

SINGAPORE GOVERNMENT PRESS RELEASE

PUBLICITY DIVISION · MINISTRY OF CULTURE · CITY HALL SINGAPORE 6

The statement by Mr Hon Sui Sen, Minister for Finance,
in Parliament on 27 February 1978.

1978 BUDGET STATEMENT

Mr Speaker, Sir,

I beg to move

"That Parliament approves the financial policy of the
Government for the financial year 1st April 1978 to 31st March 1979".

Sir, I have distributed in advance to Honourable Members of
the House my "Economic Survey of Singapore 1977". Before going on
to speak of the financial policy for the coming year, I would like
to sum up for Members our economic performance last year and set out
our economic objectives for the coming year.

Singapore's Economy in 1977

1977 was a difficult year. World economic recovery slowed
down. The Gross National Product of the 7 major countries of the
Organisation for Economic Cooperation and Development (OECD) grew by
only 4 per cent, much lower than the 5.6 per cent growth achieved in
1976. World trade grew at only 6 per cent, half the pace of 1976.
Weak economic growth and the easing of commodity prices helped to
stabilise consumer prices. The rate of inflation in the OECD
countries stabilised at around 7.25 per cent.

The Singapore economy grew by 7.8 per cent, slightly higher than the 7 per cent in 1976, and within our growth target of 6 to 8 per cent. At current prices, growth was 10 per cent. Growth was achieved with relative price stability. The GDP deflator rose by 2 per cent compared with 1.8 per cent in 1976. Owing largely to rising food prices, the Consumer Price Index rose by 3.2 per cent against a drop of 1.9 per cent in 1976.

Growth was led primarily by commerce and transportation which accounted for 64 per cent of the increase of GDP. Manufacturing grew at a steady pace, contributing 20 per cent to GDP growth. Most of the 33.5 thousand new jobs were found in the commerce and manufacturing sectors which employed 11,700 and 11,500 more persons respectively in 1977. As a result, unemployment fell to 3.9 per cent.

Singapore's external trade climbed by 18 per cent to reach \$45.6 billion. As exports increased faster than imports, the trade deficit narrowed by \$700 million to \$5.4 billion. Manufacturing output expanded by 15 per cent to \$17.6 billion. As a result, value added by industries grew by 8 per cent in real terms. Growth was accounted for largely by the electronics and petroleum industries. There was some recovery in the oil rig equipment industry. Shipbuilding slackened further. However, shiprepairing increased by 10 per cent.

Visitor arrivals increased by 14 per cent to 1.5 million, helping the tourist sector to maintain its consistently good rate of growth. International banking continued to expand in Singapore with assets of the Asian Currency Units reaching S\$49 billion. Singapore's balance of payments continued to be in surplus by \$717 million due mainly to sustained capital inflows and the narrowing of the trade deficit.

That Singapore did well again in difficult international economic conditions shows the greater resilience of our more diversified economy.

Prospects for 1978

World economic recovery which began in late 1976 was short-lived, turning sluggish from the second quarter of 1977. Consumer spending was restrained. With capacity idle, new investment in plant and machinery was weak. Unless the United States, West Germany and Japan adopt expansionary policies, but without rekindling high inflation, a fine but difficult balance to achieve, the world economy is not expected to improve in 1978. World trade has been forecast to expand at an even slower rate than the 6 per cent of 1977. If unemployment continues to rise in the developed countries, the tendency towards protectionism will increase. This would make it more difficult for us to export. Our own employment situation would be affected. We must therefore be prepared to meet the challenges of what may turn out to be a difficult year. It would be optimistic

for Singapore to expect real growth at more than the 7.8 per cent in 1977 if the OECD countries achieve a real growth of only 4 per cent as they expect.

Problems and Outlook for the next 2 - 3 Years

Last year in reviewing our Economic Strategy Programme for the 1970's, I said that our strategy had laid a sound foundation for sustained growth. This remains true. The broad thrust of our strategy to diversify our economic activities, to upgrade our industries to higher skill levels and to develop all kinds of economic and professional services in Singapore is in the right direction. However, we shall have to give specific emphasis to particular elements of our strategy in the next few years.

