

MINISTRY OF FINANCE MEDIA RELEASE

BUDGET 2006

BUILDING ON OUR STRENGTHS, CREATING OUR BEST HOME

1. In his Budget Statement for Financial Year (FY) 2006, Prime Minister and Minister for Finance Lee Hsien Loong announced a range of tax and other initiatives to support the ongoing restructuring and upgrading of the economy, comprehensive measures to help low-wage workers adapt to the global economy, and a \$2.6 billion *Progress Package* to share budget surpluses with all Singaporeans.

2. PM Lee noted that the economy's growth of 6.4% in 2005 was much better than expected. 110,800 new jobs were created in 2005, bringing down the unemployment rate to 2.5%. Describing the fiscal position as good, PM Lee reported an overall budget surplus of \$0.4 billion for FY2005 and projected a surplus of \$0.7 billion before Special Transfers for FY2006. Taking into account Special Transfers, which include the *Progress Package*, top-ups to the endowment funds and investments in R&D, the Budget is expected to be in deficit of \$2.9 billion. PM Lee assured the House that the Government will be able to finance this deficit from funds accumulated in its current term and will not need to draw on past reserves.

Upgrading and Restructuring the Economy

3. PM Lee said that Singapore's strong economic performance was the result not only of a favourable external environment, but more importantly, efforts to remake the economy. However, other countries were also reinventing themselves and gearing up to compete globally. PM Lee said that Singapore needed to press on with upgrading and restructuring the economy, and outlined strategies for Singapore to differentiate itself and move ahead of the competition. (See *Key Budget Initiatives 1* for details)

4. *First, to become a knowledge hub in Asia.* PM Lee identified innovation, enterprise and R&D as key sources of future growth for the economy. The Government will inject \$500 million into a newly set up R&D Trust Fund, targeted to reach \$5 billion over five years. In addition to knowledge creation, Singapore will aim to be a centre for knowledge exchange, a key node in a global network of ideas, people and businesses, and a choice location for international events. To enhance IT connectivity, PM Lee said that Singapore will develop a new national broadband network that is much faster than what is available today.

5. *Second, to build on strengths in manufacturing and services.* The Government will promote activities that place a premium on trust, quality and service, not just efficiency and low cost. In manufacturing, the focus will be on raising productivity and skill levels. In services, in addition to developing existing growth industries like logistics, information, banking and finance, and tourism, Singapore will seek opportunities in emerging areas such as premier healthcare, education and creative industries.

6. The Budget contained several measures to promote the development of Singapore as a financial centre, with enhanced tax incentives for asset and wealth management, capital and treasury markets, and captive insurance. Measures to grow the maritime and

logistics industries included a new Maritime Finance Incentive offering tax exemption for qualifying income of ship investment vehicles and a 10% concessionary tax rate for qualifying income of ship investment managers. Shipping companies will be allowed to renew their Approved International Shipping incentive for a third period of 10 years, lengthening the maximum period of incentive from 20 years to 30 years.

7. *Third, to support entrepreneurship and enterprise.* The Government will facilitate the growth of promising local companies into international players and ease regulatory restrictions to promote enterprise. A key initiative will be to reduce the record-keeping requirement for companies and individuals across 17 statutes, in most cases to just five years.

8. *Fourth, to grow human capital.* The Government will continue to attract global talent who will bring in new skills, create new value and enlarge the economic pie. At the same time, the Government will invest in education and training to equip Singaporeans with the skills and mindsets to succeed in the knowledge economy. Selected secondary schools will work with polytechnics to introduce new applied subjects such as electronics and digital media as electives. Students will also be able to gain direct admission to the polytechnics based on their talents and abilities, similar to the junior colleges and secondary schools. The Government will allocate an additional \$2 billion to the university sector over the next five years.

9. *Fifth, to maintain a competitive tax environment.* PM Lee said that the Government will continue to keep taxes low to attract investments, reward enterprise, and attract talents. He added that the major taxes were at about the right levels, following the extensive tax restructuring over the last five years. Singapore's personal and corporate income tax regimes were among the most competitive in the world. PM Lee also said that the Government was reviewing the continued relevance of Estate Duty, in the context of Singapore's overall assets tax regime.

