BUDGET SPEECH 2013

A Better Singapore: Quality Growth, An Inclusive Society

Delivered in Parliament on 25 February 2013 by Mr Tharman Shanmugaratnam, Deputy Prime Minister and Minister for Finance, Singapore

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A. ECONOMIC PERFORMANCE

A.1. Mdm Speaker, I beg to move, that Parliament approve the financial policy of the Government for the Financial Year 1st April 2013 to 31st March 2014.

FY2012 Fiscal Position

A.2. Our Budget for FY2012 is expected to have a surplus exceeding what we had estimated a year ago. We had estimated an Overall Budget Balance of $1.3 billion or 0.4% of GDP. We now expect a higher surplus of $3.9 billion or 1.1% of GDP. This additional surplus was due entirely to higher revenues from stamp duties and vehicle-related taxes. These are short-term increases in revenues, which we cannot expect to be sustained.

Economic Outlook and Performance

A.3. The Government expects Singapore's GDP growth in 2013 to remain modest at between 1% to 3%. This is comparable to the 1.3% growth last year, and down from the 5.2% growth in 2011.

A.4. While part of this slowdown is due to global cyclical factors which affected sectors such as Manufacturing, it is also to be expected as our economy matures and our labour force grows more slowly. In fact, our economy has been at full capacity since our strong recovery from the global financial crisis. This is why we have virtually full employment. It is also why wage costs and many other costs like rentals have been going up.

A.5. Rising costs remain a concern for both businesses and households. The pass-through of higher business costs into consumer prices, together with the sharp increase in COE prices, has kept upward pressure on CPI inflation in the last two years.[1]

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[1] CPI All-items inflation was 5.2% in 2011 and 4.6% in 2012. CPI All-items less imputed rentals on owner-occupied accommodation (which have no impact on the cash expenditure of households who are owner-occupiers) was 4.2% in 2011 and 3.6% in 2012.

A.6. Household incomes have risen, in 2012 and over the last five years. Adjusted for inflation, the median Singaporean household saw income per member grow by 14% over the last five years, cumulatively. Lower-income households at the 20th percentile also saw real income per member grow by 10% in the last five years. Excluding imputed rentals on owner-occupied homes, which do not involve actual spending by households, both the median and 20th percentile households have in fact experienced growth of 19% in real incomes over the five years.[2] This reflects both higher individual wages and greater employment opportunities, part-time and full-time.

A.7. However, many Singaporeans who work in jobs at the lower rungs of the income ladder, especially cleaners, waiters, and security guards, have not fared as well. They have been able to get jobs easily, but have seen little or no rise in their real incomes over the last five years. These jobs should be paid better, and our schemes will help ensure that they are. For cleaners, the Government is working with NTUC and the business community to equip them better and to uplift their pay through the recently introduced Progressive Wage Model. We will be doing likewise for security guards. This Budget will also introduce further measures to support our workers, including those with the lowest wages.

A.8. Slowing or stagnating incomes are a real challenge for many economies around the world. It has happened not only in the advanced economies like the US, but also in the Asian countries that are in the same league as Singapore. Chart 1 shows the experience of the "Asian Newly Industrialised Economies (NIEs)". The median Singaporean household has seen its real income grow more than twice as fast as that in Hong Kong. South Korea and Taiwan have seen little or negative growth in real median household incomes.

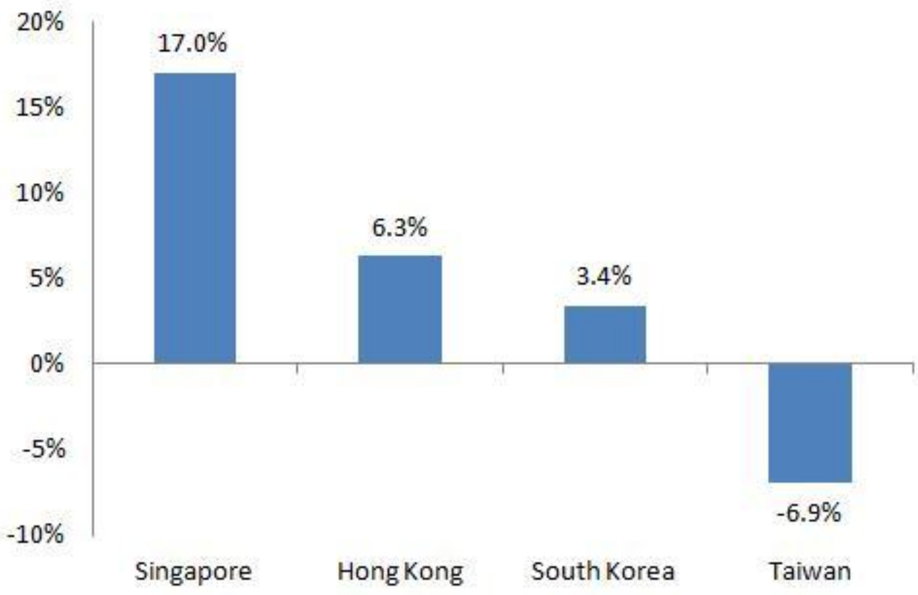
A.9. We do not set our goals based on whether our incomes do better than in other countries. Many of them in fact have strengths that we lack in Singapore. But their experiences provide a sense of perspective. They illustrate the realities of the highly competitive world that every country now faces.

[2] See data at Annex

A.10. We cannot change that reality. But it means that we have to work harder, through both our economic and social strategies, to help Singaporeans improve their lives and build a truly inclusive society.

Chart 1: Income Growth of Singaporean Households: Compared with other Asian NIEs

Real Growth of Median Total Household Incomes after Accounting for Taxes and Transfers, 2007-2011 (Cumulative)



Source: Data from National Statistical Offices and the IMF

Notes:
1. South Korea: based on average rather than median income. Also includes transfers but not taxes.
2. Hong Kong: based on median income after accounting for cash transfers.
3. Hong Kong data is for 2006-2011, unlike the other three countries (2007-2011).
4. Cumulative real growth for Singapore from 2007-2012 is 17.7%. Data for 2012 is not available for Hong Kong, South Korea and Taiwan.

B. A BETTER SINGAPORE: QUALITY GROWTH, AN INCLUSIVE SOCIETY

B.1. Many Singaporeans, through Our Singapore Conversation platforms, have been sharing their hopes for Singapore – the kind of home we want to build for our families and our children. There has been a rich diversity of views. But a common set of aspirations is emerging, a common vision of the future that Singaporeans want:

- *A home with a strong Singaporean identity and sense of belonging*

- *A Singapore with a robust and vibrant economy, and with good jobs that enable a more fulfilling pace of life*

- *A home with strong families, and where our seniors can age with dignity*

- *A society that takes care of the disadvantaged*

- *A Singapore with affordable living*

- *A society with greater sense of togetherness, and where the Government and the people have a more collaborative relationship*

B.2. This is the Singapore that we want to build together.

B.3. The Government is making major moves to support this endeavour. Since 2010, we have embarked on major steps to transform our economy so as to create better jobs and allow for a better pace and quality of life. We are also making important shifts in social policies, as announced in last year's Budget, to foster a fair and more inclusive society.

B.4. We will need to make further moves. So that by the end of the decade, we will have a better Singapore, a better future for all Singaporeans.

Immediate Challenges: Housing and Transport

B.5. First, we have pressing challenges in housing and transport. The Government will spare no effort in resolving these problems.

B.6. We want to reduce the cost of housing relative to the income of young Singaporeans. Prices in the HDB resale market and private market have risen too rapidly in the cycle that began as we recovered from the 2009 economic crisis. We have taken major steps to cool the housing market. We have also ramped up the supply of HDB flats which will help first-time buyers book their flats faster as well as ease prices in the resale market. And we have increased supply of private housing through Government Land Sales. The Minister for National Development will speak more in COS about these immediate challenges as well as how we can ensure affordable, quality housing for Singaporeans over the longer term.

B.7. We have to make many improvements in public transport. Congestion and waiting times are a daily problem for Singaporeans. We are ramping up bus capacity, especially feeder services, to improve frequency and add new routes. We are accelerating the rollout of the additional 800 buses that we made provisions for last year. In addition, the Land Transport Authority will be tendering out routes to private operators.

B.8. Our rail network will expand by more than 50% by 2021. That is still eight years away. But in the meantime, we will see improvements that will help relieve congestion. Parts of the Downtown Line will start operating from the end of this year, and new trains will be added to existing lines from next year. We will also introduce other measures to reduce crowding, including significantly enhanced incentives for commuters who travel during the "shoulder" periods before and after the morning peak hour. The Minister for Transport will talk about these measures in the COS.

An Economy and Society in Transition

B.9. While we fix these immediate problems in housing and transport, we have to press on with our priorities to help Singaporeans have a better quality of life over the medium to long term.

B.10. We have to shift gears for an economy and society that is in transition.

B.11. We are no longer a developing economy, but we have not achieved the level of productivity and income of an advanced economy. At the same time, our own workforce is growing more slowly, and is gradually getting older.

B.12. We must make every effort to achieve **quality growth:** growth that is achieved mainly through innovation and higher productivity, and growth that will benefit all Singaporeans – our children, working families, our elderly and disabled.

