

**MOF COMMITTEE OF SUPPLY DEBATE 2009**  
**COS SPEECH BY SENIOR MINISTER OF STATE FOR**  
**FINANCE, MRS LIM HWEE HUA**

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**A. INTRODUCTION**

A1. Mr Chairman, let me first thank the Honourable members for their comments and suggestions. Given the constraint of time, I shall endeavor to elaborate on the policy intent and address specific comments wherever possible.

A2. The issues that Members have raised reflect the challenges we face in this unprecedented economic crisis and centre around three broad areas of concern:

i) First, the impact of the crisis on our reserves and investment returns;

ii) Second, how the Government would maintain fiscal efficiency, and measure the effectiveness of its programmes.

iii) Third, suggestions on how we can enhance the competitiveness of our tax regime, and how we can leverage on it to achieve social and environment policy objectives.

A3. I will address each of these three areas, as well as related issues that several Members raised during the Budget Debate last week.

## **B. Impact of Economic Crisis on Reserves and Investments: Our Fundamentals are Sound**

### **B(I) Purpose and Optimal Size of Reserves**

B1. Mdm Ho Geok Choo asked about the size and sufficiency of our reserves. Likewise, Mr Inderjit Singh is concerned whether we are fast depleting our reserves and whether we would be able to tap the amounts needed under the new Net Investment Returns (NIR) framework.

B2. During his Budget Debate Round-up Speech, the Minister for Finance has assured the House that we have built up substantial financial reserves, with assets far in excess of our liabilities.

B3. Sir, as we have explained many times in this House, we do not disclose the size of our reserves. It is not in our national interest to do so. Market players have had their own various estimates, and they do not doubt that the Government has substantial resources.

B4. Mr Liang Eng Hwa wanted to know if there is an ideal size of reserves we should build up. The approach we have taken is one of ensuring that our reserves continue to grow in line with the size

of our economy, by tapping on the returns from investment judiciously, exercising fiscal prudence and augmenting our reserves in good times. In this way, whatever the crisis - natural calamity, epidemic, war, or economic catastrophe, we would be better able to deal with the damage and recover more quickly to the situation before the crisis.

## **B(II) Government's Overall Approach**

B5. Mdm Ho asked why GIC had now increased its asset allocation for higher risk and higher return investments when it had not done so before. GIC's asset allocation strategy has evolved gradually over the years as its asset base grew and GIC developed its capabilities. GIC started out with a high allocation towards lower-risk fixed income instruments, but has, over time, diversified portfolio risk across a wider range of asset classes. This enables GIC to achieve higher sustainable long-term returns, while keeping to an acceptable risk level.

B6. I'd like to assure Mdm Ho that consideration of market conditions figures prominently in the actual execution of GIC's investment strategy. In fact in 2007, GIC's concerns about the likelihood of market dislocations led it to decide to reduce its exposure to public equity markets in favour of cash. GIC closely monitors and analyses the global environment and capital market behaviour, and takes into consideration liquidity and capacity issues, as well as shocks and events that may impact the portfolio.

B7. Sir, Mr Inderjit Singh asked whether there is a mandate from Government on the expected return and risk profile of GIC and Temasek. Indeed so, the Government sets the overall returns objective and risk threshold for our reserves. For GIC, the Government sets the risk tolerance limits and gives it a mandate to invest to enhance the global purchasing power of the funds under its management. Temasek's mission is to create and maximise shareholder long-term value.

B8. Mr Liang asked whether MOF would review the overall portfolio risk that GIC and Temasek would be taking going forward. The Government reviews the risk limits from time to time. The current portfolio risk limits are not aggressive, and are consistent with our overall objectives of our reserves to provide a key defence in times of crisis and a continuous stream of income for the current and future generations.

B9. But I would like for us to guard against knee-jerk reactions. We set the long-term risk and return objectives, and leave it to the investment professionals to do their job in this complex environment.