Because of protectionist tendencies against the cheaper lower-skilled mass consumer products, upgrading of our industries will have to be accelerated. The prospect of increasing tariffs and non-tariff barriers being imposed against the influx of such products into the industrialised countries is all too real. Already we see this happening to textiles and the cheaper electronics. If Singapore is not to be adversely affected in the future we shall have to develop our industrial sectors to those making products that are less sensitive. Such products will be those where there is an inherent advantage for production to be carried out in Singapore. Examples of such products will be those in industrial electronics and telecommunication equipment, precision engineering, aircraft

components, medical instruments and fine chemicals. The EDB in the coming year will be embarking on an intensive drive to promote such industrial sectors.

Notwithstanding our concerted investment promotion drive, new investments in Singapore from the major industrialised countries will perhaps be increasingly difficult to attract. President Carter's proposal to end tax deferral for US companies abroad if approved by the American Congress is likely to seriously reduce future US investments in Singapore. We feel that tax deferral - of incomes earned abroad until they are returned as dividends to the US - should be preserved. US investments overseas help US companies to maintain their competitiveness in world markets and do not replace US investments or US jobs in the United States. The American Business Council in Singapore will no doubt through their members' parent companies press in Washington, I hope successfully, for the retention of tax deferral. If it will be helpful, the Singapore Government will continue to make representations for retaining tax deferral either in its present form, or alternatively, since this has been indicated as more acceptable to the US Administration, in the context of a bilateral treaty. With less uncertainties, Japan, which is currently the second largest investor after the United States in Singapore is likely to be a more promising source of investment in the next few years. If it becomes more difficult to attract entirely new foreign investment, we shall have to concentrate our efforts on encouraging the expansion of existing industries in Singapore. Industries which are already here and know us well have

continued to expand. In 1977, 48 per cent of investment commitments were accounted for by expansion of existing industries.

One problem which will pose a threat to our economic growth in the next few years is the tendency to re-classify us as a developed country and thereby deprive us of the assistance accorded to developing countries. This has begun with the IMF efforts to disqualify us from receiving our share of the proceeds of IMF gold sales, on the basis of our exceeding arbitrary GNP levels. We have no illusions about our status. We have not reached the status of a developed country. We are now trying to convince the IMF of this. Though it has been said often, it bears repeating that we are essentially a city state with no natural resources to speak of and with no agricultural sector, unlike most other countries, to produce our requirements for bare essential living. The markets and much of the technology and management expertise for our products are provided by multinational companies and foreign personnel. Industrial development in Singapore is recent and still very young. Our own industrial and financial sectors are just beginning to take root. The use of arbitrary GNP levels therefore shows a lack of understanding of the narrowness and unevenness of Singapore's economic structure, making it especially vulnerable to the vagaries of climate settling the size of world harvests and determining our food prices and fluctuations in demand of the industrialised countries like Japan which uses Singapore's output as a marginal topper-up of her needs. Though the IMF has stated that its list of countries eligible for sharing of gold profits was not intended as a re-classification of developed and developing countries, other institutions and countries may well consider it a precedent.

In retrospect, I can fairly describe Singapore's evolution since 1960, when the U.N. team on Economic Development led by Dr Winsemius first studied us, as the prototype of economic development promoted by international institutions such as the World Bank, IMF and GATT. We have followed policies which developed countries have urged all developing countries to pursue, that is, to start with simple manufactures (which the developed countries helped by opening markets via GSP) and then to upgrade our economic skills and go on to more skill intensive manufacture. Eventually the hope is that we, like the industrialised countries, can go on to capital intensive, high technology industries. However, this process of development takes time. We are the first to realise the immaturity of our industrial workforce and the lack of depth of our supporting industries. We need a transitional period during which the continued assistance of developed countries is essential. Another 10-15 years is a realistic time frame for us to be able to do without it.

We are now in an intermediate stage of development and it would require at least 10-15 more years to achieve some measure of economic maturity in our skilled, technical and managerial workforce. By then the world's developed industrial nations would have gone on to higher levels of sophisticated technology. We may never catch up with the very advanced industrial societies. However, if at this crucial stage of our progress, developed countries and international institutions accord us understanding and continuing concessions as a developing country, then we can well become a demonstrable model of development for the third world, and not be strangled at birth by arbitrary yardsticks such as GNP per capita.

In the field of trade, the prospect for increased world trade in the next few years is unpromising. There is a great danger that the principle of free trade and international division of labour which have served the world so well and effectively will now be replaced by new short-sighted policies such as organised marketing arrangements which are no more than polite excuses to protect inefficient industries. However, if the much delayed Multilateral Trade Negotiations currently going on in Geneva result in extensive reductions of tariff and non-tariff barriers, there could be hope for increased trade flows. On a regional level, we will press on with encouraging increased intra-ASEAN trade through trade liberalisation among ASEAN countries.