Helping Singaporeans Move Forward Together

10. PM Lee said that even as Singapore pressed on with restructuring, the Government will take more active and focused measures to help those most affected by globalisation. He said that the Government had accepted the recommendations of the Ministerial Committee on Low Wage Workers. PM Lee emphasised that Singapore's approach was based on *Workfare* – that the best way to help people was to help them to work, so that they could help themselves and their families. He outlined the key elements of this approach.

11. First, the Government will help the lower-income more. When there are surpluses to share, more will be given to them. Second, in helping the lower-income, the Government will encourage them to work, rather than free-ride on state support. This is to avoid the pitfalls of Western style state welfare which is expensive and wasteful, and creates a mindset of entitlement and dependency. Third, the Government will experiment, adapt and improve on the new schemes which are being introduced. Fourth, the Government will ensure that it has the fiscal resources to fund any new schemes before embarking on them, rather than make reckless commitments without considering how to pay for them. Finally, the Government will involve the community and grassroots networks in this social effort. They know the ground well and can assess where the needs are greatest.

12. PM Lee announced a comprehensive package of measures to help low-wage workers. (See *Key Budget Initiatives 2* for details)

13. *First, the Government will expand job opportunities to help low-wage workers find better and higher-paying jobs which they are able to do.* The Government will spend \$40 million over three years to re-create 10,000 jobs each year under the enhanced Job Re-creation Programme. \$30 million will also be set aside over two years to help companies hire and re-employ older workers through the ADVANTAGE! scheme.

14. *Second, the Government will equip low-wage workers with higher skills for better jobs.* Workers will have training and skills progression pathways for their upgrading through the Workforce Skills Qualifications System. Training will be provided to 45,000 low-wage workers to help improve their problem-solving and communication skills as well as English, numeracy and IT literacy so that they will be more employable. About \$30 million will be spent over three years for this. Training will also be made more accessible to SMEs and workers involved in contract or sub-contract employment arrangements. To ensure that workers have adequate resources for retraining, the Government will top up the Lifelong Learning Fund by \$100 million to \$2.1 billion.

15. *Third, the Government will provide better social support to enable work.* Parents from low-income families will be provided with additional childcare and student care subsidies under the new Work Support Programme aimed at enabling people to go out to work. The Government will also top up the ComCare Fund by \$100 million to \$600 million to help needy households.

16. *Fourth, the Government will invest more in the education of children from low-income families.* The income thresholds and benefits for the Financial Assistance Scheme in schools will be increased, making education more affordable. Low-income families will receive increased subsidies for kindergarten and childcare for their children. The income threshold for the Edusave Merit Bursary will be raised from \$3,000 to \$4,000, benefiting an additional 17,000 students. Vocational training programmes will be enhanced for youths to gain employable skills. The Home Ownership Plus Education (HOPE) scheme will be expanded to encourage young, low-income families to focus resources on their children.

17. *Fifth, the Government will reward low-wage workers for working.* Older, lower-income workers will be given a Workfare Bonus ranging from \$150 to \$1,200 under the *Progress Package*. First-timer citizen households with monthly incomes of \$3,000 and below will qualify for an additional CPF Housing Grant ranging from \$5,000 to \$20,000 to help them purchase their first home. In line with the *Workfare* principle, at least one of the flat buyers must be working for a minimum of two years prior to the flat purchase to qualify for the grant. About 40% of first-time buyers, or an estimated 6,000 households will benefit annually. The additional CPF Housing Grant will cost the Government \$75 million a year.

18. *Sixth, the Government will give more to the lower-income when it shares budget surpluses.* The Government will do this under the *Progress Package*.

Progress Package

19. PM Lee announced a *Progress Package* to share \$2.6 billion worth of budget surpluses with all Singaporeans. While the Package will benefit all Singaporeans, more

benefits will be given to those with lower incomes. PM Lee explained that this was in line with the Government's philosophy that Singaporeans should progress together as one people. (See *Key Budget Initiatives 3* for details)

20. *First, the Government will share the fruits of growth with all Singaporeans through Growth Dividends.* All adult Singaporeans will get Growth Dividends ranging from \$200 to \$800, with larger amounts going to those who have lower incomes and stay in less expensive homes. The Government estimates that close to half of adult Singaporeans will get the maximum \$800. The Growth Dividends will cost the Government \$1.4 billion.