B10. Dr Loo Choon Yong however made a valid point during the Budget Debate that a robust risk management framework is crucial to reducing or mitigating the possibility of unforeseen risk exposures. I would like to assure Dr Loo that proper and sound risk management and governance systems, structures and processes are well in place in both GIC and Temasek. Both GIC and Temasek have their own dedicated risk management teams

that regularly monitor the risk exposure of investments. The Government conducts regular reviews with GIC and Temasek on the performance of their overall portfolios. The Boards of GIC and Temasek are ultimately responsible and accountable to the Government for the investment oversight and management of risk.

### **B(III) Financial Performance of GIC, Temasek and Statutory Boards**

B11. Mr Inderjit Singh asked how the current financial crisis has affected the performance of our two Sovereign Wealth Funds and our reserves. Mdm Ho has also asked if the recent investments by GIC and Temasek in financial institutions are safe.

B12. On Mdm Ho's question, let me reiterate my reply to a Parliamentary Question filed earlier that it is not the Government's practice to discuss the performance of individual investment deals. It is in the nature of investments that some will lose money while others will make money. The key is to weigh the risk of each investment against its potential return, and to balance it against other holdings, so that the portfolio will do well on an overall basis. This is how the Government assesses and holds the investment entities accountable for their performance.

B13. With regard to how the portfolio as a whole has performed, like what I had mentioned in a reply to another Parliamentary Question last week, while GIC's investments have diminished in value just like other institutional investors', it has fallen by much

less than the decline in global equity markets indices of 42% for 2008.

B14. As for Temasek, which has more than two third of investments in Singapore and Asian countries, its net portfolio value at 30 November 2008 was S\$127 billion, or a decline of about 31% from the value of S\$185 billion as at 31 March 2008. This is less than, the corresponding declines in the MSCI (Singapore) of 44% and the MSCI (Asia ex Japan) of 45%, both in Singapore dollar terms over the same period.

B15. Sir, let me now make two key points regarding the performance of GIC and Temasek – first, what the current downturn implies for GIC and Temasek as long-term investors; and second, the impact of swings in the value of reserves on funds available for the Budget.

#### Perspective of a Long-term Investor

B16. Temasek is a long-term equity investor and GIC is a long-term diversified investor. This is not the first major decline in markets that they have seen, and will certainly not be their last.

B17. Sir, the last 20-year period to date has had its fair share of boom and bust. For example, in 1998 at the depth of the Asian Financial Crisis, the year-on-year decline in the STI index was at one point 56%. During the dot com bust of 2000/2001, the fall in MSCI (World) index was around 30% year-on-year. In all these situations, GIC and Temasek experienced significant reductions in asset values. In spite of these market gyrations including the

current downturn, for the 20-year period to late 2008, Temasek had achieved annualised returns of about 13%. GIC, which has a diversified and more conservative portfolio, has also had creditable returns over the 20-year period. GIC would release its 20-year performance ending March each year. To recap, as at March 2008, the 20-year average return was 5.8% in nominal Singapore dollar terms. The figure for March 2009 would have fallen as a result of the decline in 2008, but will not be sharply down. Temasek and GIC are long term investors, and should be evaluated as such.

B18. GIC and Temasek have the ability and resources to weather the ups and downs, over multiple economic and market cycles. They do not have to sell in panic in a market downturn and are in fact in an advantageous position to invest in good quality assets at prices that are attractive from a long-term perspective during a downturn. The Government is confident that they will continue to deliver good long term returns within the risk limits set.

Impact of Changes in Value of Reserves on the Government Budget

B19. Sir, now let me move on the impact of changes in value of reserves on the Government budget. There is a common misconception that the diminution in value or capital losses on our reserves mean a similar depletion of funds for Government spending.

B20. When the markets boom, and capital values rise, this does not lead to a surge in funds available for Government spending. Likewise, the drop in capital values owing to a market downturn does not mean a large decline in funds available for Government spending, as Mdm Ho, Mr Liang, Ms Sylvia Lim and Mr Inderjit Singh may have feared.