B.13. Our strategies for achieving quality growth and **an inclusive society** are in fact tied inextricably together. Raising productivity is not just our most important economic priority, but enables us to build a better society. Higher productivity is the only sustainable way to raise incomes for ordinary Singaporeans, and provide jobs that give people a sense of responsibility and empowerment. Higher productivity is also necessary for us to shorten working hours over time and allow Singaporeans to enjoy a better work-life balance.

B.14. Our society is also facing the pressures of widening income disparities. This is happening in cities globally and in Asia, but it matters more to us because Singapore is not just a city but also a nation. We must take further steps to temper inequality. We also want to do more to enable our seniors to have a sense of economic security and fulfilment in their retirement years.

B.15. On both economy and society, therefore, we need to shift our thinking. In government: where we are reshaping policies and driving new initiatives, especially to sustain social mobility and strengthen support for older Singaporeans. In the business community: which has to innovate and adjust to the permanent reality of a tight labour market. In our society at large: where we have to accord ordinary workers not just better pay but greater respect. In the community: with non-profits and other voluntary groups pursuing the causes we all believe in, and working with an active partner in the government. And for all of us individuals, to do our best to improve and to contribute to our country in our own ways.

Transforming Our Economy for Better Jobs

B.16. We are restructuring our economy. We began this in earnest in 2010, by:

- Tightening foreign worker inflows;
- Supporting enterprises in their efforts to upgrade operations and improve productivity; and
- Investing in our workers by heavily subsidising their training, in every skill.

B.17. We need to intensify this economic restructuring and skills upgrading so as to achieve quality growth. Although wages are going up in a tight labour market, productivity has lagged. If we do not do better in raising productivity, we will be caught in a situation where businesses lose competitiveness, and wages eventually stagnate. Both workers and businesses will be worse off.

B.18. We must help our SME sector revitalise itself. There are however wide divergences in efficiency amongst SMEs even in the same industries. Restructuring will unfortunately lead to some businesses being winnowed out, but the end result must be a vibrant and sustainable local SME sector. Every support must be provided to help the businesses which bring in more efficient techniques and service models, so they can grow in a tight labour market, and where possible make their mark internationally.

B.19. There are already many examples of SMEs transforming themselves, in every sector. For example in furniture manufacturing, local firms are training multi-skilled employees, relocating manpower-intensive activities, developing unique brands and carving a niche for themselves in overseas markets.

B.20. To make this economic transition, we must also harness the value of older Singaporeans and design jobs suited for them, as well as for other potential employees who are unable to work regular, full-time schedules. Flexible work practices must become more common, enabling employees to structure their work so that they have time for their families or for personal development like part-time courses. We should also make it possible for more employees to have the option of telecommuting from home or working from "smart work centres" near their homes, like what they have in Amsterdam and Seoul. The Government will work closely with businesses in these efforts.

Building a Fair and Inclusive Society

B.21. We are also taking major steps to ensure a fair and more inclusive society.

- First, to sustain **social mobility**. Meritocracy alone will not assure us of this. We therefore want to do more, starting from early in our children's lives, to give the best leg up to those who start with a disadvantage. We cannot change the fact that children have different family backgrounds that bring very different advantages and disadvantages. But we want to find every way, at the pre-school and primary school levels, to help our children from poorer or less stable families to develop confidence and the self-belief that gives them aspirations of their own, and to help them catch up when they fall behind. And we will provide pathways to develop every skill and ability, so that every child can discover his strengths as he grows up, and can do well.

- Second, we must do more to mitigate inequality. We are making our fiscal system **more progressive**, by tilting our taxes and benefits in favour of the lower- and middle-income groups. Currently:

  i. A lower-income older worker receives a significant top-up of his income through Workfare each year.

ii. A middle-income family with a child in child care gets subsidies of $4,800 per year. If the child is in university, he can receive more than $8,500 in bursaries over the course of his studies, and get a subsidised government loan to pay off the remaining fees and cover study expenses. Children from lower-income families receive far more.

iii. Singaporeans with disabilities now receive substantially greater support. Both when young through early intervention under EIPIC,[3] and as adults, where we provide a substantial incentive through the Special Employment Credit (SEC) for firms to employ them so that they can contribute and lead more independent lives.

iv. An older Singaporean in need of long term care can receive subsidies of $870 per month for home-based care or $1,200 per month if he is in a nursing home, following the changes we introduced last year. Those who need more help will get it through Medifund.

B.22. We will take further, significant steps in this Budget towards strengthening social mobility and increasing the progressivity and fairness of our system. In particular, with enhancements to Workfare, a low-wage worker who is 60 years old would receive a top-up of his pay of about 30%. This is in addition to what his employer can receive through the SEC, and the new Wage Credit Scheme, to be introduced in this year's Budget, which will encourage his employer to up his pay.

B.23. While raising incomes is the best way to help lower- and middle-income Singaporeans cope with rising costs, this Budget will also include measures to help them more immediately. The most significant support will go to older Singaporeans, to help them with medical costs.

B.24. Taking all our measures together, including those which will be announced in this Budget, we are providing substantial benefits to lower- and middle-income Singaporeans. The full picture can be seen if we look at benefits over a lifetime, starting from a couple's

[3] Early Intervention Programme for Infants and Children

needs when they first have children, to the time they get old and need other types of help, especially with healthcare costs.

B.25. In total, over a lifetime, a young low-income couple with two children can expect to receive more than $600,000 in benefits in real terms (2013 dollars). (This comes from subsidies and other means-tested benefits for their children's education, housing, healthcare, Workfare, the GST Voucher, and other schemes.) This is much more than we used to provide in the past. In the last decade alone, we have more than doubled the lifetime benefits in real terms for such families.

B.26. When we take into account all the taxes that such low-income families will pay (mainly GST), they will get back far more in benefits. In fact, they will get more than five dollars in benefits for every dollar in taxes paid.

B.27. However, today's generation of **older Singaporeans** will not benefit as much as younger Singaporeans from the enhancements in Workfare and CPF and other schemes. We want to do more for this senior generation of Singaporeans, who worked over the years, often with low pay, to build a better future for their children. They made today's Singapore possible. We will do more for them. The Government is reviewing the system of healthcare financing and some other schemes to help them in their retirement years.

B.28. Finally, the Budget will make significant investments to nurture the sports and arts, which play a growing role in enriching life in Singapore. Over the next five years, we will invest 30% more in sports programmes, and more than double our investments to develop regional- and community-level sports facilities. The Government will also create a new Cultural Donation Matching Fund, to provide dollar-for-dollar matching for donations to the arts and culture.

B.29. In short, we are building **a better Singapore**: a more inclusive and caring society, with an innovative and dynamic economy, so that Singaporeans can have better opportunities and more fulfilling lives.

C. RESTRUCTURING FOR QUALITY GROWTH

Growing through Productivity

C.1. Let me go on to the first major thrust of the Budget: to intensify our efforts to achieve quality growth, i.e. growth that is driven by sustained productivity improvement rather than manpower growth.

Our Productivity Gains Since 1980

C.2. Productivity gains are not new to Singapore. With the exception of the previous decade, our productivity growth rates were well above the norm even as our labour force grew significantly.

C.3. In 1980, we were what the World Bank called a middle-income developing country. However, our productivity **level** was about a third of the most advanced economies then.

C.4. Three decades on, our productivity level is about 70% of today's global productivity leaders – the US, Japan, Switzerland, and Sweden. Our overall productivity is now in fact above Hong Kong's, although it used to be below theirs in the 1980s.

C.5. We have achieved this by:

a. Bringing in leading global companies at each stage of our development, with the technologies to create better jobs for Singaporeans;

b. Upgrading local enterprises, including those in mature industries that were once thought to be fading out, like the food manufacturing and marine industries; and

c. Above all, by building a strong education system and improving the skills of our workers.

A New Phase of Economic Transformation

C.6. However, we must now go through **a new phase of transformation**.

C.7. First, we need to catch up from a decade of slow productivity growth.

C.8. Second, we also have much room to catch up with the global leaders in each of our sectors.

C.9. Third, we must also reduce the wide gaps in efficiency between the different sectors of our economy. In particular,

a. Our Manufacturing and Transport sectors are well ahead in productivity compared to other economies in Asia apart from Japan, although we are behind the global leaders.

b. But in Construction, our productivity is about one-fifth below that of Hong Kong and South Korea, and much further below that of Japan and other international leaders.

c. In many Services industries, like F&B and Retail, we are also about one-fifth behind Hong Kong.

C.10. We must therefore press ahead and upgrade technologies, skills and expertise across our economy in this decade, so that we can be a truly advanced economy. The 2% to 3% per annum target for productivity growth that we had set after the weak decade until 2009, is ambitious but we must make every effort to achieve it. That will bring us, at the end of this decade, much closer to where the most advanced economies are today.

C.11. There is also another important reason why we have to step up productivity improvement. If we do not succeed in this new phase of transformation, we will lose ground to emerging cities in Asia, which are catching up quickly. We can lose even the good jobs that we want to retain in Singapore. Several Chinese coastal cities, for example, are catching up in industrial robotics, so as to compete with German and Japanese manufacturers.