21. *Second, the Government will reward low-wage workers for work through Workfare Bonus.* Those who earn \$1,500 or less per month through regular work will receive Workfare Bonuses ranging from \$150 to \$1,200 in two portions. In line with the *Workfare* principle, they need to be working continuously for at least six months in 2005 to qualify for the Workfare Bonus in 2006, and for at least six months in 2006 to qualify for the Workfare Bonus in 2007. The Workfare Bonus will cost the Government \$400 million.

22. *Third, the Government will help lower-income households with their living expenses through rebates.* All HDB households will get Utilities-Save (U-Save) rebates ranging from \$60 to \$200, with higher rebates for the smaller flat types. The rebates will cost the Government \$60 million. HDB households will also continue to get rebates on up to 4 months of Service & Conservancy Charges (S&CC) and up to 3 months of rent.

23. *Fourth, the Government will help the elderly meet retirement and healthcare needs through CPF top-ups.* Singaporeans aged 50 and above will get CPF top-ups ranging from \$100 to \$800 depending on their age and Annual Value of their homes. Half of the amount will go into the CPF Special/Retirement Account and the other half into the CPF Medisave Account. The CPF top-ups will cost the Government \$500 million. In addition, the Government will top up the Eldercare Fund and Medifund by \$100 million each.

24. *Fifth, the Government will set up Opportunity Funds in all schools and community self-help groups, namely CDAC, MENDAKI, SINDA and the Eurasian Association.* Students from lower-income families will have access to more enrichment and learning opportunities, such as the purchase of computers and overseas study trips. The Opportunity Funds will cost the Government \$50 million.

25. *Sixth, the Government will recognise the contributions of NSmen through the 40th Anniversary NS Bonus.* Singaporeans who are serving or who have served National Service (NS) will receive NS Bonus of up to \$400. The 40th Anniversary NS Bonus will cost the Government \$200 million. In addition to this one-off NS Bonus, NSmen who complete their Operationally Ready National Service (ORNS) training cycle in future will receive an ORNS Completion Award of \$300. NS key appointment holders will get an additional \$2,000 tax relief over and above what they normally receive as NSmen.

26. The Growth Dividends, Workfare Bonus and 40th Anniversary NS Bonus will be paid out on 1 May 2006. The CPF top-ups will also be made on the same date. Singaporeans will get a letter from the CPF Board in late March 2006 informing them of the total amount they can expect under the *Progress Package*. They have to sign up through ATMs, the *Progress Package* website or hard copy forms to receive their *Progress Package*.

27. For more details, please refer to the official Budget 2006 website:
www.budget2006.gov.sg.

MINISTRY OF FINANCE
17 FEBRUARY 2006

National Archives of Singapore

UPGRADING AND RESTRUCTURING THE ECONOMY
KEY INITIATIVES

Become a Knowledge Hub

- Set up R&D Trust Fund under the National Research Foundation. [\$500 million initially; \$5 billion over five years]
- Extend writing down allowances for acquisition of intellectual property to economic (not just legal) owners of intellectual property.
- Accelerate writing down period given for qualifying capital expenditure incurred on R&D cost-sharing arrangements from five years to one year.
- Develop a new national broadband network.

Build on our Strengths in Manufacturing and Services

Promote Manufacturing Sector

- Zero-rate GST for supply of tools used in the manufacture of goods for export.

Promote Asset and Wealth Management Industries

- Enhance Designated Unit Trust (DUT) scheme to allow more funds to qualify for DUT status.
- Grant tax exemption on locally-sourced investment income and foreign-sourced income of qualifying domestic trusts and their underlying holding companies.
- Expand the scope of settlors and beneficiaries of the trusts qualifying under the Approved Trustee Company scheme and tax exemption scheme for foreign trusts.
- Introduce new incentive scheme to exempt resident funds with foreign investors from tax.

Promote Capital and Treasury Markets

- Grant tax exemption on remittances of foreign-sourced interest and trust distributions received by REITS listed on SGX (“S-REITS”).
- Allow recovery of GST incurred by S-REITS on the setting up of special purpose companies (SPCs) and the acquisition and holding of overseas non-residential properties by SPCs.
- Enhance Qualifying Debt Securities (QDS) scheme to cover discount debt securities with tenure of more than one year.
- Enhance scope of activities qualifying for the Finance & Treasury Centre incentive to include trading and arranging of derivative products.
- Grant 5% concessionary tax rate on clearing income for qualifying clearing members of Singapore Over-the-Counter (OTC) derivatives clearing facilities for five years.