B21. The amount which the Government may spend under the Net Investment Returns (NIR) framework incorporates the expected annual returns over a 20-year horizon for assets invested by GIC and MAS, not the actual year-to-year returns. By design, this reduces the volatility introduced to the Government's Budget from fluctuations in the NIR contribution although it does not eliminate it entirely. As a result of the downturn, the value of the asset base would invariably be smaller. However, it does not mean that NIR would fall by the same magnitude as the reduction in asset values. This is because the asset values are smoothed over the years, precisely so as to avoid volatility in NIR - in other words, to avoid a boom-bust pattern in Government spending as a result of swings in asset markets. This is similar to the methods employed by several other major endowments.

B22. Sir, it is too premature to indicate the quantum of the investment returns that can be taken into the Budget for the next few years, taking into account the value of the asset base. As the Minister for Finance mentioned during the Budget Debate, the Government is confident that the prudent management of our reserves – as a long-term investor in the global markets – will



continue to grow our reserves, and yield us a steady stream of Net Investment Returns Contribution over time.

B23. On the issue of liquidity, I would like to assure Mr Inderjit Singh and Ms Sylvia Lim that the Government has studied the issue of liquidity before embarking on the NIR framework. Realised capital gains, dividends and interest payment from our investment entities are but one source of liquid funds for spending. Besides our usual revenue streams, our diversified portfolio of investments includes substantial holdings in cash and highly liquid fixed income instruments, which we can tap on for our liquidity needs.

B24. Mr Inderjit Singh has also asked how the long-term expected real rates of return have been worked out in the first year. The process has been thorough and rigorous. The Boards of MAS and GIC have certified to the Government the expected rates of return to be applied on their respective assets, based on established methodologies in the industry and taking into consideration the latest investment outlook. The Government has studied this carefully and agreed with the Boards' recommendations, and has proposed these rates to the President. The President, after consulting the Council of Presidential Advisers (CPA), has concurred with the proposed rates.

B25. Mr Inderjit Singh asked how the economic crisis has affected the funds managed by Statutory Boards. Let me just clarify that the Government does not rely on returns from Statutory Boards for expenditure. However, Statutory Boards are allowed to accumulate surpluses from operational savings to serve as

working capital as well as funds for capital expenditure. The bulk of these retained surpluses are placed as fixed deposits. Consistent with their cashflow needs, Statutory Boards have on average less than 10% of their exposure to equity markets.

#### **B(IV) Role of Temasek and GLCs**

B26. During the Budget Debate, Mr Zaqy Mohamad has suggested that the Government should have influence over the decisions of Government-linked companies that impact our social compact. Mr Inderjit Singh had also suggested that Temasek could be tasked to rescue local companies and re-focus on Singapore.

B27. We have to maintain a clear and consistent mandate for Temasek. Temasek's investments are made on a purely commercial basis. For the Government to micro-manage or direct Temasek or its investee companies to invest so as to fulfil some non-commercial objective would detract from the focus on maximising shareholder returns. This would also impose unfair obligations on the respective Boards of Directors, who have the fiduciary duty to act in the companies' interest.

B28. Mr Inderjit Singh suggested during the Budget Debate that Temasek could be tasked to rescue local companies and re-focus on Singapore. Members, including Mr Inderjit Singh himself, will remember that repeated calls have been made in the past that, as a matter of principle, Government should reduce its involvement in business and divest its stakes in local companies. We did not

agree then. It was our position then, and it remains so that Temasek will continue to own shares or even increase its shareholding in local companies as long as it makes commercial sense and only divest those that are no longer relevant to its mission.

B29. It is unwise for the Government to alter the philosophy regarding investments by Temasek and its investee companies simply in response to fluctuating market conditions or other temporary factors. As a long-term investor, Temasek would require assurance in the constancy of policies which would impact its investment strategy and credibility in the markets.