I would now like to review in more specific detail the policies which we shall be pursuing in 1978.

Industrial Development

Despite difficult world conditions, the EDB's promotion efforts in 1977 have yielded satisfactory results. Investment commitments for 1977 totalled \$431 million representing an increase of 18 per cent over 1976. Whilst the US continues to be the largest source of investment commitments through expansion of existing industries, Japan for the first time became the largest source of new projects. A significant event during the year was the incorporation of Petrochemical Corporation of Singapore (Private) Limited to serve as the nucleus of the petrochemical project.

The main thrust of industrial promotion in 1978 as I have said earlier, will be the promotion of industries making products less sensitive to the industrialised nations. While the large multinational companies will continue to be very welcome in Singapore, attention will be given to attracting the medium sized industries to broaden and deepen our industrial base. In this connection, while Singapore remains an attractive location for foreign investments in manufacturing industries, competition for such investments is becoming keener.

I therefore propose to improve upon our present incentives in the Economic Expansion Incentives Act by introducing an investment credit scheme. Under this scheme, a company carrying out an approved manufacturing or related technical servicing project will be allowed an investment credit in respect of its new fixed investment on plant, machinery and factory building for such approved project. The investment credit will, depending on the merits of the project, be 10 to 50 per cent of such capital expenditure. The credit can be set-off against the profits of the company for the year in which the new capital expenditure is incurred. These profits can be derived from the approved project or other operations of the company. If there is insufficient profit in that year to absorb the entire credit, the balance of the credit can be carried forward to be set-off against future profits of the enterprise until the credit has been fully used up. The profits which are thereby exempted from tax can be distributed to the shareholders as tax-exempt dividends.

The scheme is meant to complement the existing pioneer status and export incentive schemes which are less beneficial to projects unable to generate profits in the initial years of operation. More important, we hope that this scheme will also provide the incentive for existing local and foreign industries to expand. In particular, the scheme will encourage existing profitable trading or servicing companies to diversify or further diversify their operations into manufacturing.

There will be continuing assistance to industries by established schemes such as the Export Credit Insurance Scheme, the Ship Financing Scheme, the Small Industries Finance Scheme and the Capital Assistance Scheme. In addition, a Product Development Assistance Scheme has recently been introduced and will be further refined to help manufacturers develop new products and improve upon existing ones.

Singapore's industrial history is relatively short. We have yet to see any substantial development of local entrepreneurial ability in the manufacturing sector. In the current year, the EDB will modify its Capital Assistance Scheme to help young Singapore managers who have the necessary skills and expertise but lack the financial resources to strike out into industry. Under the scheme, the EDB will be prepared to provide loans to an amount which may even exceed the funds risked by the entrepreneur.

Trade Development

Having established viable modern industries, we must ensure that both in traditional and new markets, our local manufacturers will be able to maintain and increase their exports. The area of emphasis in our trade development policies therefore remains in export promotion. In 1977, Singapore participated in 6 international trade fairs and 7 trade missions overseas to explore and penetrate new markets. These efforts enabled some 80 Singapore companies to secure about \$74 million worth of orders. To sharpen the marketing skill and expertise of Singapore manufacturers, 12 export promotion training courses were also conducted by the Department of Trade. In 1978, such activities will be further increased.

The double tax deduction benefits currently given to participation in trade fairs and trade missions have been of assistance to our exporters. In order to encourage them to undertake direct and more intensive export promotional activities, the double tax deduction benefits will now be extended to include the operational expenses in the first two years incurred by local exporters in the setting up of permanent overseas offices.

Trade promotion has so far been carried out as an ordinary function of the Department of Trade. There have been calls on the Government to set up a Trade Development Council for export promotion. Consultations are now being held with the Chambers of Commerce and the Singapore Manufacturers' Association to work out proposals for a properly constituted and well managed Council with adequate financing.

Services Development

Our services industry has been a major growth sector, less vulnerable than other sectors to protectionistic measures. In the development of our financial services particularly, we have made considerable progress in the last few years. During 1977, several new measures to further develop Singapore as a financial centre were implemented. These included the extension of the 10 per cent concessionary tax on income from Asian Dollar loans to non-residents to cover all offshore income other than foreign exchange profits and transactions with domestic banking units and residents. Exchange control regulations were further liberalised while brokerage rates were reduced to encourage secondary trading in government securities. The US dollar negotiable certificate of deposit was introduced to add greater depth to the Asian Dollar Market. In 1978, attention will be directed towards the improvement of the secondary market in government securities, the establishment of a gold futures exchange and improvement of the cheques clearing system.

