BUDGET STATEMENT 2002
A BUDGET FOR A DIFFERENT WORLD

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Mr Speaker, Sir


1.2 The sweeping changes of the last five years have fundamentally re-shaped the world. In 1997, the Asian Financial Crisis overwhelmed our region, abruptly ending three decades of peace, stability and economic development in Southeast Asia. The economic, political and security consequences of the crisis have yet to work themselves out. In 2001, economic conditions world-wide grew even more difficult as the world’s three largest economies – the United States (US), Japan and Germany – experienced sharp, synchronised downturns. Singapore was directly exposed to these external shocks.

1.3 Then came the September 11 terrorist attacks on the US. Fortunately, the initial fears of major economic dislocation and loss of confidence have not materialised. However, we in Singapore have learnt how real and close to home the terrorist danger is, rooted in the region and threatening our security.

1.4 Last year, our GDP shrank by 2%, the worst decline since independence. Many Singaporeans lost their jobs. Fortunately, our strong social cohesion helped us to weather the storm.

1.5 We are entering a very different world. Conditions are uncertain and volatile, competition is intense, change is faster than ever. Our ability to adapt nimbly and quickly will give us a valuable edge. In our personal lives too, we must expect change and disruption. Lifetime learning and training will be the norm, while a life-long career in one job will become less and less common.

1.6 We cannot prevent the changes from happening. Instead, we must act decisively to restructure our economy, and prepare for the challenges ahead. We have the resources to do this, but we must start early. This is our best hope of staying ahead in the race, and creating jobs for our people. This Budget is constructed with these objectives in mind.
A Different World

1.7 The recent performance of the global economy and our economy reflects increased uncertainty and volatility. The business cycle has shortened and swings have become more extreme. For example, global chip sales enjoyed a boom year with 37% growth in 2000, but crashed in 2001, shrinking by 32%. Before 1997, Singapore enjoyed a decade-long boom with annual growth averaging 9.2%. Since then, our economic growth has averaged a very respectable 4.7%, but it has been a roller-coaster ride.1

1.8 In the recession last year, all the external engines of our economy sputtered. The fall-off in global demand quickly filtered through to all sectors of our economy. The electronics industry was the worst hit. Export-oriented activities, such as the entrepôt trade and trade-related services were also badly affected. As a result, nearly 26,000 workers were laid off last year, and unemployment reached 4.4% by the end of 2001. 88,000 Singaporeans were out of work.

1.9 To help our businesses and workers through the downturn, the Government responded promptly with two off-budget packages last July and October, that together amounted to $13.5 billion. We brought forward infrastructure projects and reduced business costs. We distributed New Singapore Shares, focussing on helping lower-income citizens. We expanded programmes to retrain workers and get those who had lost their jobs back into the workforce. We drew on the savings we had built up in good years to tackle the crisis in a way that few other countries could.

Uncertain Outlook

Global

1.10 The external environment has picked up in the last few months. The US economy grew by a robust 5.8% in the first quarter of this year after growing 1.7% in the last quarter of 2001. Business confidence seems to be improving in the US, European Union (EU) and Japan. The global electronics industry is also bottoming out.

1.11 Singapore’s economy has improved in tandem with these developments. After three successive negative quarters, quarter-on-quarter growth in the fourth quarter of 2001 was 5.6%. The initial estimate of q-on-q growth for the first quarter of 2002 was 3.5%. This has now been substantially revised upwards to 7.7%. As a result, MTI is more optimistic that the economy will

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1 Singapore’s economic growth (1997-2001): 1997 (8.5%); 1998 (-0.1%); 1999 (6.9%); 2000 (10.3%); 2001 (-2.0%)
grow faster for 2002 as a whole. The original projection for 2002 was between 1% and 3% growth. This has now been revised up, to growth of between 2% and 4%.

1.12 But we are not yet out of the woods. The strong growth of the US economy in the first quarter masks signs of weaknesses. For example, US March orders for durable goods fell 0.6% after 3 months of growth, and profit warnings caused US stocks to fall despite the strong growth.

1.13 Moreover, the global economy is vulnerable to political and security risks. Recovery does not just depend on the confidence of US consumers, or how strongly the US economy picks up. The whole world is anxiously watching the ferocious war of terror and reprisal between Israel and the Palestinians. If this escalates out of control into a wider Middle East conflict, the consequences will be unpredictable. So too if the US moves against Iraq in its continuing war against global terrorism. The disruption of oil supplies and prices is only one of the possible side-effects. Already Iraq has stopped its oil production and called on other Arab producers to cut their production by half.

1.14 A sharp rise in oil prices would adversely affect our markets in the developed economies, as well as Singapore directly. Even if oil prices do not spike, the prospect of war and instability will put off investors worldwide, undermine confidence, and set our economy back again.

Regional

1.15 The prospects for Southeast Asia are clouded. Economic conditions in these countries are reasonably stable, with some opportunities for profitable investments. But the region has yet to regain the full confidence and attention of investors, who are concerned about political and security risks. Extremist and terrorist groups in the region, which are linked to global terrorist networks, seek to destabilise regional governments and attack Americans and US interests everywhere. This will further erode confidence and hamper recovery.

1.16 These factors make Southeast Asia less attractive than Northeast Asia. China is the biggest and most important new player in the global economy. South Korea is restructuring its economy, and recovering faster than the crisis-hit Southeast Asian economies. Singapore is still attracting good quality investments and business activities, but companies are feeling the pull of Northeast Asia, and some are relocating their activities northwards, particularly to China and Hong Kong.

1.17 This global and regional backdrop makes it more urgent for us to make strategic changes now. We face an uphill task to bring to Singapore the economic activities that will provide Singaporeans with jobs. We must also
attract top talent with their business ideas and activities to Singapore. In a world where knowledge and skills are key sources of wealth, this is just as important as bringing in high value-added investments. Our challenge is to make Singapore best for business and talent.

**Economic Roles of Government**

**Macroeconomic Policies**

1.18 The Economic Review Committee (ERC) is fundamentally rethinking our economic policies, and exploring ways to promote enterprise and growth. It is the private sector that creates wealth. Hence, our strategy must be to develop a vibrant private sector: entrepreneurial, regionally and globally competitive, and profitable.

1.19 We must attract more global talent, while upgrading our tertiary education system and maximising our own human capital. We must develop new areas of growth in both manufacturing and services. Outstanding domestic enterprises should be nurtured into significant international players. Internationally competitive local companies, led by entrepreneurial and innovative Singaporeans, will complement the multi-national corporations and make our economy more resilient and dynamic.

1.20 The Government’s role is to create a pro-business, stable environment in which companies can operate efficiently. We must pursue sound macroeconomic policies, including fiscal policy – the government budget; and monetary policy – the exchange rate. The tax burden must be kept as light as possible. We must rely less on direct taxes and more on indirect taxes. This will encourage people to strive and create wealth.

1.21 On CPF savings, we need to review the balance between its different uses – healthcare, housing, and retirement. We also need to study the specific problems faced by older, less-educated workers, who have difficulty finding regular jobs that pay CPF. These are complex and sensitive issues, which affect many Singaporeans. We will study them in detail, and have not yet reached any decisions. Any changes we make will be done very carefully, after full consultations and without causing disruptions either to CPF members or the property market.

**Government-Linked Companies**

1.22 The macroeconomic functions I have just described are common to governments in all free market economies. In addition, however, the Government in Singapore for historical reasons also participates in business
through its interests in the Government-Linked Companies (GLCs), many of which have played critical roles in Singapore’s economic development.

1.23 The GLCs attract considerable attention, as well as a fair share of controversy. One possible reason for this is that the *raison d’etre* of the GLCs has not been explicitly spelt out and accepted. Minister of State Raymond Lim’s ERC Sub-Committee on Promoting Entrepreneurship and the Growth and Internationalisation of Singapore-based Companies has been reviewing the role of the GLCs. They have given the Government their views and ideas, which we have taken into consideration.

1.24 Our philosophy is to have the GLCs operate as commercial entities. The Government does not interfere with the operations of the GLCs. The companies are supervised by their respective boards of directors, who are accountable to their shareholders, including the Government.

1.25 The Government will not favour GLCs with special privileges or hidden subsidies; nor will it burden them with uneconomic “national service” responsibilities. The GLCs are expected to compete on a level playing field, and frequently in a global environment.

1.26 As global competition heats up, the GLCs, like other Singapore companies, will have to continually enhance their core competencies. Temasek Holdings is the holding company that owns the Government’s shares in most GLCs. It is therefore Temasek’s responsibility to help the GLCs under its charge grow into internationally competitive businesses.

1.27 One issue of public interest is the Government’s policy on divesting its shares in the GLCs. Where the activities are strategic and crucial to Singapore, such as aviation and the electricity grid, the Government intends to retain its majority or significant stakes. For those strategic activities that are still wholly-owned, the Government hopes to list them in future, if it makes sense to do so in order to help them grow and increase shareholder value.

1.28 For other major businesses with global or regional potential, Temasek will grow them to the benefit of Singapore over the long term. If growing a GLC into a major player requires the Government to dilute its stake through new share issues, mergers or acquisitions, the Government is prepared to do so.