B30. Temasek and its investee companies should therefore continue to operate commercially, without interference from the Government. If Temasek is asked to undertake a national agenda, it would in fact validate some of the concerns over Sovereign Wealth Funds having political objectives, and may ultimately impede Temasek's ability to participate in investments internationally. However, this does not preclude Temasek nor its companies from making their own decisions to increase their exposure locally where there are attractive opportunities. In fact, from time to time, Temasek has made new investments in Singapore.

## **C. Whole of Government (WOG) Performance**

### **C(I) Whole of Government (WOG) Performance**

C1. Even as the Government focuses on assuring funding from investment income, it is just as important for us to monitor the public sector's performance at the whole of government level for fiscal prudence over expenditure. At the same time, we need to take a proactive approach to enhancing our service delivery to citizens and businesses.

C2. The performance of the public sector as a whole is becoming increasingly important as issues become more intertwined and complex. What one ministry or agency does could enhance or negate what another does. It is in this context that I would like to address some Members' views concerning the performance of the public sector.

C3. Mr Inderjit Singh and Mr Seah Kian Peng have commented on the need to review the performance of ministries. MOF has been working with Ministries to move towards reporting outcome-oriented indicators. This will enable MOF to see how well Ministries' key programmes are doing, and whether the identified objectives are aligned with national priorities.

C4. MOF has been engaging Ministries to identify key strategic outcomes that the Government desires and which Ministries would share. These strategic outcomes have been set out clearly in a Whole of Government Strategy Map.

C5. As a next step, we will work on how clusters of ministries and agencies, that contribute to or are influenced by the various strategic outcomes, can better optimise their work on the whole of government basis.

C6. MOF intends to introduce a Singapore Public Sector Annual Report (SPAR) in 2010, which would provide an overview of how well the public sector would be moving towards the identified strategic outcomes across the key sectors to be shared and achieved by the different Ministries.

C7. The strategic outcomes at the Whole of Government level to be tracked in this Annual Report would influence the key outcomes and objectives of all ministries and departments. Hence this Annual Report would encapsulate the basis for cascading the high-level outcomes and targets down to departmental, unit and individual levels. Such a report would also be useful to the identification of trends and issues that need focus or resolution vis-à-vis the strategic outcomes over time.

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### **C(II) Effective Service Delivery in Public Sector**

C8. Let me next move on to talk about how the Government will continue to ensure effective service delivery to the public and businesses, which is a key thrust. I thank Ms Jessica Tan for her comments on this.

C9. One of the key delivery programmes is the iGov2010 Master Plan, which is a public sector wide effort spearheaded by MOF that enables us to harness innovation and technology to bring about an Integrated Government (iGov) that better meets the needs of the public. Almost all government services are now available online, 24/7, and are easy to use, responsive and integrated. Members would be familiar with the following examples:

- (a) Taxpayers would have appreciated the ease at filing their tax returns, including the recently introduced No-Filing Service. Close to half a million taxpayers will benefit from the No-Filing Service for Year of Assessment (YA) 2009.
- (b) CPF members can readily obtain their account balances, transaction and contribution history at the click of a mouse, using personalisation features at myCPF portal.
- (c) Businesses can access government services online through one-stop portals. For instance, ACRA's BizFile system enables the public to register a new business or incorporate a company in 15 minutes.
- (d) More recently, the Government has introduced the Unique Entity Numbers to standardize identification numbers used by some 52 government agencies. Feedback has so far been positive.

C10. That's not all. The Government will continue to leverage on technology to further enhance access to government e-services in an integrated manner. For instance, Web-on-the-go will put some 40 government e-services onto a one-stop menu on mobile phones; making it easy and convenient for transactions on-the-move. These include enquiry of Employment Pass and Work Permit status for businesses, Jobslite portal for unemployed workers and information on weather and traffic for the general public.

C11. The Government is mindful that a small segment of the society may be less internet-savvy or may not have Internet access. Hence, we have introduced CitizenConnect Centres to complement the online service channels. There are currently 28 such centres, conveniently located across the island, and serving more than 100,000 individuals each year.