In the field of insurance, the reduction of tax on reinsurance business from 40 per cent to 10 per cent, which is being implemented with effect from 1978, has encouraged the setting up of new and branch reinsurance companies and should result in a rapid growth of reinsurance business in Singapore.

As for tourism, the industry continues to grow apace. The average hotel occupancy rate rose from 78 per cent to 83 per cent in 1977. Occupancy rates seem likely to remain high in the future though an additional 2,428 hotel rooms will be available by 1980, on the basis of projects approved for construction. Convention business in Singapore also increased, with the number of foreign participants in conventions and exhibitions rising by 11.6 per cent over 1976. To meet future needs, a 4,000-seat convention hall together with exhibition facilities is being set up by the Port of Singapore Authority within its new World Trade Centre building.

It is our intention to promote Singapore as a warehousing and servicing centre. For approved companies, I therefore propose to reduce the company tax rate from 40 per cent to 20 per cent for a period of 5 years from the date of approval. Companies eligible will be those engaged in the regional warehousing and servicing of technical products, provision of technical and consultancy services overseas, export of approved Singapore manufactured products, and offshore trading in non-traditional commodities. To qualify for this scheme, warehousing and servicing companies must make a new investment of \$5 million in fixed assets. Consultancy services must have a minimum annual turnover of \$5 million or a turnover level which would enable them to pay a concessionary tax of \$50,000 a year. Companies which are engaged entirely in the export of approved Singapore manufactured products must have a minimum annual turnover of \$10 million or a turnover level which enables them to pay a concessionary tax of \$100,000.

Companies engaging exclusively in offshore trade in products other than rubber, timber, tin, pepper, petroleum products, palm oil and similar traditional commodities, must have a minimum annual turnover of \$20 million or a turnover which enables them to pay a concessionary tax of \$200,000 a year.

Development of ASEAN Economic Cooperation

Encouraging progress in ASEAN economic cooperation was achieved during the year. With the coming into force in August 1977 of the Agreement on Preferential Trading Arrangements, trade negotiations among ASEAN countries were able to begin in earnest. The first batch of 71 items under the preferential trading arrangements was implemented with effect from 1 January 1978.

Preferences for another 506 items have been agreed for further exchange among ASEAN countries, and await the formal approval of ASEAN Economic Ministers before implementation. Negotiations for more exchanges of preferences are expected to be held on a quarterly basis in 1978. The pace of such negotiations under the ASEAN PTA therefore augurs well for greater economic cooperation in ASEAN in the future.

In regard to the ASEAN industrial projects, there has been some progress since Japan indicated her willingness to extend financial assistance totalling US\$1 billion for these projects. Action in firming up these projects may, however, be expected in 1978.

Manpower Development

Our shortages of professional and technical manpower are being met. Our manpower development must now concentrate on higher quality whether in schools, training centres or factories. In 1977, school-leavers were for the first time, provided with information on job prospects in Singapore to enable them to make informed decisions on careers which would also meet our future manpower needs.

We shall be setting up another training centre with the assistance of the Japanese Government. The centre will provide specialised training in instrumentation, mould-making, electrical and electronics engineering.

Wage Policy

A prudent wage policy providing for realistic, regular and orderly wage increases has been Singapore's formula for building up competitive manufacturing and servicing industries. The 1977 National Wages Council recommendation of full offsetting for all forms of increases in remuneration against the recommended NWC increase guidelines should help to further increase their competitive edge. The NWC has also given due recognition to the importance of productivity improvements by recommending that collective agreements should in future include provisions for

productivity incentive schemes. I hope that management and union in the spirit of increasing national welfare will work out ways this year to implement this recommendation for the benefit of all.

Monetary Policy

Our monetary policy will continue to be the maintenance of a strong and stable currency, and consistent with this, an adequate supply of funds at reasonable interest rates to foster capital investments in productive activities. These policies imply the development of active and sophisticated capital, bond, foreign exchange and money markets and the competitive services of the stock exchange and its brokers, banks, merchant banks, discount houses, money brokers, and other financial institutions.