1.29 As for the GLCs that are no longer relevant to the Government’s or Temasek’s objectives, the Government will divest or dilute its shareholdings in a controlled way. It will take a pragmatic approach, and pay close attention to prevailing industry and market conditions. For example, once the electricity market is operationally ready, we plan to divest our power-generating companies: Power Seraya, Power Senoko and Tuas Power.
1.30 It is often suggested that if only the Government would sell off all the
GLCs to somebody else, Cinderellas would magically become beautiful
princesses. Alas, this only happens in fairy tales. There is no effortless shortcut
to upgrading and developing the GLCs, and the Government cannot abdicate its
responsibilities as a major shareholder.

1.31 Temasek Holdings is currently working out a charter with MOF that will
spell out Temasek’s mission, role and responsibilities. Temasek intends to
publish this charter soon to make it clear how the Government sees the role of
the Temasek companies in the Singapore economy.

Restructuring Taxes, Creating Jobs

1.32 The ERC Sub-Committee on Taxation, Wages, CPF and Land ("the
ERC Sub-Committee"), chaired by Senior Minister of State Tharman
Shanmugaratnam, published a report on 11 April on “Restructuring the Tax
System for Growth and Job Creation”. It recommended that the Government
make a significant immediate reduction in corporate and personal income tax
rates, and that it lower both to 20% within three years. It also recommended
that the Government raise the GST rate from 3% to 5% in 2003, and in parallel
provide a comprehensive offset package to help cushion the impact of the GST
increase on Singaporeans, especially lower-income households.

1.33 The Government accepts these key recommendations of the ERC Sub-
Committee. Our highest priority is to create good jobs for Singaporeans. To do
this, we must continue to attract companies and talent to locate in Singapore
and grow our economy. But companies and talent are highly sensitive to the
taxes they have to pay, especially direct taxes on their income. We have to
bring down our corporate and personal income tax rates to make ourselves
more competitive. However, this will cause a large shortfall in Government
revenue, which has to be made up one way or other. The most effective way to
do so is by raising the GST rate.

1.34 The Government will lower the corporate and top personal income tax
rates to 20% by the FY 2004 Budget, as recommended by the ERC Sub-
Committee. This is barring a major change in the economic and political
climate, which unfortunately cannot be completely ruled out given the
uncertain regional and global situation.

1.35 The ERC Sub-Committee also made many other recommendations on
tax. Several of these have been included in this Budget. Others are still being
studied by MOF. All those found to be feasible will be included in the next
Budget.
Reducing Corporate Income Tax

1.36 Reducing the corporate income tax rate from 24.5% to 20% is fundamental to strengthening our competitiveness. The corporate income tax directly reduces the income of a company operating in Singapore. When companies compare the relative attractiveness of investing in different countries, the corporate income tax flows straight through to the bottom line. If we set our tax rate too high, we make it harder for companies to make money, expand and create more jobs here.

1.37 Over the last 15 years, the worldwide trend has been towards lower corporate and personal income taxes. In addition, countries often offer generous tax breaks, so that the effective tax rate that their companies pay is much lower than the nominal rate. For example, Germany reduced its corporate income tax rate last year from 40% to 25%; a huge 15 percentage point cut. In the US, the corporate income tax rate is nominally 35%, but various provisions and loopholes reportedly enable some corporations to reduce their effective rate to only 11%. Ireland, one of our competitors in Europe, plans to cut its already low rate to a mere 12.5% next year, supposedly without any tax breaks. Hong Kong’s rate is only 16%. These examples show just how fierce the competition is. Unless we keep pace with our competitors, we will inevitably lose investments and business.

1.38 In the past, we enhanced our competitive position by granting tax incentives that reduced or removed the corporate income tax on certain qualifying companies. For example, Pioneer-status companies enjoy a tax holiday for up to 10 years, while companies granted investment allowances may deduct up to twice their investment expenses from their taxable income. But this strategy has its limitations:

i. Firstly, it is harder to pick winners in a fast-changing economic environment. We need to encourage enterprise across the board, and not just in certain companies or certain sectors.

ii. Secondly, some sectors of the economy have benefited more than others from tax incentives. For example, our small and medium enterprises (SMEs), most of them Singaporean-owned, often find it hard to qualify for the tax incentives.

iii. Thirdly, our tax incentives are gradually becoming less effective. Our tax treaty partners are seeking to remove tax-sparing provisions from the tax treaties. As a result, the benefits that companies enjoy from our tax incentives are taken away by the other tax jurisdictions, defeating the purpose of the incentive.
The Government will be rationalising the current system of tax incentives over the next few months. Later on in my speech, I will describe improvements to our tax incentives to encourage the development of certain industries. But we must complement these specific incentives with an across-the-board reduction in the corporate income tax rate, in order to make the tax burden on businesses in general as light as possible, and make it worthwhile for companies to grow and create jobs here.

Reducing Personal Income Tax

It is equally important for us to lower personal income taxes. The purpose is to reward effort and achievement, promote entrepreneurship, and attract and retain talent.

Lower personal income taxes allow Singaporeans to keep more of their hard-earned income, and strengthen the incentive for people to strive, create wealth and improve their lives.

Lower personal income taxes also encourage entrepreneurship. If people are to risk their personal savings on some business venture, then they must be allowed to keep more of the rewards of success. In business, the risk of failure is always there. What drives entrepreneurs to run the risk of losing their last dollar by launching new ventures? The creative urge and the personal drive to achieve something are certainly important. Beyond that, it is the prospect of large personal rewards if a venture succeeds. One important reason, though not the only reason, why the US has more entrepreneurs than Europe is that US personal income taxes are much lower.

Finally, reducing the personal income tax rate will help Singapore attract and retain talent. In knowledge-intensive industries, such as financial services, the business is really the people in it. Where a business is located depends on where its key people want to live and work. If the people refuse to move to Singapore, then the company cannot come here. And when such people consider where to live, they calculate and compare how much tax they personally have to pay in each place. A low personal income tax rate is therefore crucial for us to stand a chance of attracting such people and businesses.

Personal income taxes affect our home-grown talent too. In the globalised economy, talent is highly mobile, and doors everywhere are open to talent. If Singaporeans find their taxes too onerous, some of them will move elsewhere. Without talent, whether home-grown or imported, our economy will not hum, new businesses will not start, and the prospects for all Singaporeans will be bleak.
1.45  Lowering corporate and personal income taxes will cost the Government a large amount of revenue. If we reduce the tax rates to 20%, in all, the Government will lose 9% of its annual revenue, or nearly 1.7% of GDP. We cannot afford this loss; we have to make up at least part of it from other sources. That is why we must increase the GST rate from 3% to 5%.

1.46  Some Singaporeans have asked why we cannot simply accept this loss of revenue, and leave the GST rate at 3%. After all, we have been enjoying comfortable surpluses, and should be able to accept smaller, but still large, surpluses in future. The problem is we do not expect large surpluses in future. Growth will be slower and more volatile than before. Revenues will be less buoyant. But demands for the Government to do more and spend more are increasing. Even without any tax cuts, our surpluses are likely to shrink. With the large tax cuts, we face a real risk of ending up with a structural deficit.

1.47  A structural deficit means we will have a deficit in most years, whether the economy is booming or in recession. This will have serious consequences. One key reason the Singapore dollar has been strong, and inflation has been low, is that we have run a prudent fiscal policy. The Government lives within its means, and spends no more than what it receives. If the Government starts spending beyond what it gets, and borrows or prints money to fund its spending, the Singapore dollar would go down. Inflation would go up. Then, Singaporeans’ hard-earned savings would be worth less, including their CPF savings.

1.48  Some argue that it is all right for us to run deficits regularly, because we can always draw on the reserves to make up the shortfall. But that is not what the reserves are for. The reserves are to see us through rainy days, to be used only in extremis, because Singapore produces no oil, timber or gold that we can fall back on. Furthermore, we must not be misled by the fact that all our previous recessions have been short-lived. We cannot discount the possibility that future recessions will be prolonged and deep in this new environment. If we draw on our reserves routinely, they will soon be gone. In any case, using the reserves requires the consent of the President, who will very likely say “No”, and with good justification.

1.49  This is not to say that we will never run deficits. In difficult years we will end up in deficit, as happened last year. But over the whole business cycle, we must aim to maintain a modest surplus. This is only possible if we accumulate surpluses in good years to cover the deficits of lean years. The Government therefore cannot operate on a tax-to-spend basis. Instead, we should build in a margin of savings, especially given the more volatile and uncertain environment in the years ahead.
1.50 A third argument against raising GST is that the Government should instead cut back on its expenditure. We will certainly do our best to be thrifty, especially when times are hard. But our government expenditure is already very lean at 18% of GDP. In contrast, government expenditure in developed countries is typically much higher – 30% to 40% of GDP. Moreover, hard times are also times when Singaporeans want the Government to respond with generous helping measures. Nevertheless, we will maintain a tight rein on the cost of Government to ensure it stays below 20% of GDP.