C12. Sir, MOF has a framework to identify key areas for integration and provides funding incentive to agencies to share facilities and processes for areas like HR & Finance systems for government agencies. So far, 11 Statutory Boards have come together to share a system that will allow them to reap economies of scale through standardization as well as a sharing of best practices. The Civil Service College also provides courses to equip public officers with the right skills and mindset to bring about inter-agency collaboration.

C13. To do our jobs better, government agencies also regularly obtain feedback on their service delivery, as suggested by Mr

Seah Kian Peng. These agency-level channels include emails, direct correspondence, service counters and hotlines.

C14. To measure the effectiveness of public service delivery, we conduct an annual customer satisfaction survey. In 2008, 9 in 10 respondents were satisfied with the overall level of our e-Services and would recommend others to transact with the Government through e-services. In terms of integration within government, 16 multi-agency projects were implemented in FY2006 - FY2007, with a total projected savings of \$21 million. Several new projects are in progress and will reap more savings when completed.

C15. There are also more organised feedback platforms, such as :

(a) The Pro-Enterprise Panel (PEP) which works closely with the business community to foster a conducive business environment.

(b) REACH (Reaching Everyone for Active Citizenry @ Home) uses a broad array of both mainstream and new media channels to engage citizens from all walks of life.

C16. Our efforts at public service delivery have not gone unnoticed. Singapore was ranked the world leader in customer service maturity in the 2007 Accenture study on Leadership in Customer Service. Singapore was also ranked tops in terms of ease of doing business in the World Bank 2009 report.



## **D. Maintaining Fiscal Prudence While Helping Businesses**

D1. Internally within government, we need to continue maintaining fiscal prudence over expenditure even as we assist businesses during this downturn.

D2. Our philosophy of fiscal prudence has enabled us to build up our reserves in years of feast so as to be able to respond speedily to any crisis, such as the one we are experiencing right now. We therefore agree with Mr Inderjit Singh's view that we need to be mindful not to overspend even as we have an expansionary budget. I would like to clarify that we have taken the opportunity offered by this downturn to bring forward worthy government construction projects, and to advance our manpower hiring plans. The needs of these initiatives are clear and already planned for to build up our capacity and invest in new areas of need, and not to boost demand for its own sake, as that would be wasteful.

### **D(I) Maintaining Fiscal Prudence**

D3. The Government has in place a number of mechanisms to ensure it stays lean and efficient.

D4. Firstly, there are budgetary mechanisms in place to ensure effective and efficient allocation of resources within Government. MOF scrutinises the project requirements of major capital projects to assess worthiness of the projects and ensure that they adhere to appropriate cost norms. The cashflow for these projects are

budgeted and planned for on a multi-year basis. Ministries decide on the phasing of projects based on the availability of budget and on the benefits and the need for the projects. MOF monitors the progress of the ongoing projects annually. Value for Money reviews are also carried out periodically.

D5. Secondly, we will maintain the Manpower Management Framework to ensure that Government headcount does not grow faster than the growth in the resident labour force over the medium term. The advancing of hiring plans will not lead to long-term over-manning of public sector agencies as these are intended for projects that were held back due to insufficient manpower resources, and to build up additional and new capabilities in areas such as healthcare and education.

D6. During the Budget Debate, Dr Loo Choon Yong has suggested that these new jobs be outsourced. Under the Best-sourcing framework, functions that are assessed to be strategic in nature will be performed within the government agencies, while non-strategic functions would be market-tested, and outsourced to external service providers if doing so provides better value for money for Government.

D7. As a consumer of goods and services, we agree with Madam Halimah Yacob's view that the Government should always use its resources efficiently. Over the years, we have introduced initiatives to streamline government processes and minimize wastage across the public sector. Let me recount a few:

- i) Economy Drive (ED) and Cut-Waste Panel (CWP): Since 2003, ED has helped instill a mindset in public officers to use resources prudently while CWP has provided a channel for the public to give their feedback on government spending. For example, as Madam Halimah would be pleased to know, Government agencies were reminded in October 2008 to produce their annual reports in a cost-effective manner.
  