Concluding Remarks on Economic Policy

In 1977, we had improved growth over the previous year although the world economy fared worse. In view of the forecasts of a further world economic slowdown in 1978, can we repeat our 1977 performance? To achieve this, we must be sufficiently flexible to take advantage of the slightest change in economic conditions in our favour such as the revival of regional oil exploration or the increased demand for oil rigs and offshore drilling equipment. We must be prepared to produce goods and services competitively and responsively to the demands of special or new markets such as those in West Asia or China. In the more protectionistic climate of developed countries, to avoid any

restriction of our exports, we must be ready to acquire new knowledge, learn new skills and accelerate the conversion of our manufactures to products which will not be politically sensitive in developed countries. Working smarter as well as harder, I am confident that as in the past, with close cooperation between Government, management and labour, we shall be able in this, the Year of the Horse, to put on the extra gallop which should enable us to challenge, and even beat, our 1977 growth rate.

The FY 78 Budget

Mr Speaker, Sir, I would now like to turn to the FY 78 Budget.

Major changes have been made to the presentation and format of the Budget documents. In the Expenditure Estimates, the financial and manpower requirements under each Head of Expenditure are classified according to programmes and activities which will be carried out to achieve specific objectives. Changes have also been made to the structure of the Heads of Expenditure. Statutory expenditure items, which were previously shown under a single Head, are now shown under the appropriate programmes. This is to reflect as accurately as is possible the total cost for each programme. Two new Heads, namely, Head X "Pensions" and Head Y "Public Debt" have also been created.

As a consequence of these changes, Ministries will have greater flexibility to reallocate expenditure within each activity

to make the best possible use of the funds to achieve the objectives of the programme. Because there will be greater flexibility, there will be less delays in changing the nature and content of expenditures to meet changed conditions.

The evaluation of performance is an integral part of the new budgetary system but is being left for implementation as a second phase to this system. It is necessary to phase this out because of the nature and complexity of Government activities. Much effort will be required to devise systems of measurement and to refine performance indicators and norms as well as to lay down procedures for evaluation and assessment.

Expenditure Proposals

The total estimated expenditure for FY 78 is \$5,756 million. As in the past few years, about half of this will be spent on development to help accelerate economic recovery. The budgetted development expenditure for FY 78 is \$2,754 million. The main thrust will be on economic services and public housing. Expenditure on economic services will be \$1,185 million or 43 per cent of development expenditure. Of this, \$570 million will be spent on industrial and commercial development (mainly in the form of loans to JTC and industrial and commercial enterprises) and \$386 million on airport and road development. Expenditure on public housing takes up \$911 million or 33 per cent of the development budget.

This large expenditure on development will be made

possible by holding down recurrent expenditure especially on manpower. This will enable a transfer of \$666 million to be made from the Main Estimates to the Development Fund.

Excluding the \$666 million transfer, total recurrent expenditure under the Main Estimates will be \$3,000 million. This is only 9 per cent higher than for FY 77 and is the minimum required to maintain the present level of Government services. Of the increase, \$241 million is for servicing the Public Debt.

The need to hold down manpower cost in line with the policy requiring higher productivity, following the NWC allowances of the last few years, is reflected in a small increase of \$15 million or 1.9 per cent on Expenditure on Manpower. Staff increases have been supported selectively and only in cases where the needs have been clearly demonstrated. Such increases have, by and large, been confined to Ministries and departments with major development programmes under implementation. The net increase in the permanent establishment for FY 78 including those posts created by Establishment Warrants during FY 77 has been kept down to 1,992 posts or 3 per cent of the FY 77 establishment.

Other Operating Expenditure, excluding the Armed Forces expenditure, will increase by \$20.5 million or 8.4 per cent over the FY 77 figure because of larger expenditure on preventive maintenance of Government buildings, roads and properties and the operation of more drug rehabilitation centres.

Grants, Subsidies and Other Transfers, comprising largely grants for the recurrent expenditure of statutory boards and institutions of higher learning, will go up by \$17 million or 5 per cent compared to the current provision. This is largely for annual increments, the consolidation of the NWC allowances into basic salaries and the concomittant increase in CPF contributions.

The allocation of funds is, however, only the first step. The more important step is to get the programme implemented. This depends on the Civil Service which must have adequate and competent personnel. Although there are shortages of officers in a number of Ministries, especially Health, Education and Home Affairs, recruitment is progressing satisfactorily and hopefully should be nearer establishment in the coming year.

Revenue

The revenue we expect, assuming no changes in taxes, is \$3,668 million for FY 78, an increase of 7.1 per cent over the revised estimates of \$3,424 million for FY 77.