Foreign Workforce Growth

C.12. We slowed down the increase in our foreign workforce in 2012 compared to the previous two years, but it was still rather high – 67,000. However, most of the growth in the foreign workforce was seen in just two areas of the economy: the **Construction and Process** industries, and the **Services** sector. In Manufacturing, there was in fact a slight decline in the total stock of foreign workers.

a. The Construction and Process industries, with most workers coming in at the Work Permit level, accounted for about half of the total increase in the foreign workforce. This was partly due to the ramp-up in infrastructure projects, but also because productivity in these sectors remains weak.

b. In Services, there has been continued rapid growth, especially of S Pass employees.

C.13. Overall, the **total number of Employment Pass (EP) holders declined last year**. This was in part a result of the tightening of MOM's eligibility criteria, especially for Q1 pass holders, so as to raise the quality profile at the lower end of the foreign professional workforce as our economy restructures.

Our Foreign Worker Strategies Going Forward

C.14. Foreign workers now comprise 33.6% of our total workforce.[4] The Government had in 2010 accepted the Economic Strategies Committee's recommendation that we moderate the growth of the foreign workforce so as to avoid its proportion of the total workforce increasing significantly beyond one-third. While our mix of policies must allow for foreign worker numbers to fluctuate in the course of the business cycle, or when we have major infrastructural projects underway as is the case currently, the proportion of foreign workers to the total workforce should not increase indefinitely. Our foreign worker policies remain guided by this objective.

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[4] This number excludes Foreign Domestic Workers (FDWs), consistent with the definition adopted in 2010 for the purpose of setting a long-term target for the proportion of foreign workers. The actual proportion at that time was almost one-third.

C.15. We have to make further adjustments so that we can continue moderating the growth of the foreign workforce, but they will not be across the board. The adjustments will reflect the circumstances of each sector.

a. First, we will make **selective further Dependency Ratio Ceiling (DRC) cuts** for sectors where there has continued to be significant growth in foreign worker numbers, and where productivity levels are still well behind international productivity leaders.

b. Second, we will **increase levies** for all sectors to ensure that businesses continue to reduce dependence on foreign manpower and improve productivity. The levy increases will be sharper for firms that are most dependent on foreign workers.

   However, while there will be significant levy increases for less-skilled workers, we will not increase levies for skilled workers in most sectors after the previously-announced rates for July 2013 kick in. So most companies will not need to pay a higher levy if they rely on skilled Work Permit Holders.

c. Third, we will encourage companies to **pro-actively develop the talents and skills of our Singaporean workforce** and reward them fairly.

Why We Cannot Pause in Restructuring Our Economy

C.16. We **cannot cut off the flow of foreign workers abruptly, but we have to slow its growth**. We are therefore making these further adjustments, and we have to do so in full knowledge of the difficulties they will pose for many of our companies. There has been extensive feedback from businesses and associations about the challenges that employers face in finding local workers.

C.17. And as everyone knows too, there are many sectors such as the Construction, Marine and Process industries, and even in some Service industries, where there will remain a significant **shortage of local workers** and where we will continue to need foreign workers for some time to come.

C.18. However, the basic reality is that these **sectors which are most dependent on foreign workers** are also the ones **furthest behind international standards of productivity**, and which account for the lag in productivity in our overall economy.

C.19. The tightening of foreign worker policies is therefore aimed mainly at **reducing reliance on manpower, not merely replacing foreign workers with locals.** That is the only way we can significantly improve productivity and avoid an indefinite increase in the ratio of foreigners in our workforce.

C.20. Further, within the Services sector, industries like F&B and Retail that have been most reliant on foreign workers have also seen **low wages and low wage growth for local workers** in certain jobs. Waiters are an example.

C.21. **We cannot carry on in the same way**. If we pause now and postpone the restructuring of these industries, we will face the same problems of low productivity, low wages and low profitability in these industries in future.

C.22. The problem does not merely lie in individual enterprises, but in the **structure of industry.** In Construction and Services, there are many small firms working very hard to survive, and to attract local employees. Sometimes, the owners themselves double up as workers. Many find it difficult to scale up to a point where they can invest in significant productivity improvements or build up and retain a pool of skilled employees.

C.23. F&B is a good example of this fragmented industry structure. The problem has not been inadequate workforce growth. The **F&B workforce has in fact increased by one-third (31%)** over the last five years, with foreign workers making up half of the increase. However, there has also been rapid growth in the number of F&B establishments. Many new F&B firms are formed each year, and many also exit, but the total number has grown. With our local workforce now growing more slowly, and as we are at full employment, many firms find it increasingly difficult to attract local workers.

C.24. The structure of some of our industries will inevitably have to change, given our tight labour market. Consolidation is part and parcel of restructuring. While efficient enterprises and those who develop stronger brands will grow, others may eventually downsize, switch to new business lines, or move parts of their operations abroad. This is indeed how productivity has advanced in the most developed economies – not just by individual firms innovating and upgrading, but also through the freeing up of space in the industry for more dynamic enterprises to obtain workers and grow.

C.25. The Government cannot decide which firms should succeed, or which employers within an industry should get more workers while others get less. Only the market can decide that. But the Government can and will actively support all SMEs that are willing to upgrade, so that they can retain their roots in Singapore and grow. The **restructuring of our economy must result eventually in a dynamic and re-energised SME scene**.

C.26. Businesses have to respond in new ways to the tight labour market – adopting shared services to save manpower, redesigning jobs, and giving workers broader responsibilities and rewarding them fairly. Indeed, in every sector, there are already examples of SMEs that stand out as having adopted these practices and are growing. Consumers too have to adjust. For instance, by getting used to self-serve or semi-serve models and returning trays, all of which are common in the F&B industry in many developed countries.

Quality Growth Programme

C.27. In this Budget, we will introduce a **Quality Growth Programme, which is aimed at helping businesses to upgrade, create better jobs and raise wages**. The Quality Growth Programme has four pillars:

a. **Tightening Foreign Worker Policies.** We will continue tightening our foreign workforce policies through a targeted approach, considering the circumstances of each sector and each category of workers.

b. **A 3-Year, Transition Support Package.** We will introduce a special 3-year package to support companies during this period of restructuring. This will include a new Wage Credit Scheme to encourage companies to share productivity gains with their workers through higher wages.

c. **Strengthening of Productivity Incentives.** We will also strengthen our schemes to help companies improve productivity, and make it much easier for companies to tap on them. These measures will be focused not just on helping individual companies, but also on supporting industry-wide collaboration.

d. **Capabilities for New Growth Industries.** We will also develop capabilities that will enable us to chart new frontiers in the manufacturing sector, and enable our Services sector companies to seize opportunities in Asia's rapidly growing economies.

C.28. The Government will not be keeping the additional levies that we will receive as a result of the additional tightening. We have in fact flowed back to companies the additional revenue that was collected since we began tightening in 2010 – through the Productivity and Innovation Credit (PIC), the SEC to help firms employ older workers, as well as various productivity grants and training subsidies. This will continue to be our approach over the next three years: **through new initiatives and enhancement of existing programmes, we will channel all additional levies collected back to help businesses upgrade and share productivity gains with their workers**.

Tightening Foreign Worker Policies

C.29. Let me first outline our measures to further moderate our demand for foreign workers.

C.30. First, we will **raise Foreign Worker Levies across the board in July 2014 and July 2015**. Increases will be most significant in sectors where productivity growth is weak and the growth of the foreign workforce is significant.

C.31. We will also take further measures to moderate foreign workforce growth in the Construction, Process and Marine sectors, as well as the Services sector.

Construction and Process Sectors

C.32. First, we will mandate the use of more manpower efficient designs and technologies in building projects through increases in the minimum Buildability scores.[5] The Government will take the lead and adopt even higher standards of buildability and constructability[6] for public sector projects, which will yield significant productivity gains.

C.33. Second, we will:

a. Increase levies for less-skilled Work Permit Holders by $150 between July 2013 and July 2015.

b. Steeper levy increases of $300 will be imposed on workers hired outside a company's Man-Year Entitlement or MYE.

C.34. We will not be making further cuts to the MYE in Construction this year because, by July 2013, we will have made a significant cumulative reduction of 45% since 2010. This reduction applies to new projects undertaken over the next few years.

Services Sector

C.35. In addition to levy increases, we will reduce the overall DRC and S Pass Sub-DRC by 5 percentage points each in the Services sector. Therefore:

a. The overall DRC will come down from 45% to 40%; and

b. The S Pass Sub-DRC from 20% to 15%;

For their existing workers, companies will be given until June 2015 to comply with the new DRCs. However, companies will not be allowed to bring in new foreign workers beyond the new DRCs from 1 July 2013.

C.36. The DRC reductions will particularly affect services industries like F&B. As I have just explained, this is a painful but necessary step

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[5] The Buildability score requires labour saving elements to be taken into consideration in the design of a project.

[6] Constructability scores mandate the use of better construction methods and technology at the building stage of a construction project.

that we have to take, in order to allow for market restructuring, to encourage innovations in the industry and to grow stronger companies that can create good jobs and raise wages. However, to help firms in the Services sector cope with labour constraints, MOM will allow more flexible deployment of foreign workers within a firm to raise productivity.

C.37. Cleaning. Other sectors such as Cleaning will not be significantly affected as most firms remain below the new 40% DRC. Together with the levy increases and programmes like the Clean Mark Accreditation Scheme, the DRC cut will give a push towards higher productivity and wages in these sectors.

