RAISING PRODUCTIVITY: SKILLS, INNOVATION AND ECONOMIC RESTRUCTURING

The Government will commit $1.1 billion a year over the next five years in the form of tax benefits, grants and training subsidies to support the national effort to raise productivity.

Details of the relevant Budget measures are given below.

(A) Boosting Skills and Enterprise Productivity through National Effort

(A1) National Productivity and Continuing Education Council (New)

The Government will establish a high-level National Productivity and Continuing Education Council. The Council will be chaired by DPM Teo Chee Hean and include members from the Government, business community and the labour movement. It will:

- Galvanise the major national effort to boost skills and enterprise productivity;
- Develop a comprehensive system for continuing education and training (CET); and
- Oversee the work of the different government agencies and promote close collaboration among the business sector, workers and unions, and the public sector.

More details on the composition of the Council and how it will approach its work will be announced later by DPM Teo.

(B) Investing in People

(B1) Expansion of the Continuing Education and Training (CET) System (Enhanced)

The Government will spend $2.5 billion over the next five years on CET.

The Government will build up an outstanding CET system for adults, to complement a first-rate education system for our young. This is our response to the next phase of gains in productivity, which will require us to develop competence in more complex tasks, mastery of skills and depth of expertise in every trade and profession.

(B2) Introduction of Workfare Training Scheme (WTS) (New)

The Government will introduce a three-year Workfare Training Scheme (WTS) to complement the Workfare Income Supplement (WIS) scheme. The WTS will:
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- Subsidise 90% to 95% of absentee payroll and course fee outlay for employers, when they send their low-wage workers for training;

- Provide cash grants, capped at $400 per year, when WIS recipients complete their training;

- Introduce a structured training programme for those with very low skills, including those who are unemployed.

(B3) Enhancement of Workfare Income Supplement (Enhanced)

The Government will enhance the Workfare Income Supplement (WIS) as follows:

- **Higher payouts.** Maximum payouts for the WIS will be increased by between $150 and $400, with more going to older workers to encourage them to remain in the workforce; and

- **Extension to more workers.** The Government will extend WIS to workers earning up to $1,700 per month – up from the current limit of $1,500 per month.

Further details of the enhancements to Workfare (WIS and WTS) will be announced during the Ministry of Manpower’s Committee of Supply.

(C) Supporting Enterprise Investments in Innovation and Productivity

The Government will provide tax incentives for businesses to invest in upgrading their operations and creating new value. The Government will also extend substantial grants to specific industries, clusters and enterprises.

(C1) Productivity and Innovation Credit (New)

Currently, only research and development (R&D) qualifies for additional tax deductions, of up to 150% of expenditures. The Government will introduce the Productivity and Innovation Credit as a major enhancement, to spur a much broader range of innovative activities and with more generous tax benefits.

The Credit will cover six activities along the innovation value chain (namely research and development done in Singapore; acquisition of intellectual property (IP); registration of IP; investments in design done in Singapore; spending on equipment and software to automate processes; and workers’ training).

All businesses will be eligible for the Credit, based on the expenditure they incur in any of the activities. They can deduct 250% of their eligible expenditures on each of these activities from their taxable income, with a cap of $300,000 expenditure per activity. This will be effective from Year of Assessment 2011 to Year of Assessment 2015.
Details of the Productivity and Innovation Credit are as follows:

*Enhanced Tax Deduction for Research and Development Done in Singapore*

To encourage small companies to grow their R&D spending, the Government will give a 250% tax deduction for the first $300,000 of qualifying expenses incurred on R&D done in Singapore. The R&D need not necessarily be related to their existing trade.

With this enhancement, the Government will consolidate and phase out the existing R&D tax incentives – namely Research and Development Tax Allowance (RDA)\(^1\) and Research and Development Incentive for Start-up Enterprises (RISE) schemes. No RDA will be granted on chargeable income from Year of Assessment 2011, and RISE will cease with effect from Year of Assessment 2011.

*Enhanced Tax Allowance for Intellectual Property Acquisition*

The Government will enhance the current 100% tax allowance for IP acquisition by giving an additional 150% tax allowance (i.e. total of 250%) for the first $300,000 expenditure on IP acquisition.