Promote Islamic Financing Activities

- Harmonise tax treatment of four *Shariah*-compliant financial products with that of conventional financing products.

Promote Insurance Industry

- Grant tax exemption for approved captive insurance companies for 10 years.

Promote Maritime and Logistics Industries

- Introduce new Maritime Finance Incentive offering tax exemption for qualifying income of ship investment vehicles and a 10% concessionary tax rate for qualifying income of ship investment managers.
- Allow shipping companies to renew their Approved International Shipping incentive for a third period of 10 years, lengthening the maximum period of incentive from 20 years to 30 years.
- Remove the need for traders under the Global Trader Programme to show that their derivative trades are incidental to the physical trades before such income can be treated as qualifying income.
- Give automatic GST suspension for goods removed from Zero GST (ZG) warehouses by all persons registered under the Major Exporter Scheme (MES) and the Approved Third Party Logistics (3PL) Company Scheme.

Promote New Services

- Include industrial design, interactive and digital media as new fields for tax concession on royalties earned by creative individuals.

Support Entrepreneurship and Enterprise

- Reduce record-keeping period in 17 statutes.

Grow our Human Capital

- Introduce new applied subjects such as electronics and digital media as electives in selected secondary schools through partnerships with polytechnics.
- Allow students to gain direct admission to the polytechnics based on their talents and abilities, similar to the junior colleges and secondary schools.
- Allocate additional \$2 billion to university sector over the next five years.

Maintain a Competitive Tax Environment

- Allow foreign-sourced income that is currently disqualified from the foreign-sourced income tax exemption (FSIE) regime to enjoy tax exemption where remittances are made under specific scenarios or circumstances.
- Grant tax deductions to companies that incurred actual outlay for the employee stock options and other share-based compensations.
- Exempt from tax the gains by approved holding companies on the disposal of shares in subsidiaries.
- Provide guidance on transfer pricing issues.
- Rationalise conditions for businesses to claim Industrial Building Allowances.
- Extend tax incentives to partnerships on a scheme by scheme basis.
- Allow general insurers to claim GST on:
 - tax fraction of cash indemnities paid to non-GST registered policyholders under contracts that are subject to GST.
 - expenses incurred on their policyholders' passenger cars.

Other Tax Changes

- Remove Property Tax surcharge.
- Change basis of slot machine tax from 30% of *deemed* turnover to 12% of actual turnover.

MOVING FORWARD TOGETHER: HELPING LOW-WAGE WORKERS

The Government has accepted the recommendations of the Ministerial Committee on Low Wage Workers, and will take the following measures to help low-wage workers, while encouraging them to work, upgrade, and move ahead through their own efforts.

Expand Job Opportunities

- Re-create 10,000 jobs a year under enhanced Job Re-creation Programme. (\$40m over 3 years)
- Help companies hire and re-employ more older workers through ADVANTAGE! scheme. (\$30m over 2 years)

Higher Skills for Better Jobs

- Provide workers with clear training and progression pathways through Workforce Skills Qualifications System. (\$100m over 3 years)
- Help 45,000 low-wage workers improve problem-solving and communication skills as well as English, numeracy and IT literacy. (\$30 million over 3 years)
- Provide training opportunities for low-wage workers in SMEs and contract or sub-contract employment arrangements. (Additional \$4 million each year)
- \$100 million top-up to Lifelong Learning Fund to ensure that workers have adequate resources for retraining.

Social Support to Enable Work

- Help needy families with childcare and student care assistance so that they can go out to work, under new Work Support Programme.
- \$100 million top-up to ComCare Fund to help needy households.

Creating Hope for the Future

- Raise income thresholds and enhance benefits for Financial Assistance Scheme to make education affordable for low-income families.
- Increase subsidies for kindergarten and childcare for the first and second child from low-income families.
- Raise income threshold for Edusave Merit Bursary from \$3,000 to \$4,000.
- Enhance vocational training programmes for youths to gain employable skills.
- Expand Home Ownership Plus Education (HOPE) scheme to encourage young, low-income families to focus resources on their children.