C.38. Healthcare. Our Healthcare sector is able to provide good quality care with low labour intensity.[7] However, our healthcare manpower demands will increase as our population gets older. While we will continue to expand our local supply of healthcare manpower, we will still need a significant pool of foreign healthcare staff. In order to support the healthcare needs of Singaporeans, we will continue to ensure flexibility so that healthcare institutions are able to fulfil their staffing needs.

Marine Sector

C.39. EDB and SPRING are working with the key players in the marine sector to upgrade operations to improve land and labour productivity, and focus their Singapore operations on higher value design and engineering activities.

C.40. As part of this plan, we will reduce the overall DRC for the Marine sector from 1:5 to 1:3.5. This change will take place in two stages, in January 2016 and again in January 2018.

S Pass

C.41. We will tighten the qualification criteria for all S Passes, so as to moderate future growth, and ensure ample opportunities for career progression and wage growth for Singaporean mid-skilled and technical professionals.

[7] As an example, in 2012, our practising nurse to population ratio was 1:180, as compared to the OECD average of 1:116 in 2010.

a. From 1 July 2013, we will increase the minimum S Pass qualifying monthly salary from $2,000 to $2,200.

b. We will introduce a tiered salary system based on age and qualifications of the applicant. Older and more experienced S Pass applicants will need to qualify at higher salaries. <u>This will help to level the playing field for our local workers in the same jobs and also nudge employers to bring in better calibre workers to raise the overall quality profile of S Pass holders.</u>

C.42. MOM will release more details of these changes in a separate press release.

Employment Pass

C.43. Our employment market for PMEs (Professionals, Managers and Executives) will evolve in the coming years. We will see progressively larger numbers of Singaporean university graduates entering the workforce.

C.44. Our EP policy must ensure that firms in Singapore remain able to recruit the best teams, including both locals and foreigners with the skills and expertise our companies need to compete internationally. At the same time, we must maintain a level playing field for Singaporeans with respect to jobs and progression opportunities.

C.45. We will therefore make further calibrated adjustments in our policies.

C.46. First, MOM will continue to tighten **eligibility requirements** for EP workforce, especially for **Q1 pass holders**. This has already led in the last year to more foreign employees coming within the S Pass category, which are subject to a DRC and levies.

C.47. Second, for the longer term, MOM will put in place a **framework to ensure that firms give fair consideration to Singaporeans in their hiring practices**. MOM has been studying work pass policies in various developed countries. Some countries, for example, require companies to advertise job vacancies to locals, before they can apply for a foreign work pass. Any such framework must enable companies to continue to meet their competitive needs, so that they can provide Singaporean professionals ample opportunities to do well in their careers. This framework is, however, not a matter to be rushed. MOM will consult closely with all stakeholders to develop a workable framework.

C.48. This will be discussed further in MOM's COS, together with the other key initiatives I announced.

3-Year Transition Support Package

C.49. To help businesses through this period of restructuring, we will provide significant government support with a **3-Year Transition Support Package**. There are three components:

a. Wage Credit Scheme

b. PIC Bonus

c. CIT Rebate

Wage Credit Scheme ($3.6 billion)

C.50. Businesses will have to restructure in a tight labour market in the coming years, and wages will have to rise. Government will provide support to help businesses raise their employees' wages. More importantly, this will incentivise employers to **share productivity gains with their employees**.

C.51. To do this, we will introduce a **Wage Credit Scheme** (WCS).

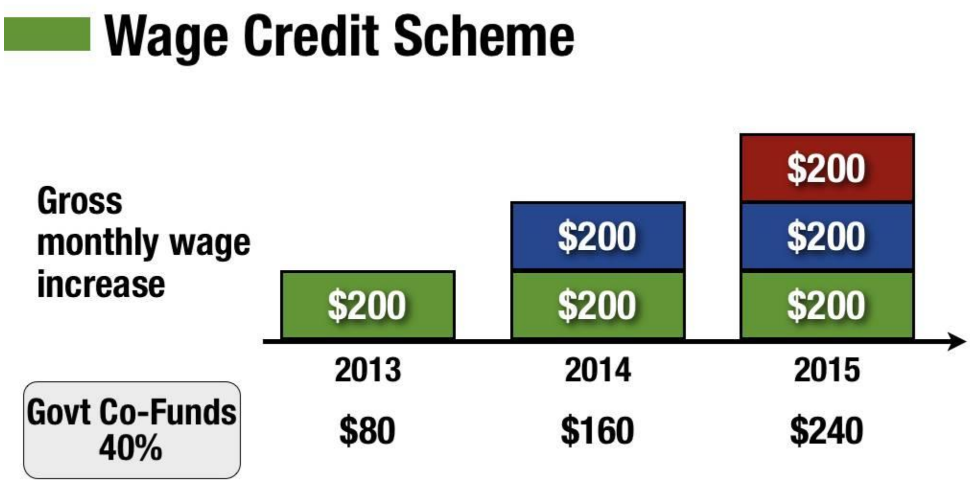
C.52. Under the WCS, the Government will co-fund 40% of wage increases for Singaporean employees over the next 3 years.

C.53. This co-funding will apply to wage increases for Singaporean employees earning up to a gross monthly wage of $4,000.

C.54. The Government will co-fund any increase in wages given to an employee in any year between 2013 and 2015, over his or her wage level in the preceding year. Co-funding will apply not just for that year, but for the rest of the period.

a. For instance, if an employer increases the gross monthly wage of his employee by $200 in 2013, the Government will pay 40% of the $200 wage increase, not just for 2013 but also the remaining two years.

b. If further $200 increases are given in 2014 and 2015, the Government will co-fund 40% of the total wage increases of $400 and $600 in 2014 and 2015 respectively.



C.55. There is no need to apply for WCS. **The Wage Credits will be automatically paid out to employers annually**. We encourage all employers to take full advantage of the WCS to share productivity gains with workers. The WCS will cost the Government about $3.6 billion over 3 years.

Productivity and Innovation Credit Bonus ($450 million)

C.56. We want as many businesses as possible to take advantage of the Productivity and Innovation Credit (PIC) scheme.

C.57. We will hence introduce a PIC Bonus as the second component of the Transition Support Package. Businesses that invest a minimum of $5,000 per Year of Assessment (YA) in PIC qualifying expenditure will receive a **dollar-for-dollar matching cash bonus**. The bonus will be up to $15,000 over three Years of Assessment, YA2013 to YA2015. This PIC Bonus is paid over and above existing PIC benefits.

C.58. The $5,000 minimum qualifying expenditure encourages small businesses to undertake meaningful productivity investments. Based on current claims, we expect that many firms will be able to benefit from the full $15,000 bonus. The PIC Bonus is expected to cost $450 million over three years.

Corporate Income Tax Rebate ($1.3 billion)

C.59. Besides higher manpower costs, businesses also face other cost pressures such as higher rentals. To help companies cope during this period of transition, I will provide *a special Corporate Income Tax rebate* from YA 2013 to YA 2015. **I will give a rebate of 30% of tax payable up to $30,000 per Year of Assessment.** This is expected to cost $1.3 billion over three years.

Cost Savings for Commercial Vehicles

C.60. We will also introduce two specific measures to help owners of commercial vehicles.

a. Currently, when commercial vehicles reach the end of their ten-year COE, the owners can only renew for five years with no further extension or pay more for a ten-year renewal. **We will allow owners who choose to renew their COEs for five years in the first instance to extend their COEs further for another five years**. This will ease their cash flow and provide flexibility. More details will be given by the Minister for Transport in MOT's COS.

b. I will also grant a **one-year 30% road tax rebate for goods vehicles, buses and taxis.** The rebate will take effect on 1 July 2013 and save businesses $46 million.

Strengthening of Productivity Incentives

C.61. I will now move on to the third major pillar of the Quality Growth Programme, which comprises a significant enhancement of the productivity incentives we have introduced since 2010.

C.62. We have taken onboard detailed feedback on how we can improve and strengthen our incentives to help businesses raise productivity. **Taken together, these enhancements will involve additional government resources of about $500 million over three years.**

C.63. The enhanced incentives will be at three levels of the economy:

Initiatives for Industry-wide Collaboration

C.64. First, we will support **initiatives for industry-wide collaboration that can either provide the scale that individual firms often lack,** or enable best practices to be widely replicated:

C.65. This will include **Collaborative Industry Projects** (Estimated $100 million over 3 years), where consortia of firms will develop solutions to industry-specific productivity challenges. This approach will be adopted in seven new priority industries.[8]

C.66. A further initiative will foster SME collaborations with large enterprises so as to enable co-innovation, capability upgrading and sharing of best practices within the supply chain. **We will broaden and enhance the PACT scheme** (Partnerships for Capability Transformation), which we initiated in the Manufacturing sector, to other sectors. (Estimated $60 million over 3 years)

Support for Individual Firms

C.67. Next, a set of initiatives to help **individual firms**:

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[8] These include food manufacturing, retail, F&B, printing and packaging, textile and apparel, furniture manufacturing, and social services. This is in addition to sectors that have already adopted this model – healthcare, ICT and construction.