Income Tax remains the largest source of revenue and is expected to produce \$1,450 million, 10.9 per cent over the revised revenue of \$1,308 million for FY 77. This rate of increase is, as may be expected, about the rate of growth of the economy at current prices.

The total revenue of \$3,668 million at existing tax rates is sufficient to cover recurrent expenditure, enabling \$666 million to be transferred to the Development Fund.

Notwithstanding this large contribution from the Consolidated Revenue Account, there will still be a deficit of \$1,428 million which will have to be met by borrowings and a drawing down from the Development Fund.

It is expected that new loans, both domestic and foreign, can be issued which should bring in about \$1,500 million, but any shortfall from this amount can be met by an extra drawdown from the Development Fund which is in a healthy state.

TAX CHANGES

Over the last two decades Singapore has followed the path of financial prudence and probity. Annual budgets have been fairly predictable exercises in moderation and restraint. No radical tax changes have been enacted. The success of our policies, evident in the rapid rate of growth of the economy, with relatively low unemployment, relatively stable prices (except in 1974 when external influences have intruded) and balance in external payments, is due, in part, to our abstinence from fiscal excesses or recklessness.

However, financial orthodoxy must be kept relevant to a changing situation by alterations in our tax structure to encourage economic expansion and diversification, to make Singapore an attractive centre for investment in manufacturing and servicing industries as well as a financial haven for capital. Consonant with these objectives, we have also encouraged the growth of savings and discouraged certain forms of consumption expenditure.

These basic policies will be continued, and accelerated this year.

Company Tax

In the earlier part of my Budget Statement, I indicated a number of tax incentives which will be given this year to stimulate the corporate sector. It may be convenient if I list them here also with other tax concessions I am giving.

First An investment tax credit scheme which permits a certain percentage of the fixed investment of approved projects to be credited against taxable profits.

Second A concessional 20 per cent tax rate for overseas-oriented sales and service companies. Approved warehousing and related activities together with offshore trading, consultancy and other services which deal predominantly with offshore business in new spheres of activity will be granted a lower tax rate of 20 per cent for a period of 5 years.

Third Double deduction from income of operational expenditure for 2 years of permanent trading offices set up abroad.

Fourth Accelerated depreciation allowances for industrial buildings. At present, industrial buildings have to be depreciated over 45 years for tax purposes. To lessen the tax burden, the Income Tax Act will be amended to allow industrial buildings to be depreciated over 25 years. The initial allowance will increase from 10 per cent to 25 per cent.

Fifth Abolition of tax charge on dividend distributions out of offshore profits. At present, financial institutions operating Asian Currency Units enjoy the concessional tax rate of 10 per cent on offshore profits. However, this tax rate does not extend to dividend distributions made by such an institution out of offshore profits, so that it immediately incurs a further 30 per cent tax charge on its dividend distributions. To further promote the development of the Asian Dollar Market, I have decided that the ACU tax concession will "follow through" for dividends received in the hands of both resident and non-resident shareholders. This means that the 10 per cent tax on ACU offshore profits will be the final tax.

Sixth The "follow through" concession will similarly apply to dividends paid out of offshore reinsurance profits of insurance companies.

All these concessions will take effect from Year of Assessment 1979.

Personal Income Tax

Just over two decades ago, in 1957, the ceiling rate of income tax was raised from 30 per cent to 40 per cent. In 1959, it was pushed up to 50 per cent, and in 1961 to 55 per cent. For a brief spell in the mid-Sixties, it came down to 50 per cent.

Those increases were made in a period of low levels of savings, capital formation and Government expenditure on the social services, as well as against a background of glaring inequalities of wealth, disparities in income, and social turmoil.

Times have changed and circumstances of incomes distribution are different. The need now is to reward effort, whether manual skills or intellectual disciplines and at all levels. We must avoid the danger of encouraging and condoning mediocre effort and results by not rewarding excellence in performance. In our quest for a just and equal society, we must not forget that the thrust for development and progress springs principally from the strong human urge for recognition of achievement and the rewards that go with hard work and success.

There is some evidence that high marginal rates of income tax in the middle income levels are becoming irksome and will in time become a disincentive to effort in Singapore. Fuelling this tendency is the effect of inflation, relatively mild as it is in Singapore, which has pushed income earners, at all levels, into higher brackets of taxation.

