Innovation and Enterprise (RIE) 2020 Plan will be directed to industry-research collaboration. The government will also provide a top-up of $1.5 billion to the National Research Fund in 2016 to support RIE 2020 initiatives. To promote start-ups in new and existing industries, the government will set up a new entity called SG-Innovate, which will match budding entrepreneurs with mentors, introduce them to venture capital firms, help them to

Illustration 2 Tax implications when companies are allowed to choose the period over which IPR may be written down

A company has a five-year incentive that lowers its tax rate (from the prevailing income tax rate of 17% to 10%) for qualifying income earned from YA 2017 to YA 2021. The Company acquired an IPR from a third party for $100,000 in YA 2016. It can now claim writing-down allowance across five, 10 or 15 years under the new IPR allowance scheme.

Since the Company's tax rate is higher from YA 2022 onwards, it will be more beneficial for the Company to stretch its writing-down allowance to cover later years when its incentive expires.

Based on acquisition of IPR of $100,000 and five-year incentive with 10% tax rate from YA 2017 to YA 2021				
	Five-year write-down = $20,000 per year		10-year write-down = $10,000 per year	
Tax Rate	10%	17%	10%	17%
	YA 2017 to YA 2021	YA 2022 to YA 2026	YA 2017 to YA 2021	YA 2022 to YA 2026
Profit before Tax (before writing-down allowance) per year ($)	800,000	800,000	800,000	800,000
Writing-down allowance per year ($)	(20,000)	0	(10,000)	(10,000)
Profit before Tax (after writing-down allowance) per year ($)	780,000	800,000	790,000	790,000
Tax payable per year ($)	78,000	136,000	79,000	134,300
Total tax payable over 10 years ($)	1,070,000		1,066,500	

SILVER SUPPORT SCHEME

PAYOUTS OF
$300 to $750
every quarter

CHILD DEVELOPMENT ACCOUNT
FIRST STEP GRANT

AUTOMATICALLY RECEIVE
$3,000
for eligible kids born from 24 March 2016

GST VOUCHER-CASH SPECIAL PAYMENT

UP TO
$200
per eligible household

> "The capping of personal allowance at $80,000 is a very difficult but correct decision as this shows that the government is seriously looking at addressing the growing income gap problem in Singapore."

PROFESSOR SUM YEE LOONG
ISCA HONORARY TECHNICAL ADVISOR AND SIATP BOARD MEMBER

HOUSEHOLD MEASURES

To care for the ageing population, the eligible seniors in the Silver Support Scheme will receive payouts of $300 to $750 every quarter. The Scheme will benefit more than 140,000 seniors and will cost approximately $320 million in the first year.

To grow our families, there will be a new Child Development Account First Step Grant of $3,000 for eligible children born from March 24. Parents who save more will continue to receive dollar-for-dollar matching from the government, up to the co-savings cap. A pilot initiative, KidSTART, which has more than $20 million, will provide about 1,000 underprivileged children with appropriate learning, development and health support in their first six years. This will ideally provide a helping hand to give these children a better start in life.

To support households in the current weak economic climate, the government will provide a one-off GST Voucher (GSTV)-Cash Special Payment of up to $200 for eligible households. In total, eligible households can receive up to $500 in GSTV-Cash in 2016. There will also be a rebate for service and conservancy charges in 2016, ranging from 1.5 to three months, according to flat type.

PHOTO SHUTTERSTOCK

On the personal income tax front, the government has introduced a cap of $80,000 per YA on the total amount of personal reliefs an individual can claim. This change will take effect from YA 2018. According to Minister Heng, this change is aimed at enhancing the progressivity of our Personal Income Tax regime. Taxpayers affected by this cap are most likely to be working mothers with two children, and earning a high income.

While these high-income working mothers will be affected, the underlying rationale is that it is not a good tax principle to allow a disproportionately high allowance

WORKFARE INCOME SUPPLEMENT

Qualifying monthly income ceiling raised to

$2,000

(from $1,900)

that can only be enjoyed by someone earning a very high income. By comparison, a working mother with an above-average total remuneration package of $100,000, and who has two children, will generally not be affected by this $80,000 cap.

CARING FOR THE NEEDY AND BUILDING A CARING SOCIETY

The government will enhance the Workfare Income Supplement (WIS) scheme for older, low-wage workers. This includes raising the qualifying income ceiling from $1,900 to $2,000 a month, increasing WIS payouts for eligible workers and simplifying the qualifying criteria. Workers will now receive WIS on a monthly basis instead of quarterly basis. This will be welcomed especially by those who face cashflow problems. The government will also extend the Workfare Training Support scheme to support the disabled at work.

From 1 July 2016 to 31 December 2018, a pilot Business and Institutions of a Public Character (IPC) Partnership Scheme (BIPS) will be introduced to incentivise employee volunteerism through businesses. Under BIPS, businesses will enjoy 250% tax deduction on wages and incidental expenses when they send their employees to volunteer and provide services to IPCs (including secondments). The tax deduction will be subject to the receiving IPC's agreement, with a yearly cap of $250,000 per business and $50,000 per IPC.

While the administrative details of BIPS are still unclear at this stage, BIPS has the potential to be a great scheme in encouraging corporate volunteerism, and support corporate social responsibility programmes that go beyond financial contribution. Special attention should be paid to ensure that BIPS will be administratively easy for companies to implement.

CONCLUSION

This year's Budget is a rallying call for collaborative partnership by all key stakeholders, with the opportunity to shape our future together. While there are debates on whether the Budget measures provide the needed immediate relief to businesses, we believe the Budget is balanced as the measures do provide the necessary support while not being excessively accommodating (which may weaken businesses' impetus to restructure). Budget 2016 seeks to balance between providing businesses with short-term relief while keeping an eye on the future. ISCA

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