C.68. I will make it much easier and faster for businesses to make PIC claims. Businesses and chambers such as the Singapore Chinese Chambers of Commerce and Industry (SCCCI) have asked that we broaden the range of investments that can qualify for PIC benefits. Just to give two examples, restaurants will be able to claim for dishwashing machines and contractors can claim for scissor lifts ($130 million over three years)**.** (Refer to Annex)

C.69. We will also introduce a **Land Productivity Grant** ($60 million) to support companies which intensify their use of land in Singapore. Help will also be given to those who choose to relocate some operations offshore, including to the immediate region, while retaining core functions in Singapore and saving land. This incentive was proposed by associations like the Singapore Business Federation SME Committee (SBF-SMEC).

C.70. Next, we will **link up SMEs with public-sector research institutions and private sector technology providers** to identify and develop productivity solutions that give them a competitive advantage ($51 million).

C.71. To promote prefabrication in construction, we will **set aside land for Integrated Construction and Precast Hubs** and enhance grants to encourage adoption ($10 million over two years).

Training for Singaporeans at All Levels of the Workforce

C.72. Third, we will provide a further **boost to training for Singaporeans at all levels of the workforce**:

C.73. We will **enhance the Workfare Training Support (WTS) scheme** for lower-wage Singaporeans as well as programmes to help PMEs to develop further expertise or to make mid-career switches.

C.74. We will launch an **SME Talent Programme,** developed by SPRING Singapore, together with the industry chambers and trade associations. The programme will provide awards to encourage polytechnic and Institute of Technical Education (ITE) students to join our SMEs upon graduation.

C.75. We will also **top up the Lifelong Learning Endowment Fund (LLEF) by $500 million.**

Improving Accessibility of Government Support Schemes for SMEs

C.76. Lastly, we will **improve the accessibility of government support schemes for our SMEs**. Amongst other things, SPRING will enhance the Enterprise Development Centres into one-stop, integrated SME Centres ($32 million).

C.77. Details of these initiatives will be shared during the COS of MTI, MOM and MND.

Working with the Hospitality Industry

C.78. We are working industry by industry, with business associations and individual firms to help them adopt customised solutions that will help them reduce costs, develop economies of scale, and raise productivity and wages. I will describe briefly how this is being done for the F&B industry as an example.

C.79. SPRING is working with the industry to help companies adopt wireless technologies; move towards using more central kitchens; and to collaborate more closely with food manufacturers. We are helping the industry to tap into a pool of part-time manpower and adopt manpower scheduling systems that many SMEs have found can lead to much more efficient deployment of employees. In addition, we are also helping promising F&B firms develop their brands and expand overseas.

C.80. There are already many examples of F&B establishments that are changing the way business is run, using technology and new management methods. Like PastaMania and Mr Bean, two well-known local brands. PastaMania had its roots in a foodcourt, and has now grown to have over 40 outlets in five countries. It pioneered mobile app ordering in the F&B industry, relies heavily on part-time staff, and invests in their training. Mr Bean started in People's Park Food Centre and has now grown to 70 outlets in six countries. It too has made significant productivity improvements. It is also collaborating with various Voluntary Welfare Organisations (VWOs) to provide training and employment to Singaporeans with special needs.

C.81. What we are doing in the F&B industry, we are also doing for our retail establishments and hotels – deep dives to understand the industry better and to work with firms to better cope in a tight labour market. (Refer to Annex)

Capabilities for New Growth Industries

C.82. Restructuring our economy is also about looking ahead for new growth opportunities. We have to keep developing new capabilities so that we stay relevant in the world and create higher value industries and high quality jobs for Singaporeans.

Charting New Frontiers in Manufacturing

C.83. The global manufacturing landscape is being redefined by disruptive technologies such as robotics and 3D printing, and business models involving mass customisation and use of manufacturing analytics. We must keep up with these developments to ensure that Singapore remains a key global centre for advanced manufacturing.

Future of Manufacturing Plan

C.84. EDB will set aside **$500 million over the next five years to support a Future of Manufacturing plan.** We will work with key industry partners, our universities, polytechnics and Research Institutes to test-bed new technologies and develop applications that can be commercialised and tapped on by our firms, including our SMEs. This has the potential to create a range of new jobs for Singaporeans in future, such as high-skilled robot operators and materials scientists.

C.85. We will also support the emerging satellite industry in Singapore through a **$90 million Satellite Industry Development Fund**.

Seizing Growth Opportunities in Services and in Asian Markets

C.86. In the services sector, the rapid rise of middle class consumers and dynamic enterprises in Asia is boosting demand for modern, high value services. Our companies, particularly in the professional services industries, are well positioned to ride this wave.

C.87. Data analytics is one such industry cluster that we are developing. We aim to develop a pool of 2,500 analytics professionals over the next five years to support this new area through programmes such as NTU's recently launched Business Analytics degree.

C.88. Infrastructure development is another such cluster. We are bringing together expertise and players from across the infrastructure value chain in Singapore, from project developers to EPC (Engineering, Procurement and Construction) players and financiers.

C.89. For example, the World Bank's investment arm, the IFC, will be setting its first Asset Management Company office outside Washington DC in Singapore, to invest in infrastructure projects in the region.

C.90. We will also help SMEs who are expanding their overseas footprint by mitigating the risks inherent in such ventures. In addition to the Political Risk Insurance Scheme introduced last year, IE Singapore is working with ADB and private insurers to expand the Asian Development Bank's Trade Finance Programme for Singapore exporters. This will provide credit guarantees to facilitate exports by our companies.

Further Tax Measures

C.91. I will also take the opportunity to make a few other tax-related changes.

Refining Tax Incentives for Companies

C.92. We will refine tax incentives for companies in the Maritime sector and Financial sector to ensure the continued growth of high-value activities in Singapore. (Refer to Annex)

Start-Up Tax Exemption

C.93. Investment holding companies or property development companies incorporated after 25 February 2013 will be excluded from the start-up tax exemption. Investment holding companies derive passive incomes, while firms in the real estate industry typically incorporate a company for each new property development. The start-up tax exemption for encouraging entrepreneurship is really not intended for such entities. These companies can still enjoy the partial tax exemption available generally to all companies.

Taxation of Employment Perquisites – Housing and Hotel Benefits

C.94. Benefits-in-kind such as housing or hotel accommodation and furniture and fittings that are provided in the housing premises are taxable as part of employment income. The current way of taxing housing and hotel accommodation has remained unchanged since the 1960s and under-values the actual benefits received by the employees.

C.95. To tax such employment perquisites more equitably, housing and hotel accommodation provided to employees will be taxed based on the Annual Value of the property[9] and actual cost of the hotel accommodation incurred by employers respectively.

C.96. The changes will take effect from Year of Assessment 2015. (Refer to Annex)

Tobacco Tax

C.97. Finally, we will take the final step to harmonise the tax rates between cigarette and non-cigarette tobacco products which we started two years ago. I will raise the excise duties for Beedies, Ang Hoon and smokeless tobacco by 25% from $239 per kilogram to $299 per kilogram, and unmanufactured tobacco by 1.5%, from $347 per kilogram to $352 per kilogram.

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[9] Less rent paid by employees, if any.

D. BUILDING A MORE INCLUSIVE SOCIETY

D.1. Mdm Speaker, let me move on to the second thrust of the Budget which is about making our society even more inclusive.

D.2. We have two key concerns. First, income inequality and the risk that it poses to social cohesion. We have to take further steps to ameliorate inequality and give every Singaporean a real chance to do well and have a fulfilling life.

D.3. We have a special challenge in inequality that stems from the fact that our education system and economy have been completely transformed over the past 40 years. Many in our present day **older generation of Singaporeans** had very little education – barely half were able to go beyond primary school. Their pay was very low in the first few decades of our development. Younger Singaporeans have benefitted from vastly-improved opportunities in education with the bulk of them going on to tertiary study. As a result, a disproportionate number of middle- and high-paying jobs are taken up by younger Singaporeans while older Singaporeans (those aged 55 years and above) make up more than 40% of workers in the bottom fifth of the income ladder. Our schemes to help low-income workers therefore pay special regard to our older Singaporeans.

D.4. Second, we want to do more for our retirees. As they depend on their savings to finance their daily expenses, they are most affected by rising costs. Many worry about being a burden to their children. We must provide our seniors a greater sense of security in their retirement years.

Four Pillars of Our Social Strategy

D.5. Our social strategies are shaped by these two key concerns of Singaporeans, which are key priorities for the Government.

D.6. Twenty years ago, we could get by with very little government social support apart from Public Assistance. We were a young nation then. Incomes were rising rapidly across the board and the elderly had more children to support them. However, as our society matures and our incomes rise more slowly and more unequally, we have to step up our social support.

D.7. We took significant steps in last year's Budget. This year, we will put in place further initiatives as part of our commitment to build a more inclusive society. There are four pillars to our strategy.

Promoting Social Mobility

D.8. First, we must do all we can to **promote social mobility**. It is still an important feature of our education system today. However, as all societies have found, social mobility becomes increasingly difficult to sustain beyond the first few generations who benefited from a good education system.

D.9. To make a difference, we must start earlier in a child's life – from the pre-school level. We must find new and innovative ways to support children with disadvantages as they grow up in our primary schools and beyond.

Better Jobs and Incomes

D.10. Second, we must continue to provide **good job opportunities** and **grow incomes for all Singaporeans**. This is fundamental to achieving a stable and cohesive society, here and everywhere else in the world. Indeed, better jobs and higher incomes are still the foremost concerns of most Singaporeans.

