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SINGAPORE BUDGET 2017

Budget 2017 was set against a background of a slowing economy and the recently published report of the Government's Committee on the Future Economy ('CFE').

The Finance Minister noted that Singapore, along with other countries, is undergoing a key transition as its economy matures. With falling birth rates and a rapidly ageing population, labour force growth will eventually fall to zero. Singapore aims for quality growth of 2% to 3%, if it succeeds in its drive for higher productivity. Singapore achieved a GDP growth of 2% in 2016. This is similar to the 1.9 % achieved in 2015. But this aggregate growth figure belies the uneven performance across sectors. Sectors such as Electronics, Information & Communications, and Education, Health & Social Services, did well. Some sectors have been harder hit by cyclical weaknesses, including Marine & Offshore, and to some extent, Construction. Other sectors like retail are facing structural shifts.

Some short term measures were announced to help businesses, including an enhancement of the previously announced corporate tax rebate. This rebate was extended for further year, albeit at a lower rate.

As widely expected, the Budget contained measures to implement some of the recommendations of the CFE, namely in the areas, of digitalisation, innovation and scaling up.

The Minister introduced the SMEs Go Digital Programme to help SMEs build digital capabilities. SMEs will get step-by-step advice on the technologies to use at each stage of their growth and those that are ready to pilot emerging ICT solutions can receive funding support.

The government is willing to support firms in their broader efforts to tap on innovation and technology through is agency, A*STAR, which currently works with firms to conduct operation and technology road-mapping, to identify how technology can help them innovate and compete. A*STAR will expand its efforts to support 400 companies over the next four years. For companies seeking access to intellectual property, Intellectual Property Intermediary, another government agency, will work with the Intellectual Property Office of Singapore (IPOS) to analyse and bundle complementary IP from Singapore and overseas.

The Minister also noted that the Government will commit up to $600 million in Government capital for a new International Partnership Fund. The Fund will co-invest with Singapore-based firms to help them scale-up and internationalise.

Measures were also announced to help workers to re-skill to find new jobs and two new areas were also mentioned: new skills to operate overseas; and deepening skillsets to remain relevant in jobs.

The Minister also noted that Singapore's vibrant and connected city must also be sustainable and resilient. Around the world, the effects of climate change, and air and water pollution are worsening public health and quality of life. Together with the international community, Singapore needs to play its part to protect our living environment. The Minister announced the introduction of a Carbon tax as well as a restructuring of diesel taxes. An increase in water prices of 30% was also announced, to recover increased costs of water production and transmission.

The Minister observed that in the coming years, the government expects expenditure needs to rise rapidly, particularly in healthcare and infrastructure. The Government must continue to spend judiciously, emphasise value-for-money and drive innovation in delivery. A permanent 2% downward adjustment to the budget caps of all Ministries and Organs of State from FY2017 onwards was announced.

However, cost cutting would not provide all the answers and the Minister noted that government needs to strengthen its revenue base in a pro-growth and progressive manner. Countries, large and small, are also reviewing their corporate tax regimes to keep them competitive. With increasing digital transactions and cross-border trade, some countries have taken steps to adjust their GST system, to ensure a level playing field between their local businesses which are GST-registered, and foreign-based ones which are not. Singapore is considering doing so likewise and is studying the matter.

Overall, though, the clear message was that the government will have to raise revenues through new taxes or raise tax rates in the longer run.

The Minister also mentioned the Base Erosion and Profit Shifting, or BEPS, project, which seeks to ensure that companies are taxed where substantive economic activities are performed. Singapore supports this principle and is refining its various incentives.

There was little in the Budget by way of technical tax changes. Some tax incentives in the financial and global trading sectors were extended or enhanced. One measure which generated interest was the proposed IP Development Incentive, a "BEPS compliant' patent box regime that incentivises income from the exploitation of intellectual property. Further details are only expected by May 2017.

Finally, the Minister summarised the government's overall budget position. For FY2016, ending 31 March 2017, a budget surplus of $5.2 billion is expected. This is higher than the budgeted surplus of $3.4 billion. In FY2017, the Government's budget remains expansionary. Ministries' expenditures are expected to be $3.7 billion, or 5.2%, higher than in FY2016. Overall, a smaller budget surplus of $1.9 billion, or 0.4% of GDP, is expected in FY2017.