- ii) Land and Building Resources: All Ministries and agencies are responsible for the effective management of land and buildings allocated to them. MOF and Minlaw have put in place various measures to ensure this, such as the Office Space Management Framework.
  
- iii) Demand Aggregation (DA): The DA initiative pools together similar purchases across agencies for economies of scale, for example in the supply of office furniture.

D8. Mr Baey Yam Keng's suggestion of "pseudo dollars" during the Budget Debate is a noteworthy one. We have in fact instituted such a practice of encouraging agencies to share and optimise the use of their resources, for example, co-locating community centres and libraries. To facilitate this, we also allow government agencies to retain the revenue for such transactions through an inter-department charging mechanism, and this impacts their budgets in real terms.

**D(II) Leveraging on Government Procurement to help businesses**

D9. Sir, Mr Inderjit Singh asked whether Government can do more to provide more business opportunities for local companies, especially the SMEs, through its procurement activities.

D10. The Singapore Government procurement regime is an open one, based on the principles of fairness, transparency and value-for-money. Consistent with Singapore's commitment to the WTO rules, we do not discriminate nor favour any supplier. Tenders are therefore awarded on the basis of greatest benefits to cost.

D11. To help local companies, the solution is not to tilt the playing field by diverting purchases to local enterprises as this may in fact stymie their growth over time.

D12. To enable SMEs to participate easily in government tenders, MOF removed the track record requirements for registration as a government supplier in GeBIZ back in November 2004. Further, MOF has been providing the first GeBIZ account free of charge since 2005. To assist our local enterprises in this current downturn, Government is lowering business costs through the Jobs Credit and enhanced access to bank lending with the Special Risk-sharing Initiative.

D13. In addition, the Government has also undertaken measures along two fronts:

- i) Providing pipeline of public sector demand for goods and services and enabling companies to build capacity; and
- ii) Helping businesses with their cashflow.

*i) Providing pipeline of public sector demand to help build capacity*

D14. As announced, some \$18 billion worth of construction contracts will be awarded this year. Some \$1.3 billion worth of smaller construction contracts (each worth up to \$50 million), will be advanced.

D15. Construction projects are by nature big ticket items. Nonetheless, public sector procurement of IT and other goods and services have also exceeded \$3.5 billion annually since FY2006. This trend should continue in FY2009, hence providing many business opportunities for our companies.

D16. The Public Service Innovation Framework (PSIF) has been in place since 2008 to provide seed funding for R&D in areas or with applications that could offer innovative solutions to the public sector. We are also allocating \$70 million to catalyse close collaboration with the private sector through Call-For-Collaborations on the development of new capabilities.

*ii) Helping businesses with cashflow*

D17. In addition to several measures announced in the Budget to enhance business cashflow, Government as a consumer of goods and services, is also doing its part to improve the suppliers' cashflow by making prompt and more frequent payments to

suppliers, and by lowering the amount of security deposits for all tenders.

### **D(III) Other Initiatives to Help Businesses**

D18. Mr Inderjit Singh also asked about the reassessment of property values and the review of rental rates for commercial and industrial properties, which will help to reduce business costs.

D19. The Annual Value (AV) of a property is assessed based on the prevailing market rentals for comparable properties. For 2009, IRAS will prioritise re-assessment for the properties that have seen the largest rental declines and where the market rentals have dropped below their AVs. More details will be given in due course.

D20. With regards to rental rates, as a policy, MOF requires all government premises to be rented out at market rates. This is to avoid distorting the property market. Rentals are therefore set based on prevailing market rates assessed by qualified valuers engaged by the relevant government agency at the grant of a new tenancy, renewal of a tenancy or at pre-determined points in a lease contract. MOF does not intervene in the setting of these market rates.