Rewarding Work

- Give Workfare Bonus (\$400 to \$1200) to older, lower-income workers. Give additional CPF Housing Grant (\$5,000 to \$20,000) to help low-income households purchase their first homes.

Sharing in the Nation's Progress

- Give more help to lower-income Singaporeans under the Progress Package.

SHARING THE FRUITS OF GROWTH PROGRESS PACKAGE

The Government is sharing its budget surpluses with all Singaporeans. The *Progress Package* will benefit everyone, but will provide more benefits to those who have lower incomes. The *Progress Package* will cost the Government \$2.6 billion.

Growth Dividends for all adult Singaporeans

All adult Singaporeans will get Growth Dividends ranging from \$200 to \$800. Close to half of all adult Singaporeans will get the maximum \$800.

	Annual Value of Home \$6,000 or less	Annual Value of Home more than \$6,000 and up to \$10,000	Annual Value of Home more than \$10,000
Annual Assessable Income \$24,000 or less	\$800	\$600	\$200
Annual Assessable Income more than \$24,000	\$600	\$400	

Workfare Bonus to Reward Low-Wage Workers for Work

Low-wage Singaporeans who earn \$1,500 or less per month through regular work will receive Workfare Bonuses ranging from \$150 to \$1,200 in two portions.

Average Monthly Income	Bonus to be paid on 1st May, 2006 and 2007*
\$400 and below	1.5 months salary, or \$75, whichever is higher
Above \$400 to \$900	\$600
Above \$900 to \$1,200	\$400
Above \$1,200 to \$1,500	\$200

* Bonus to be paid in 2006 for working at least 6 continuous months in 2005 and to be paid in 2007 for working at least 6 continuous months in 2006.

Rebates to Help Lower-Income Households

Lower-income households will get Utilities-Save (U-Save) rebates ranging from \$60 to \$200. They will also continue to get rebates on up to 4 months of Service & Conservancy Charges (S&CC) and up to 3 months of rent.

HDB Flat Type	U-Save Rebates	S&CC Rebates	Rental Rebates
1-room	\$200	4 months	3 months
2-room	\$200	3 months	1.5 months
3-room	\$100	2 months	-
4-room	\$80	1.5 months	-
5-room	\$60	0.5 months	-

CPF Top-ups to Help the Elderly meet Retirement and Healthcare Needs

Singaporeans aged 50 and above will get CPF top-ups ranging from \$100 to \$800 depending on the Annual Value of their homes.

Age	Annual Value of Home \$6,000 or less	Annual Value of Home more than \$6,000 and up to \$10,000	Annual Value of Home more than \$10,000
50- 59	\$600	\$400	\$100
60 & above	\$800	\$600	\$200

Half of the amount will go into the CPF Special/Retirement Account and the other half into the CPF Medisave Account.

The Government will top up the Eldercare Fund and Medifund by \$100 million each.

Opportunity Funds for Students

The Government will set aside \$50 million for Opportunity Funds in all schools and community self-help groups, namely CDAC, MENDAKI, SINDA and the Eurasian Association, to provide students from lower-income families with more enrichment and learning opportunities, such as the purchase of computers and overseas study trips.

NS Bonus to Recognise the Contributions of NSmen

Singaporeans who are serving or who have served National Service (NS) will receive the 40th Anniversary NS Bonus.

NS status	Amount
<ul style="list-style-type: none"> • Full-time national servicemen (NSFs) • Operationally ready NSmen who have not completed their operationally ready national service (ORNS) training cycle 	\$100
<ul style="list-style-type: none"> • NSmen who have completed their ORNS training cycle • NSmen who are above statutory age (i.e. 40 years old for non-officers and 50 years old for officers) 	\$400

In addition to this one-off NS Bonus:

- NSmen who complete their ORNS training cycle in future will receive the ORNS Completion Award of \$300.
- NS key appointment holders will get an additional \$2,000 tax relief over and above what they normally receive as NSmen.

To Sign Up for the Progress Package

Singaporeans will get a letter from the CPF Board in late March 2006 informing them of their Progress Package. To receive their Progress Package on 1 May 2006, they must sign up through ATMs, the Progress Package website or hard copy forms.