*Enhanced Tax Deduction for Intellectual Property Registration*

To encourage more businesses to register and protect their IP, the Government will extend the existing tax allowance for costs of registering patents to cover the costs of registering other IPs as well, namely trademarks, designs and plant varieties.

It will also increase the quantum of deduction from 100% to 250% for the first $300,000 of expenses incurred for registering IP.

*Enhanced Tax Deduction for Design Done in Singapore*

To encourage more businesses to create new product and industrial designs for the local and international markets, the Government will give businesses a 250% tax deduction for the first $300,000 of the qualifying cost incurred for design activities done in Singapore.

This incentive will be administered by DesignSingapore Council.

*Enhanced Allowance for Investment in Automation*

To encourage businesses to invest in equipment and software that will automate their processes, the Government will grant 250% capital allowance for the first $300,000 of expenditure on such investment. It will also update and expand the list of qualifying automation equipment and software to benefit a wider range of sectors.

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\(^1\) For taxpayers with unutilised RDA granted for Year of Assessment 2009 and Year of Assessment 2010, they may opt to utilise the RDA as further deductions against their incremental R&D expenses from Year of Assessment 2011 until Year of Assessment 2016, as under the RDA scheme currently. Alternatively, they can elect instead to claim the 250% tax deduction for the first $300,000 of their qualifying R&D expenses incurred for Year of Assessment 2011 to Year of Assessment 2015.
**Enhanced Tax Deduction for Training Costs**

To encourage employers to train employees to upgrade their skills, the Government will grant a 250% tax deduction for the first $300,000 of expenditure on qualifying workers’ training. This enhanced tax deduction can be enjoyed on top of the training support under the WTS and other WDA programmes.

**Cash Conversion**

To further signal its support for businesses that innovate and improve productivity, the Government will allow businesses the option to convert up to $300,000 of their Productivity and Innovation Credit into a non-taxable cash grant of up to $21,000\(^2\). This will support small but growing companies that are investing in technology or upgrading their operations now, but have low taxable income initially. This cash conversion component of the Credit will be available from Year of Assessment 2011 to Year of Assessment 2013, and will be reviewed after three years.

The Productivity and Innovation Credit scheme, inclusive of the cash conversion component, will cost the Government $480 million a year.

**(C2) National Productivity Fund (New)**

The Government will create a National Productivity Fund (NPF) to provide funding for initiatives which are customised to specific industries, clusters and enterprises. The Fund will provide grants to help enterprises in all sectors, with special emphasis initially on sectors where there is potential for larger gains in productivity. The Fund can also serve to develop centres of expertise for a range of industries, which will provide a knowledge base for enterprises to tap on to develop productivity solutions.

The National Productivity and Continuing Education Council will establish the priorities and programmes of the Fund, and tie together the efforts of Singapore’s government agencies, industry associations, unions and enterprises.

The Government targets to put $2 billion into this new Fund. To begin with, the Government will put $1 billion into the Fund in FY2010, which it expects to be able to support initiatives over the next five years.

**Construction Sector Initiatives**

The Government will dedicate around $250 million out of the first $1 billion of National Productivity Fund to raising productivity in the construction sector. This will include initiatives to help Singapore’s local contractors develop capabilities in areas such as complex civil engineering and building projects, new technologies, and to upgrade to a higher quality workforce.

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\(^2\) Up to $300,000 of tax deductions and allowances arising from expenditure on the six activities covered under the Productivity and Innovation Credit can be converted into cash grant at a conversion rate of 7%. 7% is higher than the median effective tax rate of taxpaying companies including SMEs, for which the enhanced tax benefits under the Credit aim to especially benefit.
More details on these construction sector initiatives will be announced during the Ministry of National Development’s Committee of Supply.

(D) Raising Foreign Worker Levies

The Government will complement its support for enterprise innovation and upgrading by gradually raising the foreign worker levies, and tightening the levy tiers that are based on the proportion of foreign workers in a company’s workforce. The increase in levies will be calibrated and carefully phased in, so as to give companies a clear incentive to upgrade while providing time for them to develop plans to re-gear and grow through productivity improvements. The changes will start with a modest increase in levies in 2010, and will involve further increases over the next two years. The overall dependency ratio for all categories of foreign workers (Work Permit and S Pass holders) will remain unchanged.