## **E. Enhancing our Tax Regime to enhance competitiveness and support environment and social objectives**

E1. Sir, let me move now to the role of our tax policies in enhancing our competitiveness. I welcome the suggestions from Members on how we can further enhance the competitiveness of our tax regime.

E2. I will address the specific points made by Members.

### **Keeping our Corporate Tax Regime Competitive**

#### *j) Corporate Income Tax*

E3. Mr Inderjit Singh considers our corporate tax rate cut of 1% point from YA2010 a good move but is concerned that some countries may perceive Singapore as a tax haven.

E4. Sir, Singapore is certainly not a tax haven. Singapore is a low-tax – rather than a “no-tax” – jurisdiction. At 17%, Singapore’s corporate tax rate is competitive, but by no means among the lowest in the world. For the record, Bulgaria’s tax rate is 10%; Ireland’s, 12.5%; and Romania’s, 16%.

E5. Tax havens are typically dependent on “mail-box” companies. Singapore is, on the other hand, a substantive, knowledge-based economy in both manufacturing and services. Companies, both foreign and local, run real operations in

Singapore that compete globally on the basis of value. Any objective observer knows that this is not a mail-box economy.

E6. Singapore also enjoys a good reputation as a trusted business and financial hub, with a strong rule of law. We do not stand for abuse of our laws to shelter criminals, including those engaged in offshore tax offences.

E7. Unlike tax havens, we have an extensive network of 60 Avoidance of Double-Taxation Agreements (DTAs), and through this network, Singapore is able to provide assistance to foreign investigations of tax offences.

E8. We regularly review our regime to ensure that Singapore remains a trusted financial centre and a responsible low-tax jurisdiction. One area currently being reviewed is the standard of the exchange of information for tax treaties.

E9. The Organisation of Economic Cooperation and Development (OECD) established a standard in 2005 for transparency and effective exchange of tax information. This standard has just been endorsed in October 2008, by the UN Committee of Experts on International Cooperation in Tax Matters.

E10. Sir, Singapore agrees with the principles behind the OECD standard, which will serve to help governments address offshore tax offences in a globalised world. We will be engaging the OECD and the industry to study this OECD standard with a view to endorsing it.



*ii) Tax Incentives to Attract R&D and IP management*

E11. Next, let me move on to Mr Gautam Banerjee's suggestions. We agree fully with Mr Banerjee's suggestion on the need to continue to encourage more R&D activities in Singapore.

E12. The Government has committed significant resources to R&D and innovation over the years. In Budget 2008, we introduced several new tax measures to incentivise companies to do more R&D in Singapore, including the 150% deduction for R&D expenditure and R&D tax allowance. All these contribute to making Singapore one of the most competitive tax jurisdictions for R&D.

E13. We also revised the definition of R&D after careful study of major jurisdictions and several rounds of industry discussion and public consultation. In fact we have a lower bar for activities that qualify as R&D for tax purpose; for example, the UK and Australia require an advancement in the body of scientific or technological knowledge while we only require novelty or technical risk.

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E14. However, we should not set the threshold too low to include activities that businesses would ordinarily do to improve their products and processes. For example, if someone were to change the colour of ties that Mr Banerjee prefers, that process cannot be considered R&D, even if Mr Banerjee were to buy more ties. But if there is a novel way of producing coloured ties arising from systematic investigation and experimentation, that would be a different matter.

E15. Nonetheless, these tax measures are new and we will monitor them and evaluate their effectiveness. We certainly welcome feedback and suggestions on how to improve the measures.

E16. Sir, we also agree with Mr Banerjee that we should promote IP management. We currently provide incentives for IP management activities carried out as part of a company's manufacturing trade or HQ services under the Development and Expansion Incentive. In fact, our low corporate tax rate also makes it attractive for companies to operate here and earn locally-sourced income including royalties. We agree with his suggestion for negotiating lower withholding taxes on royalties in our tax treaties.