Aggravating the problem of equity or fairness in sharing the tax burden is the ability of many self-employed professionals to incorporate themselves into companies in order to sell their personal services, and thereby quite legally avoid paying tax at more than 40 per cent, the company rate. Professionals and executives working for the public sector on salaries are unable to take advantage of this loophole in the law. Nor do they enjoy the perks of tax free "expenses."

I have therefore decided, from Year of Assessment 1978, to make income tax less inequitable by broadening the steps over which the tax rate goes up.

Details of the existing tax rates and new tax rates are shown in the Appendix which I have asked to be distributed to Members.

Members will see that the 40 per cent marginal tax rate is payable for a minimum chargeable income now raised from \$35,001 to \$50,001. Concessions are made all down the line to the lowest tax rate.

A new rate of 45 per cent is introduced for a chargeable income between \$100,001 and \$200,000.

The 50 per cent marginal tax rate is for a minimum chargeable income now raised from \$50,001 to \$200,001.

The 55 per cent marginal tax rate is for a minimum chargeable income now raised from \$100,001 to \$400,001.

The tax reduction varies from 7.8 per cent to 18.8 per cent, depending on the tax bracket. The average tax cut is 14.6 per cent.

The loss in revenue in the first year is estimated at \$53.9 million out of a total tax collected on personal income tax of \$370 million.

I have considered carefully the question of boosting tax reliefs for earned income, dependants and other purposes. But I have decided against it chiefly because we must expand the tax base, to make every member of society realise that the fruits of Government expenditure can only be paid for from the toil of income producers. Moreover, the concessions given are generous, and will leave a big gap in the Revenue.

The problem the Inland Revenue Department has not been able to solve is how to bring into the tax net some 150,000 persons who should be paying tax on their incomes, but do not do so because they are self employed and keep no accounts. Some of their incomes are considerable. Up to now, it has not been economically administratively practical to bring every dodger to book. As a result, some occupations like self-employed small contractors, taxi drivers, hawkers and persons in other activities which can avoid the tax because no accounts are kept and tracing is difficult have become profitable and popular. This is manifestly unfair but until we can get all economic activities recorded and checkable, we shall have to suffer these tax dodgers.

Unless and until we can bring all incomes within the tax net, and also place limits on perks and expense accounts which are tax free, personal income tax under Singapore's trading conditions and social circumstances is unfair because it falls most heavily on the honest and the hardworking, the salaried wage earner.

Tax on Repatriated Profits

Under Singapore tax laws, profits and dividends remitted into Singapore and received by an individual are taxed at the marginal rate. In many cases, the burden of Singapore tax on such income is very substantially reduced by double taxation relief provided under tax treaties Singapore has concluded with a number of countries. However, for countries with which Singapore has no double tax treaties, the marginal tax burden on the individual can go up to 55 per cent.

In order to provide some incentive for the repatriation of overseas income, I have decided that such income shall be subject to a maximum marginal rate of 40 per cent with effect from Year of Assessment 1978.

Garden Tax

I would like now to refer to an existing tax concession - the income tax relief for the maintenance of private gardens.

As part of the campaign to make Singapore a clean and green city, a tax incentive was given to owners and occupiers of houses to encourage them to maintain clean and attractive gardens which can be seen

by passers-by. A remission of tax up to \$100 incurred in the maintenance of private gardens was granted in 1970. This amount was increased to \$300 in 1972. For Year of Assessment 1977, only 1,992 tax payers applied for remission. The tax remitted amounted to \$161,865.

By and large, the objective of encouraging the proper maintenance of private gardens has been achieved. Many homes maintain attractive and clean gardens which make the living environment more congenial and pleasant. It is, therefore, unnecessary to continue with the tax remission for the maintenance of private gardens. I have decided with effect from the Year of Assessment 1979, to discontinue the tax remission.

TAXES ON EXPENDITURE

To reduce the burden of income tax concessions on the Revenue, as well as to shift gradually the impact of taxation from incomes to consumption taxes, a number of taxes on expenditure will go up.

Additional Registration Fee on Private Motor-Cars

With immediate effect, the Additional Registration Fee rate for private motor-cars will be increased from 100 per cent to 125 per cent ad valorem. The Preferential Additional Registration Fee will also be correspondingly increased to 125 per cent of its present rate for each class of vehicle.

The additional revenue yield is estimated at \$14.4 million.

This additional tax is most necessary if we are to prevent the release of \$54 million freed by the new income tax rates for the lower and middle income groups from going into private cars excessively, once again cluttering up the roads.