1.51 If we examine the Government budget more carefully, we will see how difficult it is to make deep cuts in expenditure. Education is a priority area. It takes up 4% of GDP. If we reduce this, we risk under-investing in our children. Even if we could economise on frills, we would still want to spend more on education. Indeed, MOE has many more worthwhile projects that it is keen to implement, if the money can be found. These include upgrades to schools, polytechnics, the Institutes of Technical Education and the universities. Our health spending will rise as our population ages, and as they demand higher standards of health care. MOT has multi-billion-dollar plans to upgrade our public transport infrastructure, especially the rail network. Public housing is yet another big area where a serious cut-back would adversely affect our quality of life. Finally, defence spending must be maintained if we are to continue to enjoy peace and security. These five critical areas – education, health, transport, housing and defence – together comprise two-thirds of the Government’s expenditure. It is therefore not realistic to cover the deficit by cutting government spending without any negative impact on the daily lives of Singaporeans.

1.52 That is why the ERC Sub-Committee recommended, and the Government has decided, to raise the GST to make up for the cuts in direct taxes. Increasing the GST rate to 5% will raise 0.8% of GDP, and make up just half the revenue lost from the corporate and personal income tax cuts. Overall, the Government will still end up revenue negative by 0.9% of GDP, or $1.2 billion per year. This is a not an insubstantial loss, but it should still leave the Government with modest surpluses over the medium term, provided we are careful not to increase expenditures recklessly.

1.53 As for timing, the ERC Sub-Committee has recommended raising the GST in 2003. By then the economy should have recovered further from last year’s recession. But whatever the state of the economy next year, the fact that we are coupling a comprehensive offset package to the GST increase means that the increase should not burden Singaporean households, choke off consumer spending, or impact the economy. Our approach is to help Singaporeans adjust to the new realities, so that we can make essential changes to our tax structure without delay, and forge ahead to build a stronger economy.
**Offsetting the GST Increase**

1.54 For Singaporeans who pay income tax, the reduction in income tax will offset, fully or partially, their increase in GST. However many Singaporeans pay no income tax at all, so the higher GST will increase their tax burden unless we do something. In the longer term, they too will benefit from the tax changes, because the changes will promote economic growth, create more jobs, and raise incomes across the board. If we do not bring down income taxes and raise the GST, our economy may stagnate, unemployment may rise, and the lower-income groups will be the hardest hit.

1.55 But it will take time for the restructuring to create growth and prosperity. Meanwhile, the Government will implement a comprehensive offset package that will ensure that most households – of all income groups – are no worse off during a 5-year transition period. In other words, the package will offset completely at least 5 years’ worth of additional tax payable by most households. Indeed, we will go further to promise that all lower-income households will receive at least 5 years’ worth of offsets. No lower-income household will be left out.

1.56 I will announce the details of this year’s corporate and personal income tax cuts, next year’s GST increase, and the offset package later in Part IV of my speech, when I set out the Economic Restructuring Package.

**Embracing the Future**

1.57 To thrive in the different world we are in, we must confront and accept the new realities. We must quickly adapt ourselves to the changed environment, and to many more changes to come. This Budget introduces changes that will help the Singapore economy to sustain growth over the long haul. The Government will do what it can to ease the transition, but Singaporeans must be ready to accept the changes. We have no other choice. At the same time, we must continue to look out for one another, and to strengthen our bonds as one people. In an uncertain and volatile world, these qualities are the best guarantee of a bright future for ourselves and our children.
PART II  THE FY 2002 BUDGET

Mr Speaker, Sir

2.1 I will now turn to the Budget for the Fiscal Year 2002.

FY 2001 Revised Budget Estimates

2.2 First, let me recap the FY 2001 Budget. I refer honourable members to the second column of the budget statistics table in Handout 1.

Budget statistics for FY 2001 and FY 2002 (figures in $ bn)

<table>
<thead>
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<th>FY 2001 Budget</th>
<th>FY 2001 Revised Estimates</th>
<th>FY 2002 Budget</th>
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<td>Taxes and Fees</td>
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<td>26.8</td>
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<tr>
<td>NII Contribution</td>
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<td>2.7</td>
<td>2.4</td>
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<td><strong>31.5</strong></td>
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<tr>
<td>Special Transfers</td>
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</tr>
<tr>
<td><strong>Surplus/(Deficit)</strong></td>
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<td><strong>(1.4)</strong></td>
<td><strong>0.9</strong></td>
</tr>
</tbody>
</table>

2.3 When Dr Richard Hu presented the budget last year, operating revenue was estimated at $34.3 billion and total expenditure at $28.1 billion. With a provision of $1.9 billion for special transfers, the forecasted budget surplus was $4.4 billion.

2.4 However, as members can see from the third column of the table, the sharp economic downturn reduced revenue from taxes and fees sharply by $4.6 billion to $28.8 billion. To make up for this, we raised the contribution from Net Investment Income (NII) from the budgeted amount of $0.9 billion to the constitutional limit of $2.7 billion. Despite this, operating revenue still fell by
$2.8 billion to $31.5 billion. The revised total expenditure also fell, but by a smaller $0.4 billion to $27.7 billion. Special transfers, however, increased to $5.3 billion, mostly as a result of the two off-budget packages. Special transfers included $2.45 billion for the New Singapore Shares, $500 million to the Skills Development Fund, $500 million to the Eldercare Fund, and $200 million to the Community Assistance Fund. Even after tapping all revenue streams, we expect a budget deficit of $1.4 billion for FY 2001. However, this deficit will not cause a draw on past reserves, because it can be funded entirely from the surpluses accumulated over the term of the previous government.

Projected FY 2002 Fiscal Position

2.5 Let me now move on to the FY 2002 Budget proper, which is summarised in the last column of the table.

2.6 The operating revenue for FY 2002 is estimated at $29.2 billion, including a $2.4 billion contribution from NII. This is $2.3 billion less than the operating revenue for the previous year. We expect taxes and fees to be lower than last year, partly because they will be based on last year’s earnings, which were affected by the recession, and partly because of the rebates and tax reductions which were announced in the off-budget packages, but take effect in this financial year.

2.7 This year, operating and development expenditures are budgeted at $19.5 billion and $8.8 billion, respectively. Total expenditure in FY 2002 thus comes to $28.3 billion, or $0.6 billion more than last year. Leaving aside, for now, any provision for special transfers and the impact of the tax changes to be discussed later, we can expect a modest budget surplus of $0.9 billion as our economy recovers.

2.8 The Government is therefore not cutting back on expenditure even though revenue has fallen. This is to fund urgently needed projects and services, and not because a new Minister for Finance has loosened the purse strings. As a result, the budget is very tight. This underscores the critical importance of spending only on essentials, and eschewing frills and extravagance. My ministry has reminded all government departments of these constraints. I also urge honourable members to bear them in mind when you request the government to be more generous towards your cherished projects in the Committee of Supply.
Expenditure Priorities

2.9 Let me move on to the Government’s expenditure priorities. I refer members to the chart in Handout 1.

Sectoral Shares of FY 2002 Budget

2.10 As in previous years, the largest share of the Government’s FY 2002 expenditure budget goes to Social Development, which accounts for 45% of total expenditure. Education, Health and Community Development & Sports will get substantial increases in their budget allocation. The increases support the Government’s emphasis on human and social capital. These form the foundations for a strong, cohesive and resilient society. MOE will spend $2.6 billion in operating subsidies to educate our children at the primary, secondary, pre-university and junior college levels. Another $1.7 billion will be spent on university and polytechnic education, as well as on the Institutes of Technical Education. MOH will spend $1 billion on subsidised healthcare services at the 17 polyclinics, 64 voluntary welfare organisations and 13 public hospitals and healthcare institutions. These expenditures will be targeted more precisely at
lower-income households through means-testing. Means-testing will also be applied to social assistance.

2.11 The next largest sector is **Security & External Relations**. The September 11 attacks have reminded us that we cannot take our security for granted. Despite the defeat of the Taleban and Al Qaeda in Afghanistan, global terrorism is still an active force, with numerous cells and networks endemic in many countries, including in our region. Our regional situation is complex and unpredictable. We cannot afford to let down our guard. To preserve and enhance our capacity to defend ourselves, the Government will devote 38% of the total expenditure budget for FY 2002 to Security & External Relations.

2.12 **Economic Development** is the third largest sector, at 12% of the total expenditure budget. Our expenditure in this sector will enable us to invest in world-class infrastructure to strengthen Singapore’s competitive position as a compelling hub for global and regional business. MOT will spend $1 billion this year on road upgrading and rail projects, including the MRT Circle Line and the Sengkang and Punggol LRT.

2.13 The Government will continue to deregulate sectors of the economy which have not been fully liberalised, for example, the electricity industry. This will sharpen the innovative capacity of Singapore companies, and make them more efficient and competitive. We will help Singapore-based enterprises, including SMEs, to upgrade their capabilities and venture abroad. We will also continue to encourage new investments and economic activities in order to develop new growth engines, and add depth and resilience to our economy. At the same time, the Government will outsource services to the private and people sectors wherever it is cost effective to do so.

2.14 Government expenditure in the Economic Development sector will continue to emphasise worker training and upgrading. We have implemented many such programmes over the years. The second off-budget package last year enhanced employment assistance and training programmes, including the Skills Development Fund and the People-for-Jobs Traineeship Programme. Continuous skills-upgrading is the best form of job security.