D.11. This is why the restructuring of our economy – so that we can grow incomes and give Singaporeans a sense of fulfilment in their jobs – is an essential part of our strategy for a better society.

A Fair and Progressive Fiscal System

D.12. Third, we need to **redistribute to benefit our lower- and middle-income groups**. We must maintain a progressive system of taxes and benefits and preserve a sense of fairness, even as we ensure that our economy remains competitive. Everyone contributes something to Singapore, but the bulk of our taxes is paid by the high-income group, and most of the benefits received by the lower-income group. And everyone must feel they belong to a thriving and cohesive society.

D.13. In this Budget, we will add to the progressivity of our system, including enhancing Workfare significantly to help older workers.

D.14. We are also reinforcing our social safety nets. We are charting new directions to ensure healthcare remains affordable for older Singaporeans. We are also improving on the way we deliver social services to bring support closer to the home and to better meet the needs of individual families.

D.15. We will also provide some help in this Budget to cushion the impact of rising costs on Singaporeans, especially our older folk.

Partnering the Community

D.16. The fourth pillar, and a critical one for a vibrant society, is the role of the community. The Government will provide **strong support for community initiatives** by partnering with community bodies and groups of citizens to improve the lives of Singaporeans.

D.17. There is already a growing number of such bright spots of goodness. Like the collaboration between Lien Foundation and Care Corner launched a few days ago to help underprivileged pre-schoolers. Or the house-to-house health screening and counselling programme launched in 2007 by a small group of medical students led by Tan Chong Keat. It has now grown to 400 students doing visits in Jurong, MacPherson and Bukit Merah.

Promoting Social Mobility

D.18. In this Budget, we will take further initiatives to strengthen opportunities for low- and middle-income pupils in our education system.

D.19. Over the past five years, we have significantly increased financial assistance for students of all ages, especially for those from lower- and middle-income families. We have enhanced pre-school subsidies, so that those from the bottom 20% of households only pay about $10 a month for child care. We have expanded the MOE Financial Assistance Scheme benefits in schools and provide low-income students with breakfast to start their school day well. We have also increased our bursaries for lower- and middle-income students when they go on to university, polytechnic or ITE.

Pre-schools

D.20. Together with the significant enhancements to child care and infant care subsidies that the Government announced in January, we will more than double our spending on the pre-school sector over the next five years to over $3 billion.

D.21. We are **expanding capacity** so that pre-schools will be available closer to homes in all our neighbourhoods, as well as closer to workplaces.

D.22. Second, to ensure quality and affordable pre-schools, we will bring **more operators onto the Anchor Operator (AOP) scheme**. We will provide for 16,000 additional places in AOPs by 2017.

D.23. Third, **good teachers.** They are the key to a quality pre-school sector. We will increase salary grants to the AOPs so that all their pre-school teachers will be graduates or diploma holders, up from 80% today. We will also provide pre-school providers **across the sector** with greater support in curriculum and teaching guides. Teachers will also be able to obtain scholarships and training grants to upgrade and can look forward to more structured training and career development.

D.24. Fourth, MOE will work on distilling best practices that have the potential to scale across the sector. MOE will on its own also set up **a few kindergartens to develop best practices** to be part of this effort to catalyse quality improvements.

D.25. Fifth, we will establish a new autonomous agency, the **Early Childhood Development Agency**, to drive improvements across the entire pre-school sector. The new agency will combine the pre-school teams within MOE and MSF, and will be overseen by both Ministries.

D.26. MOE and MSF will elaborate on these initiatives.

More Support at School for Disadvantaged Students

D.27. Our next set of initiatives is at the school level. They will help students with a disadvantage to catch up and better build a foundation to do well later in life.

Extend Learning Support

D.28. First, we will extend the learning support programme which is currently for Primary 1 and 2. It is resource-intensive because the classes are conducted in small groups of less than 10 students.

D.29. Our experience has shown that early intervention helps but also that continuous intervention is necessary to reinforce what has been achieved.

D.30. We will therefore extend the learning support beyond the early primary school years. The programmes will require about 600 additional teachers who will be specially trained.

School-based Student Care Centres

D.31. Second, we will significantly expand the number of school-based student care centres to take advantage of the move to single-session primary schools. These centres can play a useful role providing additional development support to students outside school hours. The widespread provision of after-school care, together with the enhanced subsidies that we introduced last year, will also be helpful to working parents.

Online Resources

D.32. Third, MOE will develop richer instructional materials to enhance teaching and learning in every school. One important initiative is to develop online resources that include the best lessons, especially on difficult concepts, taught by experienced teachers and specialists. This is a new way in which we can support our goal of enabling every school to be a good school with equal access to the best teaching resources.

D.33. All in, these three school-level initiatives will cost an additional $120 million a year.

Opportunity Fund

D.34. In addition, we will put another $72 million into the Opportunity Fund. Schools with a larger number of students from less advantaged backgrounds will receive up to $275,000 for a secondary school and $150,000 for primary. This is 40% up from today. We will also be extending the Opportunity Fund to the polytechnics for the first time. In total, this is expected to benefit about 100,000 students across schools, ITE and the polytechnics.

D.35. The Minister for Education will provide more details at the COS.

Edusave Endowment Fund

D.36. Furthermore, I will make a $300 million top-up to the Edusave Endowment Fund which is used to help all our students develop as well-rounded individuals.

Sustaining a Fair and Progressive Fiscal System

D.37. Let me move on to talk about the further steps we are taking to make our fiscal system more progressive.

Strengthening Workfare

D.38. We will make the following enhancements to the Workfare Income Supplement (WIS) starting from work done from 1 January 2013.

Expand WIS coverage

D.39. First, we will expand the coverage of WIS to workers earning a monthly wage of up to $1,900 per month. This is an increase of $200 from the current $1,700 ceiling. WIS will benefit about 480,000 Singaporeans or 30% of our citizen workforce.

Increase WIS payouts

D.40. Second, we will increase WIS payouts significantly. For workers aged 45 years and older, the maximum payout for a low-income worker earning $1,000 will increase by $700. Those aged between 35 and 45 years will get a smaller increase. The enhanced WIS will mean increases of between 25% to 50% in maximum payouts.

Increase WIS cash payments

D.41. Third, we will increase the proportion of cash in the WIS payout. Our unionists had made a strong call for this so as to help WIS recipients with their immediate expenses. Workers will now receive 40% of WIS in cash and 60% in CPF. Previously, recipients received 29% of WIS in cash.

Increase WIS payments to CPF-MA and SA

D.42. With the higher WIS payouts, even with more being paid in cash, workers will still receive more WIS top-ups to their CPF accounts. We will channel more to their Medisave and Special Accounts equally.

Example

D.43. This is a significant boost to the WIS. A 60-year old cleaner at the bottom 10th percentile of incomes, earning $1,000 a month, will get $3,500 in WIS annually. This is equivalent to **3.5 months of additional income** or a 29% top-up of his normal pay. Of this, **$1,400 will be paid in cash**, which is more than $100 a month. Both his healthcare and retirement savings will also receive a boost.

A more targeted WIS

D.44. We will also tighten the WIS criteria to ensure that they are focused on low-income households. There are some WIS recipients who own second properties, or have spouses who are fairly well-off. These individuals would be better-off and are not the target of the WIS scheme. We will thus implement additional eligibility criteria for WIS to exclude those with a spouse earning more than $70,000, and individuals or couples owning a second property.

D.45. Only a small percentage of current WIS recipients fall into this category. But it is best that we make the refinements now as we are significantly enhancing WIS.

D.46. In total, the enhancements we are making to WIS will bring its annual cost to $650 million, which is about 44% higher than last year's bill. (Refer to Annex.)

D.47. We will also be enhancing the WTS Scheme, which the Acting Minister for Manpower will elaborate on at COS.

Revised CPF Contribution Rates

D.48. With the increase in WIS payouts, we will be able to raise the employer and employee CPF contribution rates for low-wage workers without a reduction of take-home pay for most of them. Their CPF contribution rates were reduced in 2007 to enhance their employability.

D.49. Since then, we have put in place schemes such as the SEC for older workers and the WTS which have improved their employability.

D.50. We will therefore restore the employer contribution rates fully (to the same level as higher-income workers of the same age) from 1 January 2014. We will also bring the employee contribution rates for most of these workers to the normal levels. The increased CPF will help them with their retirement and medical needs.

D.51. Take for example a **45-year old** earning $800 a month. His employer contribution rate will be restored from just below 11% currently to 16% from next year, and his employee contribution rate from 16.5% to 20%. He will now **save $15,000 more** in his CPF by age 65.

D.52. The revisions will also make it easier for employers to calculate the CPF they need to contribute for most workers, as their CPF contribution rates will be the same as for higher-income workers. (Refer to Annex.)

D.53. The increase in employer contribution rates is expected to cost employers $83 million in 2014.

D.54. We will also increase the Medisave contribution rates for Self-Employed Persons (SEPs) earning net trade income of between $6,000 and $18,000 per annum. (Refer to Annex.)

More Progressive Property Tax Structure

D.55. Let me now move to the tax measures.

D.56. When we eliminated Estate Duties, I highlighted that we would retain property tax as a means of taxing wealth. Unlike Estate Duty, the burden of which was felt most significantly by the middle- and upper-middle income groups rather than the rich, property taxes can be structured more equitably, with the rich paying the most. Property tax cannot be avoided through tax planning.

