A Budget for the future

While Budget 2014 reflects the government's ambitions for quality growth and a equitable society, Singapore must work to dispose of its deficit, says **Shanker Iyer**

Budget 2014 was set against a background of a surplus of almost S$4bn, a rise of over 60% from the surplus in the previous year. Singapore's economy, too, grew by 4.1% in 2013 compared with 1.9% in 2012. The labour market remains close to full employment, job vacancies significantly exceed unemployed workers, and the wages of the median Singaporean worker increased by about 5% in real terms in 2013.

Against this background, Minister for Finance Tharman Shanmugaratnam delivered his Budget speech, noting that Singapore would go for quality growth and would build a fair and equitable society. He made it clear that Singapore businesses must adapt to the permanent reality of a tight labour market and transform every sector of the economy to achieve higher productivity and skills.

I am heartened that the Productivity and Innovation Credit (PIC) Scheme has been extended until Year of Assessment (YA) 2018. To further assist larger SMEs, the minister introduced the new PIC+ scheme which will provide an increased PIC cap from S$400,000 to S$600,000 for each of the six categories from YA 2015 to 2018. The clear purpose is to reward businesses that are striving to spend to improve their productivity.

The minister also stated that the government will support every form of upgrading by firms and will strengthen support for early adopters of new technologies and for SMEs who are going beyond the norm in their upgrading efforts. Meanwhile, the new ICT for Productivity and Growth programme will carry subsidies of between 50% and 80% of the costs SMEs incur on qualifying ICT solutions from 2014 to 2016. To encourage high-speed connectivity for SMEs, business can obtain subsidies on the recurring cost of fibre subscription plans. It is imperative that businesses have their technology radars consistently switched on in this connected world to leverage the technology trends that have the potential to significantly reshape the business landscape. Measures were also announced to enhance funding schemes to help catalyse growth enterprises and support SMEs in their expansion abroad.

There were no changes to Singapore's tax rates and the other changes in the Budget revolved around extending a number of the current schemes, which were due to expire in 2014.

Budget 2014 saw the introduction of the Pioneer Generation Package for an estimated 450,000 citizens, who were at least 16 years old in 1965 and became citizens before 1987, at a cost of S$8bn. This will be used to offset medical costs in a number of areas.

The minister also noted the need to enhance the retirement and healthcare adequacy for all Singaporeans. In order to fund this, CPF employer contributions will be increased by 1 percentage point from 1 January 2015, with the increase channelled to the employee's MediSave account. To offset increased costs, the government introduced a temporary employment credit.

With the significantly increased spending, however, the government is running at its first Budget deficit since 2009. Many observers were expecting increases in personal tax rates or corporate taxes, but this has not happened. While it is clear that we cannot continue to operate at a deficit in the long term, we believe that the government will always be mindful of retaining Singapore's competitiveness and hence any future tax increases will be tempered by this consideration.

As mentioned above, the minister's stated objective was for Singapore to go for quality growth based on innovation and deeper capabilities and to continue to build a fair and equitable society. I believe that the Budget has gone a long way towards achieving those objectives. ■

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