Entertainments Duty

With effect from 1 April 1978, the duty rate for cinemas, amusement parks, trade fairs and exhibitions will increase from 20 cents to 25 cents for every increase of 50 cents or part thereof for admission charges exceeding \$1.50.

The duty rate for "live" entertainment such as stage plays, concerts, recitals, music performances and dances will also increase by 5 cents for tickets priced at \$1.00 or more. The duty payable will be 25 cents for admissions priced at \$1.00 to \$1.50 and an additional 15 cents for every subsequent increase of 50 cents or part thereof.

The rates for establishments which pay lump sum entertainments duty and provide floor shows, music and dance facilities will increase by 20 per cent.

Games and sports, including professional boxing and wrestling, as well as roadside wayangs, will not be subject to the increase in entertainments duty.

It is expected that the increase will net additional revenue of \$7.5 million.

Driving Licence Fees

The last revision in the driving licence fee was in 1966. With effect from 1 April 1978, the fee will be increased from \$10 to \$20 a year. The provisional driving licence fee will also be raised from \$10 to \$20 for six months. That fee has not been revised since 1963.

The revisions are expected to yield an additional \$11.6 million.

Telephone Tax

The Government tax on telephone bills has not been revised since 1969. From 1 April 1978, the rate will be raised from 15 per cent to 20 per cent. The scope of the tax remains unchanged, that is, it will be levied on domestic telephone services and on trunk calls to West Malaysia.

The additional yield expected is \$5.7 million a year.

Colour TV Licence Fee

Although transmission of television programmes in colour started three years ago, the licence fee for colour television sets was left at \$36 a year. Transmission of colour TV calls for heavy investment in facilities as well as in substantially increased levels of operating expenditure. With more programmes now being telecast in colour, the time is appropriate to differentiate between colour and monochromatic licence fees.

The fee for monochromatic sets will remain at \$36 a year, but for colour sets will be raised to \$54. The fee for radios will remain at \$12 a year. A colour TV fee of \$54 will cover all monochrome TV sets and radios in the same household.

For hotels, the concessionary rate of \$18 a year will continue to apply for monochrome sets, but the rate for colour sets will rise to \$27 a year.

The additional revenue yield is estimated at \$1.5 million in the first year.

Airport Tax

The existing rate of passenger service charge for flights to Malaysia and Brunei is \$2 per passenger. I intend to raise the rate to \$4 with effect from 1 April 1978. The extra revenue generated is expected to be \$1.1 million in the first year.

The total yield from all these expenditure taxes is estimated at \$41.8 million in the first year, and will reduce the loss to Revenue from the income tax concessions to \$12.1 million a year

Tax on PUB Bills

One concession which I propose to give to consumers is by the abolition of the 5 per cent tax on PUB bills which is now effective for consumption levels between \$35 and \$50 a month. With effect from 1st April, only consumption levels of \$50 and above will be subjected

to tax at the same rate as before, of 10 per cent. The revenue loss is estimated at \$5 million.

The total loss to Revenue from all the tax changes made in this Budget is approximately \$17.1 million in the first year.

Conclusion

Mr Speaker, Sir, the financial policy of the Government outlined in this Budget Statement will, I hope, continue the process of adjustment we have so far been successfully making to the economic uncertainties of the Nineteen Seventies. The world economy has yet to recover from the shock of the oil crisis. The turbulence of the exchange rate of the US Dollar and the poor performance of the New York Stock Exchange are but some of the symptoms of the chronic problems of inflation and unemployment, leading to strong sentiments for trade restrictions and controls in most industrialised countries. Nevertheless, our growth rates of 7 and 7.8 per cent over the past two years show what is still possible given prudent Government policies, efficient management and hard working and productive workers.

Sir, I beg to move.

APPENDIX

PRESENT AND REVISED INCOME TAX RATES ON INDIVIDUALS

<u>Chargeable Income</u>	<u>Present Tax Rate</u>	<u>Revised Tax Rate</u>
\$	%	%
0 - 2,500	6	5
2,501 - 5,000	9	8
5,001 - 7,500	12	10
7,501 - 10,000	15	12
10,001 - 15,000	20	15
15,001 - 20,000	23	20
20,001 - 25,000	25	25
25,001 - 35,000	30	30
35,001 - 50,000	40	35
50,001 - 100,000	50	40
100,001 - 200,000	55	45
200,001 - 400,000	55	50
400,001 and above	55	55