E17. Liberalizing the foreign tax credit regime may well enhance our attraction as a base to generate royalties from overseas. However, we need to study this further to weighing the incremental benefits against a potential erosion of our tax base, if say we allow the pooling of foreign tax credits or a carry forward of unutilized credits. Given that our corporate tax rate is more competitive than most jurisdictions, most foreign-sourced royalties would suffer little or no further taxation here upon remittance.

iii) Publication of rulings

E18. He has suggested we publish advance rulings to make our tax administration more transparent. Many of our rulings are for

transactions that are unique to taxpayers' circumstances and there are also business confidentiality concerns. Hence it would not be tenable for IRAS to publish the advance rulings. Having said that, where ruling requests have a wider tax impact, IRAS will publish electronic tax guides on them to further improve the transparency of our tax administration.

*iv) Review and monitoring of tax incentives*

E19. Sir, on the enhanced loss carry-back relief that he mentioned during Budget Debate, this is a conscious policy decision because the Partial Tax Exemption is a **final** exemption to reduce the effective tax rate for smaller companies and not a tax deduction.

**F. Vehicle Taxes**

F1. Sir, let me now address the questions on vehicle-related taxes. We have a mixture of upfront ownership restraint and usage-related measures to ensure free-flowing traffic and to support environmental outcomes.

F2. Mr Edwin Khew has suggested that we should continue the CNG tax concessions till 2015. CNG vehicles have been exempted from special tax and granted green vehicle rebates (GVR) since their introduction in 2002, taking into account their cleaner PM2.5 (particulate matter) emissions than diesel cars. To develop the CNG refuelling infrastructure, Members will also

remember the Government has also co-funded start-up costs of three refueling stations.

F3. These measures were however designed to help kick start the introduction of the then newer-type of vehicle and are not meant to be permanent. To date, we have more than 3,000 CNG vehicles on our roads and we are expecting another two refueling stations by the end of the year. Going forward, we will gradually reduce the CNG tax concessions to ensure that the adoption of CNG vehicles is sustainable on its own.

F4. Fuel taxes serve, first and foremost, to price in vehicle usage. There is hence no reason to exempt CNG cars from fuel tax permanently. However, we have also taken into account the difference between CNG cars and other cars with respect to the environment. While CNG cars are cleaner than diesel cars with respect to PM emissions, they are not significantly cleaner than petrol cars. The CNG duty rate to be introduced in 2012 of \$0.20 per kg is significantly below the \$0.53 per kg. MOF will continue to study with MEWR, MOT and MTI the appropriate long-term CNG duty rate, which should be benchmarked against the prevailing petrol duty rate, taking into account the relative environmental impact of these two fuels.

F5. To give CNG car owners sufficient notice, we extended the special tax exemption for a further two years before it is removed in 2012, together with the GVR for CNG vehicles.

## **G. Third Sector**

G1. Finally on Ms Penny Low's proposals on social enterprises. Sir, Businesses and social enterprises are distinct from charities and must be fully self-sufficient and profitable. They should not enjoy the benefits of tax exemption as charities, or be allowed to solicit tax deductible donations like IPCs. Rather, social enterprises should be subject to the same tax treatment as for-profit enterprises.

G2. New legal structures have been introduced in the US and UK for the social enterprise sector. However, the key features of the overseas models can already be achieved within our spectrum of business vehicles, ranging from a CLG to a limited liability partnership.

## **H. Conclusion**

H1. To conclude, we have been prudent in the management and utilisation of our resources. As a result, we have accumulated significant savings, despite the lack of natural advantages of bestowed natural resources and other conditions. We have managed the investment of these savings well, and grown this nest egg. It behoves us to continue with this discipline. We will also continue improving in the efficiency and effectiveness of service delivery, tapping on the private and people sector to do better. Finally, we have put in place a system to track how our public service is keeping pace with trends and meeting desired strategic outcomes.