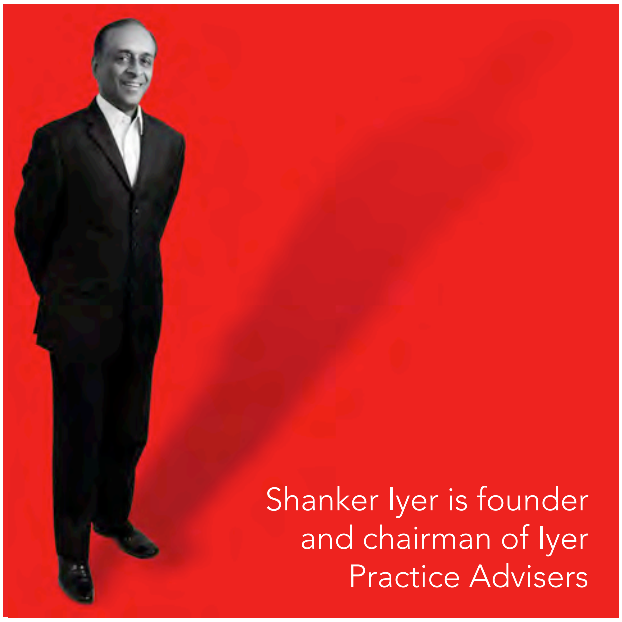
Budgeting for the future

Singapore's Budget 2015 aims to build future growth and strengthen social security, says Shanker Iyer FCCA, member of *ACCA Singapore's* network panel



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Budget 2015 was set against a background of a balanced position for FY2014 compared to a projected deficit of S$1.2 billion. Singapore's economy grew by almost 3% in 2014 and the projection for 2015 is a growth of between 2% and 4%. Singapore's labour market once again remains close to full employment. Wages have continued to increase but at a slower pace and it was announced that the wages of the median Singaporean worker increased by about 1.4% in real terms in 2014.

Against this background, Deputy Prime Minister and Minister for Finance Tharman Shanmugaratnam delivered his Budget speech. He noted that his Budget proposals would focus on building Singapore's future and strengthening social security.

The minister proposed major steps in four areas:

1. Invest in the skills of the future and empower every individual to learn and develop throughout life. The government has called this initiative SkillsFuture. The proposal includes the creation of a SkillsFuture credit for all Singaporeans and significant sums of money will be available to each citizen at each stage of their working lives to improve their skills.
2. Continue to restructure the economy and support the next generation of business successes by promoting innovation and internationalisation.
3. Invest in economic and social infrastructure for the future.
4. Strengthen assurance in retirement and enhance support for middle-income families.

Many of the business-related incentives announced in the budget were aimed at SMEs:

* The mergers and acquistions (M&A) scheme was extended to 2020 and the benefits and thresholds were revised to focus more on encouraging SMEs to grow via strategic acquisitions.
* The Double Tax Deduction for Internationalisation scheme was enhanced to include qualifying manpower expenses incurred for Singaporeans posted to new overseas entities.
* The Angel Investors tax deduction scheme was made more attractive by including investments which are also co-funded by government.
* SMEs engaged in innovation can benefit from a simplified application process for government grants in respect of projects below S$30,000.
* The 30% corporate income tax rebate announced in the 2013 Budget was extended for a further two years albeit at a lower cap of S$20,000.

Another new scheme was announced called the International Growth Scheme to support high-potential Singapore companies in their internationalisation activities, by means of a 10% concessionary tax rate on incremental income from qualifying activities.

The minister reiterated that the government is not changing direction in the area of foreign worker policy. He noted that it remains crucial for Singapore to restructure towards reducing its reliance on manpower and find new and more innovative ways of doing business. However, the minister acknowledged that current foreign worker policies are succeeding in slowing down the foreign workforce growth. This has given the government the space to adjust the pace of tightening measures. Therefore the government will defer this year's planned levy increases for S Pass and Work Permit Holders in every sector in order to give companies, especially SMEs, more time to adapt to the new normal of a permanently tight labour market.

Saving for retirement

In recent years there have been greater calls for Singaporeans to have greater savings for retirement.

The minister referred to the current existing four pillars of Singapore's social security system, namely home ownership, Central Provident Fund (CPF), healthcare assurance and Workfare. The government now proposes to take additional steps to strengthen the social security system and two new measures were announced:

* Increase in CPF contributions for all age groups and the CPF system itself will be made more progressive. Higher CPF contribution rates will come into force on 1 January 2016.
* Introduction of the Silver Support Scheme, which

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will provide additional financial support to the bottom 30% of low-income Singapore citizens aged 65 and above.

In order to encourage the spirit of giving in this Jubilee Year for Singapore, tax deductions for charitable donations made in 2015 will qualify for a 300% tax deduction, up from 250% in the previous year.

The minister spoke of his expectation that government expenditure would increase over the medium to long term, particularly in the areas of healthcare, public transport and for the development of Changi Airport Terminal 5, quite apart from increased expenditure on domestic security and the proposed SkillsFuture initiative.

Securing future growth

This would necessitate steps now to strengthen future revenues and the minister proposed two areas for this to be achieved:

* Inclusion of Temasek's expected returns in the Net Investment Return Framework, which previously only included the other government investment entities of the Government of Singapore Investment Corporation (GIC) and the Monetary Authority of Singapore (MAS).
* Increase of the marginal personal tax rates for the top 5% of taxpayers from 2016, with the top marginal rate going up from 20% to 22%. The minister noted that this tax increase would enhance progressivity and strengthen future revenues. The government's assessment is that this move should not significantly dent Singapore's competitiveness. The minister acknowledged that Singapore would not keep raising taxes without affecting its competitiveness.

The overall impact of the Budget is a projected deficit of S$6.7 billion. However, after excluding S$6 billion set aside for future investments, the Budget will in fact be close to balanced. Given Singapore's track record of conservative budgeting it will not come as a surprise if a surplus is actually recorded when the actual numbers are out in a year's time.

As mentioned above, the minister's stated objective for the Budget was for Singapore to build its future and strengthen social security. Singapore celebrates its 50th anniversary of independence in 2015 and a general election is not too far away. There was widespread expectation of generous handouts. Whilst this did not quite transpire, it would be fair to say that most Singaporeans would have benefited in some way from the Budget measures. ■