2.15 The Government will not stint in its support for workers to upgrade themselves. In preparing this Budget, I reviewed the range of training and upgrading programmes to see whether more needed to be done. MOM and the trade unions told me that there was no shortage of money or training places. In fact, many places on the various training schemes still go unfilled. For FY 2002, there are 100,000 training places under the Skills Redevelopment Programme. MOM has also recently launched new retraining schemes, such as the WorkSkills Training Programme and the Self-Employment Training Programme. These should be sufficient. However, if existing programmes are
filled, and the training places need to be expanded, MOF will be ready to fund them, the tight budget notwithstanding.

2.16 **Government Administration** remains the smallest sector, comprising 5.6% of the total expenditure budget. We will continue to keep this the smallest sector in line with our policy to keep the central administration lean and trim, so that the operational ministries can have the bulk of the resources to deliver public services. We will improve service delivery through the E-government initiative. By the end of this year, all government services that can be delivered through the Internet will be available online.
Mr Speaker, Sir

3.1 Before I outline the economic restructuring package, let me now turn to the proposals for tax and fee changes. I will start with motor vehicle taxes.

Motor Vehicle Taxes

3.2 Fiscal disincentives have been a very effective means of controlling car ownership and usage. They have kept our roads smooth-flowing and congestion free. However, our current vehicle taxes are excessively skewed towards ownership costs rather than usage charges. Moreover, the ownership levies are a complicated mix of taxes and fees that are not fully rationalised. With the Certificate of Entitlement (COE) system in place, the Additional Registration Fee (ARF) and excise duty (ED) on cars are higher than they need to be. The road tax is also heavily biased against cars with large-capacity engines.

3.3 The Government agrees with the ERC Sub-Committee that high ownership cost is a blunt tool for controlling traffic congestion. Moreover, it creates significant economic distortions. Car taxes are currently the heaviest taxes paid by upper-middle income households. High ownership costs have also distorted usage patterns by encouraging car owners to drive frequently, since the car has already been paid for.

3.4 The Government aims to strike a better balance between the ownership and usage costs of a car, and to rationalise the various fees and charges. This will be done in stages, so as not to destabilise the market. In the long term, we envisage that the ARF, ED and road tax will still be progressive, but less so than now.

Reducing ARF and ED for Cars

3.5 The Government has decided to reduce the ARF for cars from 140% of the Open Market Value (OMV) to 130% of the OMV. The ED on cars will be cut from 31% of the OMV to 20%. We think that 20% is the appropriate long-term rate for ED, and do not expect to lower it further. However, the ARF can be gradually reduced further as the market adjusts to the changes.
Pegging PARF to ARF

3.6 The Preferential Additional Registration Fee (PARF) rebate is currently pegged to a car’s OMV, instead of its ARF. This was fine so long as the ARF rate did not change. But as we have progressively lowered the ARF, the PARF rebate has become too large relative to the ARF paid. We have therefore decided to peg the PARF rebate to the ARF actually paid on each car, instead of the OMV. This way, the PARF will be automatically and proportionately reduced whenever the ARF is lowered.

Rationalising Taxes on Cars and Taxis

3.7 Taxis, being higher end public transport, are similar to cars, and should be treated like cars in terms of ARF, PARF and ED. The new ARF and PARF rates for cars will thus also apply to taxis. However, the ED for taxis is currently lower than for cars. We will increase the ED for taxis from 7% to 10% of OMV. Nevertheless, the combined effect is to lower the ownership charges on taxis.

3.8 Our eventual aim is to raise the ED on taxis to 20%, so as to equalise it with the ED on cars. However we will do this in step with future reductions in the ARF, so that, overall, the ownership taxes on taxis should come down.

Reducing Road Tax

3.9 The road tax is part of the cost of owning a car, since it is payable regardless whether or not the car is actually used. The road tax for cars will be lowered, typically by 20%.

3.10 Taxis already enjoy a significant concession on road tax, since their road tax is equivalent to the road tax for a 1,766 cc private car under the new, reduced rates, whereas all taxis have at least 1,900 cc engines. There will therefore be no change to the road tax for taxis.

3.11 The tables at Annex 1 shows these tax changes for taxis and cars.

Issuing More Certificates of Entitlement

3.12 These changes to motor vehicle taxes will reduce the cost of owning a car. However, unless we issue more COEs, the savings will feed through into higher demand for cars, and higher COE prices, thereby negating the fall in ownership cost.

3.13 The Government announced in 1997 that 15,000 to 20,000 additional COEs could be released if the Electronic Road Pricing (ERP) system proved
effective in managing congestion. We have decided to release another 5,000 COEs in Quota Year 2002/2003 from this reserve. 5,500 COEs from this reserve have already been released previously.

3.14 The changes in ARF and PARF will apply to COEs obtained from the May 2002 bidding exercise onwards. The new ED rates will be effective tomorrow. The reduced road tax rates will take effect from Sep 2002. The Land Transport Authority will announce the details regarding the motor vehicle tax changes and the extra 5,000 COEs for QY 2002/2003.

Revising Car Park Charges

3.15 Part of the cost of owning and using a car is the cost of providing a place to park it. At present, car park space in land-scarce Singapore is not properly costed. Our parking charges within the city are much lower than cities elsewhere. Where HDB residential parking is concerned, the existing charges do not cover the cost of building the car parks, leaving HDB with a large deficit.

3.16 It is not logical to levy charges on other aspects of owning and driving a car, while effectively subsidising car parking costs for motorists. We therefore need to rationalise car parking charges progressively. The HDB and the URA will announce the details later.

Expanding Electronic Road Pricing

3.17 As more Singaporeans own cars, the cost of using a car will have to go up, where required, to prevent congestion from worsening unacceptably. The ERP system will also be expanded to keep our roads free flowing. Nevertheless, because the ERP is an efficient and precise instrument in controlling congestion, if we rely more on ERP and less on ownership levies, overall the total cost of owning and operating a car should come down.

3.18 However, Singaporeans must bear in mind that the number of additional cars that can eventually be put on our roads will be primarily constrained by our lack of space. Unlike cities such as New York or London, Singapore does not have a large hinterland where city dwellers can use their cars outside the city. We will reduce ownership charges and enable more Singaporeans to afford cars. But cars in Singapore can never be as cheap, and ownership of cars can never be as widespread, as in these other cities.
Foreign Worker Levy

3.19 The Foreign Worker Levy was reduced in 1999 to help tide companies over the 1998 economic downturn sparked off by the Asian Financial Crisis. This concession was extended in 2001 to July this year because of the current economic recession. Given the uncertainty over economic recovery, the Government has decided to extend the concession for a further six months until December 2002. We will review the matter again towards the end of the year.

Liquor and Tobacco Taxes

Raising Liquor Tax

3.20 The excise duty rates of certain liquors will be raised with effect from today. This increase will help discourage excessive consumption of alcohol, and iron out some anomalies in our liquor taxes. The new rates are at Annex 2.

3.21 The increase in excise duty rates will yield $18 million annually.

Raising Tobacco Tax

3.22 To discourage smoking, especially by our youth, I have decided to raise the excise duty on tobacco products with effect from today. Excise duty on cigarettes will go up from $180 per kilogram to $210 per kilogram. The excise duties of other tobacco products at Annex 3 will also go up. The estimated annual revenue gain is about $100 million.

Promoting Philanthropy

3.23 Economic restructuring will force us to make tough pragmatic choices. But as we focus on upgrading ourselves to become a more competitive economy, we should not inadvertently become less public-spirited and more self-absorbed individuals. We must continue to show our care and concern for fellow Singaporeans, and to contribute as members of our society to worthy community projects and services. These softer aspects of life help to replenish Singapore’s social capital, and keep our society strong and cohesive.

3.24 Singaporeans who do well have a responsibility to help fellow citizens who are not as well off. As the rewards increase for the most successful Singaporeans, and our income distribution stretches out, it becomes more important that those who do well contribute back to society. They need to show they care for, and are grateful to, the community which nurtured them, gave them opportunities, and enabled them to succeed.
3.25 Tax measures are one way by which the Government encourages charitable acts by Singaporeans. In the current uncertain economic environment, voluntary organisations face some difficulties in raising funds. I have therefore decided to introduce the following measures to promote the spirit of philanthropy in individuals and corporations:

i. I will allow double tax deduction for donations to Institutions of a Public Character (IPC).

ii. Tax deductions for donations to IPCs can now be carried forward for 5 years.

iii. Some IPCs name their buildings or scholarships after their donors. These and other donations with similar naming opportunities will now enjoy tax deduction.

iv. To encourage the administrators of estates to donate a part of the estate to IPCs, I will exempt such donations from estate duty.

v. Qualifying charitable private foundations will receive IPC status.

3.26 The details of these measures are at Annex 4.

Tax Incentives for the Financial Sector and Enterprise Development

3.27 To strengthen our financial sector and promote enterprise development, I have decided to introduce the following tax incentives.

Strengthening the Financial Sector

3.28 The financial industry is a key sector of our economy, and a major basis for Singapore to be a business hub. The current range of financial sector incentives is sufficiently broad to promote high value-added activities. We have already made good progress in attracting global and regional financial activities.