D.57. Three years ago, I introduced a progressive property tax structure. Last year, I also signalled that this would be a way in which we can increase the progressivity of our tax system going forward. A more progressive property tax allows us to achieve greater social equity without hurting our economic competitiveness or reducing the incentives for enterprise. It is what economists call an 'efficient' tax.

D.58. With this Budget, I will increase property tax rates for high-end residential properties, the largest increases being for investment properties – in other words, those that are not owner-occupied.

Owner-Occupied Residential Property

D.59. First, I will increase property tax rates for the high-end of owner-occupied residential properties, while lowering tax rates on the majority of owner-occupied residential properties. This is fair. The property tax is a wealth tax and is applied irrespective of whether lived in, vacant or rented out. Those who live in the most expensive homes should pay more property taxes than others.

D.60. I am especially mindful of the fact that we have retirees who do not have significant cash resources even if the homes they live in may be of significant value. The new property tax schedule for owner-occupied residential properties will ensure that **most retirees will end up paying less property taxes**.

D.61. Currently, property tax rates for owner-occupied residential property are 0%, 4% and 6%, depending on the Annual Values of the properties.

D.62. I will widen the 0% property tax band which currently applies to the first $6,000 of Annual Value, to $8,000. In addition to the current 4% and 6% tax rates, I will introduce new property tax rates of 8% to 16%.

D.63. The widening of the 0% property tax band will enable **950,000** owner-occupied residential properties to enjoy some tax savings. All 1- and 2-room owner-occupied HDB flats will continue to pay no property tax. Homes with Annual Values of $12,000, such as a 5-room HDB flat, will experience tax savings of $80 or 33% of their current property tax bill.[10] These savings for the majority of homes will mean a reduction in the Government's property tax revenue of $44 million.

D.64. The **top 1%** of owner-occupied residential properties, or 12,000, will face increased taxes, contributing an additional $25 million. However, the increase will be small except for those at the very top-end. A landed property in the central area with an Annual Value of $150,000 will see an increase in property tax of $5,120 per year.

D.65. The result of this more progressive property tax for owner-occupied residential properties is a net revenue loss to Government of about $19 million once fully implemented.

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[10] Compared to the property tax bill for AV of $12,000 based on current Property Tax Structure, without taking into account one-off property tax rebate such as the $40 given to HDB owner-occupied flats in 2013.

Table 1: Owner-Occupied Residential Properties

Annual Values	**Example of Type of Property**	**Property tax payable under current structure**	**Property tax payable under new structure**	**Percentage Increase in property tax**
$12,000	5-room HDB flat	$240[11]	$160	-33%
$35,000	Suburban Condominium	$1,160	$1,080	-7%
$70,000	Condominium in central locations	$2,660	$2,780	5%
$150,000	Landed property in central locations	$7,460	$12,580	69%

Non-Owner-Occupied Residential Properties

D.66. I will apply more significant increases to tax rates for high-end investment properties. Currently, for residential properties that are not owner-occupied, the property tax rate is a flat 10%. I will introduce new marginal property tax rates of 12% to 20% for these investment properties.

D.67. What this will mean in effect is an increase in property taxes paid for non-owner-occupied residential properties with Annual Value above $30,000. These residential properties belong to the **top one-third of all non-owner-occupied residential properties**, or the top half of such private residential properties.

[11] Property tax payable under current structure without taking into account one-off Property Tax rebates like the 2013 $40 HDB rebate.

D.68. However, the increase will only be significant for investment properties at the high-end. Most suburban condominiums will only see a very small increase in property tax of about $100 to $300 per year. Residential properties with Annual Values of about $70,000, such as many condominiums in the central area, will face a $1,500 tax increase. A high-end property such as a landed property in the central area with Annual Value of $150,000 will see an increase in property tax of $9,000 per year.

<u>Table 2: Non-Owner-Occupied Residential Properties</u>

Annual Values	**Example of Type of Property**	**Property tax payable under current structure**	**Property tax payable under new structure**	**Percentage Increase in property tax**
$12,000	5-room HDB flat	$1,200	$1,200	0%
$35,000	Suburban Condominium	$3,500	$3,600	3%
$70,000	Condominium in central locations	$7,000	$8,500	21%
$150,000	Landed property in central locations	$15,000	$24,000	60%

D.69. These changes in property tax rates for non-owner-occupied residential properties will increase revenues by about $72 million per year once fully implemented.

D.70. The revised progressive property tax structure for residential properties will be phased in over 2 years starting from 1 January 2014. The revised rates will take full effect from 1 January 2015.

D.71. Property tax rates for **non-residential properties** remain unchanged at a flat 10%.

Removal of Property Tax Vacancy Refunds

D.72. Property tax is a tax on property ownership and should be levied irrespective of whether the property is vacant or occupied. For consistency and equity in tax treatment, I will remove the current concession which provides tax refunds on vacant properties. This is fair especially as we are now introducing a new and more progressive property tax schedule on residential properties.

D.73. The changes will take effect from 1 January 2014. The details are in the Annex.

Tiered Additional Registration Fees for Cars

D.74. I shall now move on to the vehicle tax system. Today, all cars incur the same Additional Registration Fee (ARF) at 100% of their Open Market Value (OMV).

D.75. I will make the vehicle tax system more progressive by introducing a tiered ARF structure for passenger cars and taxis. The ARF for car models with OMVs up to $20,000 will remain at the current 100%. I will introduce 2 more tiers for more expensive cars. The next $30,000 of the OMV of the car will attract an ARF rate of 140%. Any value beyond $50,000 will attract an ARF rate of 180%.

D.76. With the new ARF structure, a sedan with an OMV of about $18,000, like a Mazda 3, will see no change in the ARF rate. A car with an OMV of $45,000, like an Audi A5, will incur $10,000 or 22% more ARF, while a luxury model with an OMV of $74,000, like a BMW 735, will face a 42% increase in ARF payable.

D.77. The Preferential Additional Registration Fee, or PARF rebate, will remain unchanged as a proportion of the ARF paid.

Table 3: Tiered ARF Structure

Example	OMV	Current ARF Payable	New ARF Payable	Percentage Increase in ARF
Economy Car	$18,000	$18,000	$18,000	0%
Mid-range Car	$45,000	$45,000	$55,000	22%
Luxury Car	$74,000	$74,000	$105,200	42%

D.78. The tiered ARF structure will apply to vehicles registered with COEs obtained from the first COE bidding exercise in March 2013 onwards. This will contribute about $150 million in additional revenue annually.

Reinforcing Social Safety Nets

D.79. I will now turn to our initiatives to strengthen the social safety net so that we provide more support for families in need.

Review of Healthcare Financing

D.80. First, healthcare. Our system of government medical subsidies and the 3Ms provides universal healthcare coverage with multiple layers of protection. There are significant government subsidies across all settings – out-patient, acute and long term care. Last year, we significantly increased subsidies for middle-income Singaporeans in long term care. Whilst we have co-payments to reduce over-consumption, we also have Medisave and MediShield. Medisave ensures that Singaporeans have savings for their own and their family's healthcare needs. MediShield, our national healthcare insurance scheme, covers large medical bills.

D.81. The third and final "M" is Medifund which ensures that no one will be denied any treatment that he needs. Over the last five years, we have expanded Medifund to benefit more patients, including those from middle-income families.

D.82. However, our approach to healthcare financing has to evolve. As our society gets older, we will see higher demand for quality care, longer life expectancy and the rising incidence of chronic diseases. Families will also get smaller over time and we will have more singles without family support when they are in their silver years.

D.83. We have hence embarked on a thorough review of our healthcare financing system, as the Minister for Health has earlier indicated. This should seek to provide greater peace of mind for all Singaporeans while ensuring that the healthcare system remains sustainable. The review will look at all components of our healthcare financing framework.

D.84. First, although overall healthcare expenditure will go up, we want to see **Singaporeans' out-of-pocket share of medical costs fall**, and the Government take on a larger share. We will target help at those who need it the most. But we will also want to ensure that the needs of the middle-income group are met.

D.85. Second, we want to **broaden insurance coverage** by expanding risk-pooling so that as a society, we support those who require more help. We must however be careful about how this affects premiums.

D.86. Third, we must study how to **increase the role of Medisave** so it can be used to meet more healthcare needs whilst ensuring sustainability of savings.

D.87. Fourth, we will do more for those who need help with their medical expenses by **expanding the usage of Medifund**.

D.88. Finally, we will help Singaporeans stay healthy by **increasing our investments in health promotion and preventive care**, so all individuals are encouraged to stay healthy.

D.89. This is a major review. We are studying the strengths and weaknesses of other countries' healthcare systems.

D.90. We will have to consider the options carefully and consult broadly with Singaporeans. We want to do better for today's generation of Singaporeans, and do it in a way that is fair and sustainable for the next generation.

D.91. The Minister for Health will elaborate on these directions at the COS.

Senior's Mobility and Enabling Fund

D.92. In the meantime, in this year's Budget, we will introduce further support to meet Singaporeans' healthcare needs.

D.93. We will expand the current Senior's Mobility Fund into a Senior's Mobility and Enabling Fund, which will cover a much wider range of assistive devices like hearing aids, shower chairs and motorised wheelchairs. These devices are a great boon to our seniors, and help them stay active and independent.