As a first step, the Government will raise levy rates for most Work Permit by between $10 and $30 on 1 Jul 2010, phasing in further adjustments in levy rates and tiers in 2011 and 2012. Taking the three years together, there will be a total increase of about $100 in average levies per worker in manufacturing and services. The construction sector, where there is much scope for productivity improvements, will see a larger increase.

In July 2010, the Government will also sub-divide the current single rate ($50) for S Pass workers for all sectors, to two tiers ($100 and $120). Further adjustments will then be phased in until the rates reach $150 and $250 by July 2012.

The Ministry of Manpower and Ministry of National Development will release more details of the changes to the Foreign Worker Levy this week.

(E) Supporting Business Restructuring

(E1) Tax Allowance to Defray Acquisition Costs (New)

The Government will introduce, for five years, a one-off tax allowance to help defray a portion of acquisition costs for qualifying Mergers and Acquisitions (M&As). The allowance will have the following features:

- 5% of the value of the qualifying M&A deal;
- The allowance will be capped at $5 million;
- The allowance will be written down over five years.

Previously, interest expenses incurred in acquisitions could be deducted against taxable dividend income under the imputation system. This is no longer possible under our 1-tier system as dividends are not taxed. The new M&A allowance is designed for simplicity. It also does not distinguish between interest costs and other costs. In particular, it is neutral between debt and equity in financing qualifying M&A transactions.
The M&A allowance will be granted to qualifying M&As executed from 1 Apr 2010 to 31 Mar 2015 (both dates inclusive).

(E2) Stamp Duty Relief for Acquisition of Unlisted Shares (New)

The Government will also grant stamp duty relief on the transfer of unlisted shares for qualifying M&A deals. (Currently, listed shares are exempt from stamp duty.) The amount of stamp duty relief will be capped at $200,000 per year. This stamp duty relief will be granted to qualifying M&As executed from 1 Apr 2010 to 31 Mar 2015 (both dates inclusive)\(^4\).

The M&A allowance and the stamp duty relief will cost about $100 million per year.

(F) Enhancing Land Productivity

(F1) Introduction of Land Intensification Allowance (New)

The Industrial Building Allowance (IBA) was introduced in 1940s to encourage industrialisation. While the IBA has met its objective, it is no longer adequate or relevant to meet Singapore’s current priorities – to promote the intensification of industrial land use towards more land-efficient and higher value-added activities. The Government will phase out IBA, with immediate effect. Existing claimants can continue to claim their remaining IBA until the qualifying expenditures are written down\(^5\).

The Government will however introduce the Land Intensification Allowance (LIA) for nine sectors identified to have large land-take\(^6\). The LIA will give businesses in the targeted sectors allowances on the qualifying costs incurred to build qualifying industrial buildings or structures, if they intensify the usage of industrial land to meet or exceed the Gross Plot Ratio (GPR) benchmarks set for each sector. To encourage intensification of industrial lands, the benchmarks will be set around the 75\(^{th}\) percentile of the actual GPRs for each sector.

Businesses will be able to claim an initial allowance of 25% and an annual allowance of 5% and can thus fully write down the qualifying costs in 15 years under the LIA – this is more generous than the annual allowance of 3% and full write-down over 25 years under IBA.

The LIA incentive will be in place for five years (with effect from 1 Jul 2010) and will be administered by EDB.

\(^4\) IRAS will release more details of the M&A allowance and stamp duty relief scheme by June 2010. The full stamp duty on such transfers of unlisted shares will continue to be payable on all transfers of unlisted shares until details of the scheme including the definition of qualifying M&A deals are finalised. IRAS will subsequently refund the stamp duty paid if a deal, which is executed on and after 1 Apr 2010 but before the finalisation of the rules, can satisfy the finalised rules.

\(^5\) Qualifying capital expenditures incurred by businesses on or before 22 Feb 2010 on the construction or purchase of qualifying industrial buildings will continue to qualify for IBA, subject to existing IBA rules.

\(^6\) The nine sectors are: pharmaceuticals, petroleum, other chemicals, aerospace, solar cell manufacturing, petrochemicals, specialties, semiconductor-wafer fabrication as well as marine and offshore engineering.

**Budget 2010 Key Budget Initiatives**