3.29 However, financial sector activities are highly mobile. As global tax competition intensifies and drives tax rates down, we need to provide more incentives to attract and anchor cutting-edge activities to Singapore. We should therefore streamline and update our existing incentives to keep them relevant and effective.
I will therefore enhance the tax incentives for the wealth- and asset-management industries to encourage more funds to be managed out of Singapore. There will be enhanced incentives to promote the growth of the derivatives market and bolster Singapore’s position as Asia’s treasury hub outside Japan. Changes will be made to broaden and deepen our equity capital market. I have also decided to introduce concessionary tax treatment for special reserves set up by general insurance companies for underwriting certain offshore risks. This will enhance Singapore’s competitiveness as an insurance centre.

Some of the existing financial sector incentives will be merged into an umbrella Financial Sector Incentive scheme. This will simplify the tax system and enable high-growth and high value-added financial activities to enjoy concessionary tax rates.

Promoting Enterprise Development

Improved Development and Expansion Incentive

Tax incentives have long been an important instrument for Singapore’s economic development strategy. In particular, the Pioneer Incentive, which rewards companies with tax exemption on all qualifying income, has become a brand name in its own right. Later, we introduced the Post-Pioneer Incentive to further anchor these companies to Singapore. In 1996, this was replaced by the Development and Expansion Incentive (DEI).

I have decided to reduce the minimum tax rate under the DEI from 10% to 5% with effect from today. This will give our economic agencies greater flexibility in administering the DEI, make it easier for companies to comply with the scheme, and provide greater certainty for companies when they invest in Singapore.

Enhanced Deduction for Research and Development Expenses

Currently, we grant tax deductions for R&D expenses only for R&D that is conducted in-house, or else outsourced to approved R&D organisations that conduct their research in Singapore. This is to build up R&D capabilities locally. However, companies in today’s networked world harness ideas and talent from all over the world. Furthermore, as the ERC Sub-Committee noted, companies carrying out R&D are increasingly collaborating with offshore affiliates or the R&D outfits of other companies.

I have therefore decided to liberalise the tax deductions for expenses incurred for R&D that leads to the ownership of intellectual property in Singapore. With effect from YA 2003, single tax deduction will be granted for
expenses incurred on R&D outsourced to any R&D organisation, whether local or overseas. The scope of further tax deduction for R&D expenses will also be extended to all services companies.

Approved International Shipping Enterprise Scheme

3.36 The transport and logistics industry is an important sector in our economy, accounting for about 8% of GDP. It anchors Singapore as a leading physical hub port for global trade. This is due to a combination of factors: extensive connectivity, effective use of information-technology and a pro-business environment. Nevertheless, competition is intensifying, not only from the leading maritime centres of the world, but also from lower-cost newcomers.

3.37 As part of an integrated approach to sustain Singapore as a competitive, efficient and value-adding logistics centre, we will transform ourselves into a leading supply-chain management hub. We will go beyond providing excellent physical port infrastructure, such as cargo handling and terminal services, to become the nerve centre for the “mind and management” driving global transport and logistics activities.

3.38 To attract these shipping leaders, I have decided to extend the Approved International Shipping Enterprise Scheme and enhance its attractiveness for international shipping companies. The scope of the scheme will be expanded and its eligibility criteria streamlined with effect from YA 2003.

Other Incentives

3.39 Apart from the above measures, I will also introduce the following tax incentives:

i. With effect from YA 2003, the Unilateral Tax Credit Scheme for services income will cover all services income remitted from all non-treaty countries;

ii. Payments to international arbitrators will be exempt from withholding tax with immediate effect;

iii. With effect from 1 Jan 2003, dividends issued by companies with exempt income or income taxed at concessionary rates will be tax-exempt for all tiers of shareholders, regardless of shareholding level;

iv. The gross income of non-resident professionals will be subject to a final income tax of 15% with immediate effect; and

v. The movable assets of non-domiciles will be exempt from estate duty.
3.40 The details of these tax incentives are at Annex 5.
PART IV  THE ECONOMIC RESTRUCTURING PACKAGE

Mr Speaker, Sir

A Package for a Different World

4.1 The key changes in this budget are the corporate and personal income tax cuts, the increase in GST, and the GST offset package. These tax changes, together with the offset measures, form a single economic restructuring package. This package is a critical element of our strategy to make Singapore more competitive, and to create more jobs and prosperity for Singaporeans.

Corporate and Personal Income Tax Cuts and GST Increase

4.2 The ERC Sub-Committee recommended that the Government cut corporate and personal income tax rates to 20% in 3 years. For this year, it recommended that the Government make “significant immediate reductions” in both corporate and personal income tax rates. We have considered carefully the appropriate size of the immediate cuts, and the exact timing of the GST increase. We had to strike a careful balance between the need to make a bold move now, and the need for fiscal prudence in view of the uncertainties in the external environment.

4.3 From YA 2003, I have decided to cut the corporate income tax rate from 24.5% to 22%. This 10% reduction will save businesses $700 million a year.

4.4 Also with effect from YA 2003, the top marginal personal income tax rate will be cut from 26% to 22%, with corresponding cuts in all income bands. This will reduce the tax payable by most taxpayers by 13% to 16%, saving them $620 million every year.

4.5 I have decided to raise the GST rate from 3% to 5% from 1 Jan 2003. The increase in GST is expected to raise an additional $1.3 billion of tax revenue per year.

4.6 On an annual basis, the combined revenue loss from cutting the corporate and personal income taxes to 22% this year is $1.32 billion, slightly more than the additional revenue of $1.3 billion from raising GST to 5%. In my judgement, this strikes the right balance between boldness and prudence, and
sets us on track to reduce both corporate and personal income tax rates to 20% by the FY 2004 Budget.

 Restructuring Corporate Income Tax

4.7 The reduction in corporate income tax will benefit all companies. With the partial exemption of companies’ chargeable income since YA 2002, many SMEs already pay less than half the corporate income tax rate. This additional reduction will result in the SMEs paying effective tax rates of between 5.5% and 10%. Besides reducing the rate, we will also restructure the corporate taxation system to introduce two features recommended by the ERC Sub-Committee: group relief and a one-tier tax system.

Group Relief

4.8 Corporations often organise themselves into multiple holding companies, subsidiaries and associates to reflect the structure of their business and to limit liabilities. Sometimes corporations are required by law to set up separate companies for specific purposes. For example, to protect buyers, property developers are required to set up a separate company for each residential development project that they undertake. However, corporations are not allowed to offset the losses of one company against the taxable profits of another within the same group. Each company in a group pays tax as a separate, stand-alone entity. As a result, setting up separate companies effectively raises the tax rate for the whole group.

4.9 The ERC Sub-Committee has recommended allowing group relief to help reduce the cost of doing business in Singapore. Group relief recognises group companies as a single economic entity by allowing the un-utilised losses and capital allowances from one company to offset the profits of a related company in the same group. This is already the case in most developed countries, including the US and the United Kingdom (UK).

4.10 The Government will accept the ERC Sub-Committee’s recommendation, and introduce a loss-transfer system of group relief with effect from YA 2003. A group consists of a Singapore incorporated parent company and all its Singapore incorporated subsidiaries. Two Singapore incorporated companies could also be members of the same group if one is 75% owned by the other or both are 75% owned by another Singapore incorporated company. Group companies will be allowed to transfer their current year un-utilised capital allowances and losses. However, investment allowances and foreign losses may not be transferred.
4.11 The introduction of group relief will lower the tax burden on companies, and encourage more risk-taking and enterprise. It will also help companies during recessions or the early years of new ventures, when they are likely to make losses. Companies which set up subsidiaries for risky ventures will be able to enjoy the limited liability benefit of separate subsidiaries, and still offset those subsidiaries’ losses against their own profits.

4.12 This change will cost the Government $170 million per year. As for the ERC Sub-Committee’s recommendation to introduce consortium relief and more complex group relief measures, the Government will study these more carefully before making its decision.

One-tier Corporate Taxation System

4.13 The ERC Sub-Committee recommended replacing the current full imputation corporate taxation system with a one-tier corporate taxation system. It argued that the current system discourages companies with insufficient dividend franking credits from distributing dividends. Furthermore, the full imputation system is not well adapted to sophisticated business transactions, such as share buy-backs and share borrowing and lending. MOF had to craft complicated tax rules for these transactions to meet concerns about tax avoidance. This increased compliance costs for companies.

4.14 The Government has accepted the Sub-Committee’s recommendation. We will introduce the one-tier corporate taxation system with effect from 1 Jan 2003. Under this system, the tax collected from corporate profits is final. Singapore dividends are exempt. This will greatly simplify our tax code and reduce the cost of compliance and administration for companies. The one-tier system will work in tandem with group relief and the lower corporate income tax rate to make more profits available for distribution as dividends.

4.15 Many companies will not be able to make full use of the dividend franking credits that they have accumulated by 1 Jan 2003. I will therefore allow a 5-year transition period from 1 Jan 2003 to 31 Dec 2007 for companies to pay franked dividends out of any un-utilised dividend franking credits as of 31 Dec 2002. During this period, shareholders will still be able to receive dividends with credits attached.

4.16 The one-tier system will have the desirable consequence of allowing the unlimited flow-through of exempt dividends to all tiers of shareholders, regardless of shareholding level. However, companies that are still on the imputation system during the 5-year transition period will not be able to do so. I will therefore allow these companies to flow exempt dividends paid out of concessionary income to all tiers of shareholders without restriction on shareholding level.
Restructuring Personal Income Tax

4.17 The reduction in personal income tax rates will benefit all taxpayers. It will also help attract and retain talent. The Government has also accepted the ERC Sub-Committee’s proposals to introduce a new category of taxpayer called Not Ordinarily Resident Taxpayer and refine our current tax treatment of stock options. I have also taken the opportunity to streamline, and in some cases increase, personal income tax reliefs, and to simplify the tax structure by reducing the number of income bands. Let me deal first with the new tax structure.