D.94. Many frail elderly living at home are also concerned with the cost of consumables, such as milk feeds and adult diapers, which can be a costly burden. We will provide subsidies of up to 80% to our lower-income elderly to help defray the cost of consumables. For example, an elderly patient in need of milk feeds can save up to $2,000 per year.

D.95. We will also top up the fund from the existing $10 million to $50 million.

Building up Medifund and Eldercare Fund

D.96. We have expanded Medifund to benefit many more patients, including those from middle-income families. I will top up Medifund by $1 billion, bringing the total fund size to $4 billion.

D.97. I will top up the ElderCare Fund by $250 million this year to support patients tapping on subsidised nursing homes and other long term care services. This will bring the total size of the fund to $2.75 billion.

Public Assistance Scheme and Pension Allowance

D.98. We will also enhance the Public Assistance (PA) scheme, which provides a basic level of financial assistance to those who are permanently unable to work.

D.99. The monthly cash assistance for households will be raised to help recipients meet their daily needs. For example, a couple will now receive an additional $90, making up **$790** in cash assistance. A recipient in a single-person household will receive $450 in cash. PA recipients will continue to receive **other free services like medical treatment** in polyclinics and restructured hospitals, primary and secondary school education and access to a broad range of social services such as home help and day activity centres.

D.100. We will also introduce more flexibility to support recipients who need to incur other expenses.

D.101. To help government pensioners who draw lower pensions, the Government will increase the **Singapore Allowance** and monthly pension ceiling by $20 per month to $280 and $1,210 respectively. This will benefit about 10,000 pensioners.

ComCare Fund Top-Up

D.102. I will inject a further $200 million into the ComCare Fund as the Fund is well-utilised.

Supporting Self-Help Groups

D.103. I will also give an additional $10 million grant to the Self-Help Groups to help them enhance their programmes over the next two years.

Improving Social Service Delivery

D.104. A further aspect of the social safety net that we are strengthening concerns how we deliver social services. We want citizen-centred social services that are more integrated, so that anyone who needs help can get it conveniently and need not go to different agencies. To achieve this, there are three main initiatives that we are embarking on in this Budget.

D.105. First, we will introduce **about 20 Social Service Offices in HDB towns** over the next few years. A needy family can apply for help at a Social Service Office nearer their home, and benefit from better coordination of government and community help in the local area.

D.106. The second initiative is to **integrate elder care services**. As we scale up support to meet the needs of a growing elderly population, we will integrate the aged care services of the Centre for Enabled Living (CEL) and the Agency for Integrated Care (AIC) under one roof at AIC. The new AIC will be the single agency that helps the elderly and their caregivers to get easier access to both medical and social care services in the community.

D.107. Third, MSF will at the same time strengthen its **focus on persons with disabilities** with an agency dedicated to the disabled. This will serve as a focal point for all their needs.

D.108. The Acting Minister for Social and Family Development and the Minister for Health will provide more details on these improvements in social service delivery at the COS.

Direct Assistance for Cost of Living

D.109. This year's Budget will provide some direct assistance to households to help them cope with increases in the cost of living.

One-Off GST Voucher (GSTV) Special Payment

D.110. We introduced the permanent GST Voucher scheme last year to help lower- and middle-income households. The typical lower-income household receives $740 in GSTV-Cash and U-Save. A typical retiree household receives in addition $500 in GSTV-Medisave, for a total of $1,240.

D.111. This year, to help households facing cost of living pressures, I will provide an extra GST Voucher on top of the permanent voucher. In other words, all eligible Singaporeans will get double the usual amount.

D.112. This will benefit approximately 1.4 million Singaporeans and cost the Government an extra $680 million.

Service and Conservancy Charges (S&CC) Rebates

D.113. We will also provide 1 to 3 months of Service & Conservancy Charges (S&CC) rebates (see Table 4). 1- and 2-room HDB households will receive a total of 3 months of rebates for this year, while 3- and 4-room households will receive 2 months of rebates. This will cost the Government $77 million.

Table 4: S&CC Rebates

HDB Flat Type	S&CC rebate (No. of months)
1-room	3.0 months
2-room	3.0 months
3-room	2.0 months
4-room	2.0 months
5-room	1.5 months
Executive	1.0 month

One-off CPF Medisave Account Top-Up

D.114. To help older Singaporeans with their healthcare expenses, I will provide a $200 top-up to the CPF Medisave Accounts of all Singaporeans aged 45 and above. The top-ups will benefit 1.5 million Singaporeans and cost the Government $300 million.

Personal Income Tax Rebate

D.115. I will provide a Personal Income Tax Rebate this year for all taxpayers with a larger rebate for those who are 60 years old and above. The rebate will be for Year of Assessment 2013 (i.e. for income earned in 2012).

D.116. I will extend a rebate of 30% subject to a cap of $1,500 for taxpayers who are below 60 years old. I will also introduce a higher rebate for those who are older. Those aged 60 or above will receive a higher rebate of 50% subject to the same $1,500 cap. Having this cap allows us to provide the greatest benefits to those at the 80th percentile and below of taxpayers.

D.117. 1.3 million resident taxpayers will benefit. This will cost the Government $615 million.

Reduced Concessionary Foreign Domestic Worker Levy

D.118. Families with Singaporean dependants such as children, elderly parents and family members with disabilities currently pay a concessionary levy of $170 for a foreign domestic worker, instead of the normal levy of $265.

D.119. Our aim is to reduce costs for these families. We will hence reduce the concessionary foreign domestic worker levy from $170 to $120 per month. This will mean that a family will save an additional $600 a year.

D.120. This change is expected to cost the Government an additional $73 million a year and will take effect from 1 March 2013.

Building up the GST Voucher Fund

D.121. When we established the permanent GST Voucher Scheme last year, we set aside $3.6 billion to finance the Scheme until FY2016. To underscore our commitment to help offset what our lower-income Singaporeans pay in GST, I will top up the GST Voucher Fund by another $3 billion. This will ensure sufficient funds for the Government to make the yearly GST Voucher payouts up to FY2020.

How Households will Benefit

D.122. The direct assistance measures that I have just announced will provide significant assistance to Singaporeans with the cost of living.

D.123. Our elderly will receive the most help. A typical retiree couple living in a 3-room flat will receive a total of $1,800 in special transfers and tax savings. Including the permanent GSTV, they will receive more than $3,000 in benefits. Of this, $1,400 will go into their Medisave.[12]

D.124. A typical middle-income family living in a 4-room flat will also benefit from about $530 in special transfers and about $730 in tax savings from the Personal Income Tax Rebate, as well as changes to the property tax schedule and the Foreign Domestic Worker Concessionary Levy. Including the permanent GSTV, they will get a total of about $1,500.

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[12] This assumes that the couple are aged between 65 to 74 years. Older couples will get larger Medisave top-ups.

E. BUDGET POSITION

FY2013 Fiscal Outlook

E.1. Mdm Speaker, let me now summarise this year's budget position.

E.2. Let me start with the basic balance. We expect a modest **basic surplus of $0.3 billion** for FY2013, after factoring in the various tax rebates and the Transition Support Package. The basic surplus takes into account the balance of our operating revenues and expenditures, but excludes the amounts that we are setting aside in our endowment and trust funds for the future. It also does not factor in the Net Investment Returns Contribution (NIRC) from past reserves. The basic balance measures the direct impact of the budget for the coming year on the economy. At 0.1% of GDP, this is close to a balanced budget, and reflects a neutral fiscal stance.

E.3. I will go on now to the Overall Budget Balance. This includes an estimated revenue from **NIRC of $7.7 billion**. It also takes into account the **$5.6 billion in top-ups** we are making **to endowment and trust funds,** including the GST Voucher Fund, and the $200 million we are setting aside for the new Cultural Donation Matching Fund to encourage private donations to the arts and culture.

E.4. The resulting **Overall Budget Balance for FY2013** is projected to be a surplus of **$2.4 billion (0.7% of GDP)**.

F. CONCLUSION

A Better Singapore is Ahead

F.1. This Budget is for a better Singapore.

F.2. We will fix our problems in housing and transport.

F.3. We are transforming our economy so that we can have quality growth – growth that will provide all Singaporeans a better quality of life.

F.4. And we are taking further steps towards a more inclusive society – starting with our children, helping lower-income workers, and providing better lives for our retirees.

F.5. But our policies will ultimately succeed by building on the strengths of Singaporeans – the skills and mastery in every job, the compassion, the sense of collective responsibility, and the belief in this country. Singaporeans who are in their own ways, building a better tomorrow for themselves, their families, and for Singapore.

a. Like Ali Marzuki Abdul Rani, whose father passed away when he was 18. He was determined to succeed and support his younger siblings, got bursary support to see him through his studies at NTU, and is now doing well as a project engineer and giving back to society.

b. Or Madam Yeo Hui Imm, 58. A former factory operator, she found a job in a café, and decided to go for English lessons so that she could play a bigger role in her workplace. She is now a team leader, with more responsibilities and pay.

c. And Alfred Yeo, a young accountant, hearing- and speech-impaired. He is a tireless source of feedback on public transport and cycling paths, using emails, photos and even videos that he takes himself.

F.6. They each tell us something about our strengths, and about why we will have a better Singapore ahead.

F.7. Mdm Speaker, I beg to move.