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A spirit of partnership

An expansionary tax stance and measures to transform industry through automation and innovation are key elements of Singapore's 2016 Budget, says Shanker Iyer

Last month's Budget was the first since last year's general election, when the ruling party was swept back to power with a massive majority. A new finance minister, Heng Swee Keat, has also been appointed and there was much anticipation.

The minister noted that many challenges and opportunities lay ahead and that a spirit of partnership was needed to carry the city-state into a new chapter.

The economy grew by 2% in 2015, driven by the trading, finance, ICT and services sectors, but there was a significant decline in manufacturing. 2016 is expected to be tough, with GDP growth of 1% to 3%, but the minister saw no need for excessive pessimism.

Budget 2016 had three key thrusts:

- The government will adopt an expansionary fiscal stance to support businesses in the near term
- An industry transformation programme (ITP) will be launched to strengthen enterprises and industry and drive growth through innovation
- There will be support for people learning new skills, especially in innovative, fast-growing sectors.

The minister also announced specific measures to help smaller companies. The existing corporate tax rebate will be raised from 30% to 50% of tax payable, but the cap is to remain unchanged at S$20,000. Meanwhile an SME working capital loan scheme will be set up, under which the government will share 50% of the default risk with lenders for loans up to S$300,000.

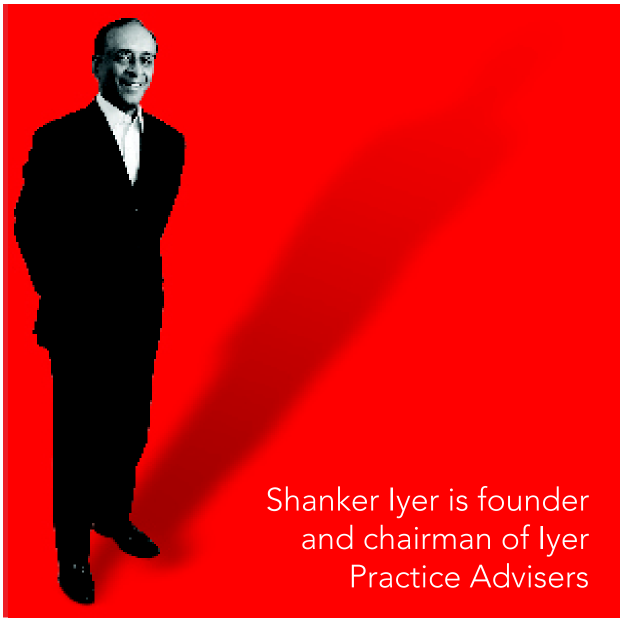
There was some speculation before the Budget as to whether the government was ready to relax measures put in place in 2010 aimed at cooling the property market. Heng disappointed by noting that based on price levels and current market conditions, the government felt it would be premature to relax these measures.

The industry transformation programme is intended to take Singapore into the next phase of its development. It will take a more targeted and sector-focused approach than hitherto and place stronger emphasis on technology adoption and innovation.

As part of the ITP, the minister announced a new automation support package aimed at growing SMEs. Under this package, companies will get a grant of 50% of project cost, up to a maximum grant of S$1m. This will be enhanced by a new 100% investment allowance for automation equipment. It is hoped that making it easier for SMEs to undertake such large-scale projects will enable them to scale up and enter international markets.

The minister observed that another way to drive industry-level transformation is to develop and deploy new technologies to solve problems relevant to the entire industry. In particular, he highlighted the need to deploy robotics technology and allocated further funding to the national robotics programme.

Heng also emphasised the need for companies to transform themselves through innovation. Further funds will be made available to existing programmes, and a new entity called SG Innovate will promote startups in both new and existing industries.



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Tax changes were few and far between this time round:

- As the government moves towards more targeted assistance, the generous and broad-based productivity innovation scheme will be allowed to lapse after the 2018 year of assessment
- The existing mergers and acquisitions allowance is to be enhanced to cover up to S$40m of deal value, up from the current S$20m cap
- The safe-harbour rule for non-taxation of capital gains from certain equity investments held for over two years is to be extended for another five years to 31 May 2022.
- The double tax deduction for internationalisation scheme is to be extended to 31 March 2020.
- Incentives to encourage higher industrial land productivity and to enhance activities in the areas of finance and treasury, global trading and maritime activities will be extended and strengthened.

All in all, the main thrust of this Budget was strategic, setting the future direction of the economy as Singapore goes through painful restructuring in the face of a global economic slowdown. The minister said his Budget projected a surplus for the forthcoming year of S$3.4bn, despite an increase in spending of 7.3%, largely as a result of healthy contributions from net investment returns. ■