Personal Income Tax Structure

4.18 With the significant reduction in the top personal income tax rate, we no longer need as many tax bands as before. I have therefore decided to simplify the structure by consolidating the existing 10 bands to 7.

4.19 Last year, $250 of the $500 GST-related income tax rebate was incorporated into the individual tax structure by exempting the first $7,500 of an individual’s chargeable income from tax. This year we will incorporate the remaining $250 GST-related income tax rebate, as well as the $3,000 personal relief, which is enjoyed by all taxpayers, into the personal income tax structure. With these changes, the first $20,000 of an individual’s chargeable income will not be taxed. The new bands and rates are attached at Annex 6.

4.20 These income tax changes will not affect the rebates that were given out as part of last year’s off-Budget measures.

Not Ordinarily Resident Taxpayer Scheme

4.21 The ERC Sub-Committee has recommended favourable tax treatment for persons who have not lived in Singapore for the preceding 3 years, but are currently based in Singapore. This is to attract talent to relocate to Singapore. The UK and Ireland already have such schemes.

4.22 The Government has accepted the ERC’s recommendation. We will create a new class of taxpayers called “Not Ordinarily Resident” (NOR) taxpayers.

4.23 An NOR taxpayer will be exempt from tax on income earned before he came here. A non-citizen NOR taxpayer will also be exempt from tax on his employer’s contribution to his overseas pension fund, to compensate for the fact that non-citizens do not enjoy CPF tax relief.
4.24 In addition, an NOR taxpayer who spends at least 90 days a year outside Singapore on business will pay tax only on his total Singapore employment income based on his number of days here. This is subject to a floor tax rate of 10% on his total employment income. It will help us to attract the senior management of companies to use Singapore as their base for regional activities.

4.25 The NOR scheme will take effect from YA 2003. The details of the scheme are at Annex 7.

**Stock Option Schemes**

4.26 Stock options are effective in encouraging entrepreneurship. This is why more companies are using stock options to recruit, motivate and retain talent. Although we already grant favourable tax treatment for some types of stock options, the ERC Sub-Committee has proposed some improvements.

4.27 I have studied the proposals, and decided to make the following changes:

   i. Exempt from tax stock options granted for non-Singapore employment even if they are exercised in Singapore. To be consistent, gains from stock options granted for Singapore employment will be taxed no matter where they are exercised;

   ii. Tax stock options and restricted share awards at the end of their moratoriums;

   iii. Extend the scope of existing stock option incentive schemes, such as Company Stock Option Scheme, to include other forms of employee share ownership plans; and

   iv. Require Singapore companies to collect the taxes on gains from employees who exercise their stock options after leaving Singapore.

4.28 The details are at Annex 8.

**Other Changes to the Personal Income Tax**

**National Service Reliefs**

4.29 This year marks the 35th year of National Service. Our NSmen spend precious time away from their work and families each year to build up their
operational readiness, and keep Singapore safe and secure. This is a heavy commitment especially during an economic downturn. To further recognise the contributions of NSmen, I have decided to increase the current NS reliefs by 50%. The amounts will increase from $2,000 to $3,000 for Active NSmen, from $1,000 to $1,500 for Inactive NSmen, and from $500 to $750 for the wives and parents of NSmen. This will take effect from YA 2003.

4.30 This will cost the Government $17 million per year.

Procreation Tax Rebate

4.31 The procreation tax rebate was granted to encourage parents to bring up their children in an intact family. We therefore set the rules to disallow parents who divorce from continuing to claim the rebates. However, we have received appeals from divorcees with children, whose rebates were discontinued after they divorced. They pointed out that they too needed support, perhaps more so than other parents.

4.32 The Government continues to uphold the value of maintaining strong families. However, we also recognise that withdrawing the rebate from divorcees can add to their already difficult burden. I have decided to allow divorcees to continue to claim their procreation tax rebates with effect from YA 2003. Divorcees whose procreation tax rebates have already been terminated may apply to IRAS for reinstatement of their rebates if their claim periods have not expired.

Handicapped Parent Relief

4.33 As our life expectancy lengthens, more and more Singaporeans will find themselves looking after aged and handicapped parents. The Government strongly encourages families to look after aged parents in their own homes, and only use old-age homes as a last resort. But this can be a considerable financial burden on the family, especially for families with few children to share the burden.

4.34 I am therefore introducing a handicapped parent relief of $3,000 on top of the normal parent relief with effect from YA 2003. Including the normal parent relief, the total amount of relief granted to taxpayers taking care of their parents will be: $8,000 if the taxpayer is living with the parent; and $6,500 if the taxpayer is not living with the parent.

4.35 This will cost the Government $2 million per year.
Double Child Relief for Children Studying Overseas

4.36 Parents may currently claim double child relief ($4,000) in respect of a child who studies overseas. The original purpose was to subsidise the overseas education of expatriates’ children. It was later retained because of the limited opportunities to pursue tertiary education in Singapore. However, the number of places in local tertiary institutions has grown greatly over the years. It is no longer necessary or justified to subsidise overseas tertiary education. I have therefore decided to withdraw the double child relief with effect from YA 2003.

Allowance for Members of Parliament

4.37 Members of Parliament (MPs) currently enjoy a tax remission on the MP allowance. Now that the MP’s allowance is regularly revised in step with a private sector salary benchmark, this remission is no longer relevant. Instead, the MP allowance should be regarded as taxable income, just like other employment income. I have therefore decided to withdraw the tax remission for the MP allowance with effect from YA 2003.

Offsetting the GST Increase

4.38 Since the ERC Sub-Committee recommended the GST increase some three weeks ago, the public has been reassured by the Government’s promise that, if we raised GST rate, there would be offsetting measures. The Government will introduce a comprehensive package of measures to offset the increase in the GST. These offsets will be enough to cover the increase in tax for most households, and for all lower-income households, for at least 5 years.

Offsets for Healthcare, Education and Service & Conservancy Charges

4.39 Many Singaporeans worry that a higher GST will increase their medical bills, because hospital bills are subject to GST. In fact, they do not need to worry because the Government provides the hospitals and polyclinics direct grants to offset completely the GST they have to pay on all subsidised healthcare services. With the increase in GST, the Government will increase these grants to restructured hospitals and polyclinics. Charges for subsidised medical care will therefore not be affected at all.

4.40 The Government will similarly absorb the GST payable on education, by increasing its subsidy to the state education system. And it will increase the subvention to the Town Councils to offset the GST payable on Service & Conservancy Charges (S&CC).
4.41 The total annual cost of the increased subsidies is estimated at $29 million.

Public Transport Fares

4.42 The Public Transport Council (PTC) is currently evaluating proposals from the transport operators to revise fares. PTC is only considering revisions to catch up with operating and maintenance cost increases over the past year.

4.43 The public transport operators have raised with the PTC the issue of the GST increase next year. After considering their views, the likely increase in GST to 5%, and the proposed cut in the corporate income tax, the PTC has decided that there is no need to raise fares next year as a result of the GST increase. The transport operators have accepted this decision.

Public Assistance and Singapore Allowance

4.44 Despite the offset measures, very low-income Singaporeans may need more help to cope with the GST increase. The Government will help these Singaporeans by increasing the Public Assistance rates, and the Singapore Allowance paid to government pensioners.

4.45 MCDS and PSD are currently working out the proposals, and will implement the revisions in time for the increase of the GST rate next year.

Committee to Combat Profiteering

4.46 When the GST was introduced at 3% in 1994, it had minimal impact on prices. The inflation rate rose marginally from 2% to 3%, but it fell below 2% after 1994, and stayed there. This year, inflation is projected to be zero or even negative. In this benign price environment, I am confident that the 2 percentage point increase in GST will not significantly raise prices.

4.47 Nonetheless, I appreciate the public concern over the possibility of undue price increases. To address this concern, the Government will set up a Committee to Combat Profiteering. The Committee will be chaired by Mr Chan Soo Sen, Minister of State in the Prime Minister’s Office. It will deal with any complaints of profiteering or unjustified price increases. It will work with the grassroots organisations and their advisors in all the constituencies, and especially with the market committees and shopkeepers’ associations, to monitor the situation on the ground, and encourage hawkers and shopkeepers to act responsibly.
Rebates for Service & Conservancy Charges and Rent

4.48 The current package of S&CC and rental rebates for HDB households was implemented last November to help lower-income Singaporeans cope with the recession. It will expire in March 2003. As part of the GST offsets, we will grant S&CC and rental rebates for 5 more years, from 1 Apr 2003 to 31 Mar 2008. The rebates will be maintained at their current levels in the first year, and will thereafter taper off gradually. The government will spend $340 million on this 5-year package. Further details of the package are at Annex 9.

Economic Restructuring Shares

4.49 When GST was introduced, the Government introduced tax cuts and a range of rebates, including income tax rebates, to offset its impact. However, the tax cuts over the last decade have resulted in the majority of Singaporeans paying no income tax at all. Therefore, the Government has decided to give out Economic Restructuring Shares (ERS) to all Singaporeans as the major part of the GST offset package.

4.50 The ERS are meant to help Singaporeans adapt to the structural changes in the economy, especially the increase in the GST rate. They will be similar to the New Singapore Shares (NSS) distributed last November. The shares are worth $1 each. They will earn annual dividends over 5 years, from 2004 to 2008. The dividends will be paid each year on 1 March. The dividend rate will be a guaranteed minimum of 3% per annum. In addition, bonus dividends equal to the real GDP growth rate of the preceding year, provided it is above zero, will be declared annually. The dividends will be in the form of bonus shares.

4.51 However, unlike the NSS, the ERS will be more evenly distributed among all Singaporeans, since economic restructuring affects everyone. Those who live in properties with Annual Values (AV) not exceeding $10,000 will get a basic allocation of 1,200 shares. This includes 90% of households. It covers all HDB flats\(^2\), as well as smaller private homes such as walk-up flats and flats in shop-houses. The remaining 10% of Singaporeans staying in larger private properties, with AVs above $10,000, will receive a smaller basic allocation of 600 shares. They are likely to be earning higher incomes, paying higher personal income tax rates, and enjoying significant savings from the personal income tax cuts.

4.52 The ERS are meant to tide Singaporeans over the next 5 years. But the Government will be giving ERS out in three annual allocations starting from 1 Jan 2003. Adult Singaporeans who have contributed at least $50 to their own CPF accounts between 1 Jan and 30 Nov this year will get their first allocation of shares on 1 Jan 2003. Those who do so in December will receive their shares

\(^2\) Except for a few exceptionally large units.
on 1 Feb 2003. For each subsequent share allocation, Singaporeans will similarly have to make a $50 contribution. This is not a co-payment for the shares, but a way to ensure that the shares are not given to inactive accounts.

4.53 NSmen will receive bonus shares for their contribution to the security of Singapore. Active NSmen will get 200 bonus shares, while Inactive NSmen will get 100. NSmen will receive all their bonus shares in the year they qualify.

4.54 Citizens can cash in the shares with the Government for $1 per share. They may cash in all the shares at any time, even as soon as they are issued. There will be no requirement to hold part of the shares for a minimum period, unlike the New Singapore Shares. But I encourage Singaporeans to keep their ERS until maturity, in order to earn the maximum amount of dividends.

4.55 The total cost of the ERS scheme over is $3.6 billion, or $1.2 billion per year over the next 3 years.3

Overall Impact of Economic Restructuring on Households

4.56 I refer members to Handout 2. The GST offset package, comprising the S&CC rebates, rental rebates, and the ERS shares, should be sufficient to offset the net increase in taxes a household will pay over the next 5 years, at least. It fulfils the Government’s promise that most households will not be worse off during the 5 year transition period. The table at Annex 10 shows examples of the overall impact of economic restructuring on representative households.

4.57 As you can see, the offset package will cover at least 5 years’ worth of additional tax payable for all flat sizes. In fact, those living in one- or two-room HDB flats will be covered for the next 10 years.

4.58 Knowing how anxious Singaporeans are to find out how this budget benefits them, my ministry has created an online benefits calculator at the following address: http://www.budget2002.gov.sg/offset.

Lower-income Households Guaranteed No Worse Off

4.59 Comprehensive as the offset package is, it may not cover everyone. Each household has slightly different circumstances. A few households may find that the package of offsets, rebates and ERS is insufficient to cover their increase in the GST. To help such households, we will have a Citizens’ Consultative Committee (CCC) Assistance Scheme.

3 Assuming that all eligible citizens take up their shares, and all then hold their shares until maturity.
4.60 Under this scheme, any household with an income below the median household income of $3,600 can apply to their CCC for assistance, if their package of S&CC rebates, rental rebates, and ERS shares does not fully offset their extra tax for at least 5 years. If the CCC confirms that the offsets indeed fall short of the extra tax burden on that household, it will top up the difference.

4.61 The Government will set aside $3 million per year for 5 years for this scheme. It will be overseen by a Committee, to be chaired also by Minister of State Chan Soo Sen.

4.62 With this CCC Assistance Scheme, we can promise that all lower-income households will not be worse off during the transition period.

**Overall FY 2002 Fiscal Position**

4.63 The entire package of offsets, rebates and ERS will cost the Government $1,226 million in FY 2002. Taken together with the other tax changes, we expect the FY 2002 fiscal position to turn from a modest budget surplus of $900 million to a small deficit of $190 million. The Government is able to finance this deficit from FY 2001 funds and therefore does not need to draw on past reserves.
PART V: CONCLUSION

Mr Speaker, Sir

5.1 This Budget lays the basis for our economic restructuring. The intensity of global competition is unprecedented. Our restructuring process will be neither easy nor painless. But the world has changed, and we have no choice. Hence, the Economic Restructuring Package includes both the tax changes to gear us for the future, and also a comprehensive set of offsets to help Singaporeans adapt to the changes.

5.2 These measures will put the Government in a tight fiscal position over the next few years. We can afford the package only because we have been consistently prudent in fiscal matters. Many countries find themselves in this new competitive environment, but few are in a position to restructure their taxes, offset the impact on their people, and prepare themselves systematically for the trials ahead. We must continue to save in good years, and be prepared for difficult years every now and again.

5.3 We cannot predict how the global situation will develop, or how quickly Southeast Asia will regain its stability and confidence. Not all the external trends are favourable. But let us make fundamental changes now, so that we sustain economic growth, stay ahead of the competition, and create jobs and prosperity for our people.

5.4 Mr Speaker, Sir, I beg to move.
### ANNEX 1: Changes to ARF, ED and PARF for Cars and Taxis

#### Changes to Additional Registration Fee and Excise Duty Rates

<table>
<thead>
<tr>
<th></th>
<th>Cars</th>
<th></th>
<th>Taxis</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2001</td>
<td>2002</td>
<td>2001</td>
<td>2002</td>
</tr>
<tr>
<td>ARF (% OMV)</td>
<td>140</td>
<td>130</td>
<td>140</td>
<td>130</td>
</tr>
<tr>
<td>ED (% OMV)</td>
<td>31</td>
<td>20</td>
<td>7</td>
<td>10</td>
</tr>
<tr>
<td><strong>Total up-front taxes (% OMV)</strong></td>
<td><strong>171</strong></td>
<td><strong>150</strong></td>
<td><strong>147</strong></td>
<td><strong>140</strong></td>
</tr>
</tbody>
</table>

#### Changes to Road Tax Rates for Cars

<table>
<thead>
<tr>
<th>Engine Capacity (cc)</th>
<th>Current Road Tax</th>
<th>New Road Tax</th>
</tr>
</thead>
<tbody>
<tr>
<td>EC (\leq 600)</td>
<td>$500</td>
<td>$400</td>
</tr>
<tr>
<td>600 &lt; EC (\leq 1,000)</td>
<td>$500 + 0.25 (EC – 600)</td>
<td>$400 + 0.25 (EC – 600)</td>
</tr>
<tr>
<td>1,000 &lt; EC (\leq 1,600)</td>
<td>$600 + 1.0 (EC – 1,000)</td>
<td>$500 + 0.75 (EC – 1000)</td>
</tr>
<tr>
<td>1,600 &lt; EC (\leq 3,000)</td>
<td>$1,200 + 1.8 (EC – 1,600)</td>
<td>$950 + 1.5 (EC – 1,600)</td>
</tr>
<tr>
<td>EC &gt; 3,000</td>
<td>$3,720 + 2.5 (EC – 3,000)</td>
<td>$3,050 + 2.0 (EC – 3,000)</td>
</tr>
</tbody>
</table>

#### Changes to Preferential Additional Registration Fee Rates

<table>
<thead>
<tr>
<th>Age of Car/Taxi* at De-Registration</th>
<th>&lt;5</th>
<th>5 to &lt;6</th>
<th>6 to &lt;7</th>
<th>7 to &lt;8</th>
<th>8 to &lt;9</th>
<th>9 to 10</th>
</tr>
</thead>
<tbody>
<tr>
<td>Current Rate (% OMV)</td>
<td>130</td>
<td>120</td>
<td>110</td>
<td>100</td>
<td>90</td>
<td>80</td>
</tr>
<tr>
<td>New Rate (% ARF)</td>
<td>75</td>
<td>70</td>
<td>65</td>
<td>60</td>
<td>55</td>
<td>50</td>
</tr>
</tbody>
</table>

* Taxis have a mandatory life span of 7 years. Their PARF rebates are linked to those of cars.
ANNEX 2: New Excise Duties for Liquors

<table>
<thead>
<tr>
<th>HS Code</th>
<th>Description</th>
<th>Excise Duty</th>
</tr>
</thead>
<tbody>
<tr>
<td>2203.00 100</td>
<td>Stout and porter</td>
<td>$3.70 per litre</td>
</tr>
<tr>
<td>2203.00 200</td>
<td>Other beer, including ale</td>
<td>$3.10 per litre</td>
</tr>
<tr>
<td>2208.90 310</td>
<td>Samsoo (medicated)</td>
<td>$36 per litre of alcohol</td>
</tr>
<tr>
<td>2208.90 390</td>
<td>Samsoo (other)</td>
<td>$36 per litre of alcohol</td>
</tr>
<tr>
<td>2208.90 400</td>
<td>Arrack and pineapple spirit</td>
<td>$40 per litre of alcohol</td>
</tr>
<tr>
<td>2206.00 200</td>
<td>Sake (rice wine)</td>
<td>$48 per litre of alcohol</td>
</tr>
<tr>
<td>2206.00 420</td>
<td>Shandy of an alcoholic strength by volume exceeding 1% but not exceeding 3%</td>
<td>$1.20 per litre</td>
</tr>
<tr>
<td>3302.90 190</td>
<td>Odoriferous alcoholic preparations of a kind used for the manufacture of alcoholic beverages [in other forms (powder, paste, etc)]</td>
<td>$74 per kg</td>
</tr>
<tr>
<td>2106.90 590</td>
<td>Non-odoriferous alcoholic preparations of a kind used for the manufacture of alcoholic beverages [in other forms (powder, paste, etc)]</td>
<td>$74 per kg</td>
</tr>
</tbody>
</table>
### New Excise Duties for other Tobacco Products

<table>
<thead>
<tr>
<th>HS Code</th>
<th>Description</th>
<th>Excise Duty (per kg)</th>
</tr>
</thead>
<tbody>
<tr>
<td>24.01</td>
<td>Unmanufactured tobacco; tobacco refuse</td>
<td></td>
</tr>
<tr>
<td>2401.10</td>
<td>Tobacco, not stemmed/stripped</td>
<td></td>
</tr>
<tr>
<td>100</td>
<td>Virginia type, flue-cured</td>
<td>$150</td>
</tr>
<tr>
<td>900</td>
<td>Other</td>
<td>$150</td>
</tr>
<tr>
<td>24.20</td>
<td>Tobacco, partly or wholly stemmed/stripped</td>
<td></td>
</tr>
<tr>
<td>100</td>
<td>Tobacco leaf, partly stripped, Virginia-type</td>
<td>$150</td>
</tr>
<tr>
<td>900</td>
<td>Tobacco leaf, partly stripped, other type</td>
<td>$150</td>
</tr>
<tr>
<td>2401.30 000</td>
<td>Tobacco refuse</td>
<td>$150</td>
</tr>
<tr>
<td>24.02</td>
<td>Cigars, cheroots, cigarillos and cigarettes, of tobacco or tobacco substitutes</td>
<td></td>
</tr>
<tr>
<td>2402.10 000</td>
<td>Cigars, cheroots &amp; cigarillos, containing tobacco</td>
<td>$210</td>
</tr>
<tr>
<td>2402.20 000</td>
<td>Cigarettes containing tobacco</td>
<td>$210</td>
</tr>
<tr>
<td>2402.90</td>
<td>Others:</td>
<td></td>
</tr>
<tr>
<td>100</td>
<td>Cigarettes with tobacco substitutes</td>
<td>$210</td>
</tr>
<tr>
<td>900</td>
<td>Cigars, cheroots &amp; cigarillos with tobacco substitutes</td>
<td>$210</td>
</tr>
<tr>
<td>24.03</td>
<td>Other manufactured tobacco and manufactured tobacco substitutes; “homogenised” or “reconstituted” tobacco; tobacco extracts and essences.</td>
<td></td>
</tr>
<tr>
<td>2403.10</td>
<td>Smoking tobacco, whether or not containing tobacco substitutes in any proportion:</td>
<td></td>
</tr>
<tr>
<td>100</td>
<td>Packed for retail sale</td>
<td>$210</td>
</tr>
<tr>
<td>910</td>
<td>Other:</td>
<td></td>
</tr>
<tr>
<td>990</td>
<td>For the manufacture of cigarettes</td>
<td>$150</td>
</tr>
<tr>
<td>2403.91 000</td>
<td>Other:</td>
<td></td>
</tr>
<tr>
<td>2403.99</td>
<td>&quot;Homogenised&quot; or reconstituted tobacco</td>
<td>$210</td>
</tr>
<tr>
<td>2403.99</td>
<td>Other:</td>
<td></td>
</tr>
<tr>
<td>100</td>
<td>Beedies</td>
<td>$70</td>
</tr>
<tr>
<td>200</td>
<td>Snuff</td>
<td>$210</td>
</tr>
<tr>
<td>810</td>
<td>Other manufactured tobacco:</td>
<td></td>
</tr>
<tr>
<td>820</td>
<td>Smokeless tobacco including chewing and sucking tobacco</td>
<td>$70</td>
</tr>
<tr>
<td>890</td>
<td>Other</td>
<td>$210</td>
</tr>
<tr>
<td>900</td>
<td>Other</td>
<td>$210</td>
</tr>
</tbody>
</table>
ANNEX 4: Tax Measures to Promote Philanthropy

Double tax deduction for donations to Institutions of a Public Character (IPC)s

1 Double tax deduction will be granted for all cash donations made to Institutions of a Public Character (IPC)s on or after 1 January 2002. Double tax deduction will also be granted for donations of computers and related peripherals under the Computer Donation Scheme, artefact donations to Approved Museums, and approved shares and unit trusts donated under the Shares Donation Scheme.

Carry-forward of tax deductions for donations to IPCs

2 Individuals and corporations will be allowed to carry forward for 5 years all “un-utilised” deductions granted for donations made to IPCs on or after 1 January 2002.

Tax deduction for donations with naming opportunities

3 Some IPCs grant naming opportunities to their donors in return for their generous financial support. For example, some name their buildings or scholarships after their benefactors. A single tax deduction will be granted to such donations made on or after 1 January 2002.

Exemption from estate duty for donations made from estates

4 Currently, only donations to IPCs specified in a will are exempted from estate duty. With effect from 1 January 2002, all donations made from estates will be exempted from estate duty.

IPC status for qualifying charitable private foundations

5 All qualifying charitable private foundations that benefit the local community at large will now enjoy IPC status to help them raise funds for their charitable activities.
ANNEX 5: Tax Incentives for the Financial Sector and Enterprise Development

Financial Sector Incentives

Fund Management Industry Incentives

1. Two tax changes will give a boost to the fund management industry in Singapore. Firstly, qualifying investment income of foreign investors from funds managed by all fund managers in Singapore will be exempt from tax.

2. The second change is the merger of the Approved Fund Manager and Approved Boutique Fund Manager schemes into a single Approved Fund Manager scheme. Under the new scheme, the concessionary tax rate of 10% on fee income previously enjoyed only by fund managers under the existing Approved Fund Manager scheme will be extended to qualifying boutique fund managers. The new scheme will also cover more types of investments.

3. The changes will apply from YA 2003. MAS will administer the scheme and announce more details in 2 months.

Enhanced Approved Trustee Company Scheme

4. To encourage further the development of world-class trustee and custodian services in Singapore, the Approved Trustee Company (ATC) Scheme will be enhanced by the following changes:

   i. The concessionary tax rate of 10% for the provision of trustee and custodian services will be extended to the custodian services that ATCs provide to mutual fund corporations;

   ii. The tax exemption granted on income from foreign trusts administered by an ATC will be extended to income derived through an eligible investment holding company; and

   iii. The concessionary tax rate of 10% will be extended to an ATC that provides substantial trust management or administrative services to a foreign trust of which it is not the trustee. Such foreign trusts will also be granted tax exemption on their qualifying income.

5. The changes will take effect from YA 2003. MAS will administer the scheme and announce more details in 2 months.
6. To encourage further development of the equity capital market in Singapore, the following measures will be introduced:

i. Subject to certain conditions, Approved Securities Companies will be taxed at the concessionary rate of 10% on the income derived during the period YA 2003 to YA 2007 from the provision of financial advisory services to persons outside Singapore.

ii. From YA 2003 to YA 2007, income derived by Asian Currency Units and Approved Securities Companies from managing the Initial Public Offering of securities of foreign companies for listing on the Singapore Exchange (SGX) will be taxed at a concessionary rate of 5%. The securities can be placed with any investor and denominated in any currency. This rate will also apply to the income derived by Asian Currency Units and Approved Securities Companies from the sale of such foreign securities and related services such as brokerage and custodian services.

iii. Currently, qualifying corporate futures SGX members enjoy a concessionary tax rate of 5% on the incremental income from designated transactions in new futures contracts denominated in any foreign currency in the futures market. This incentive will be replaced. Corporate SGX members who are ranked amongst the top 20 in terms of annual trading volume generated for each approved new derivative product denominated in any foreign currency will enjoy the same rate on total income derived from transactions in each product. This will apply to new products that commence trade on SGX during the period from 1 Jan 2002 to 31 Dec 2006.

7. MAS will administer the above incentives and release further details in 2 months.

Treasury Industry Incentives

8. Asian Currency Units or Approved Securities Companies with substantial commitments will enjoy a concessionary tax rate of 5% for 5 years on the income derived from transacting with qualifying parties in over-the-counter financial derivatives denominated in any foreign currency. Payments to non-residents on such derivative transactions will be exempted from withholding tax for this period. This scheme will take effect from 20 May 02 and will last for 5 years. MAS will administer this scheme and announce the details before 20 May 2002.
Financial Sector Incentive Scheme

9. Several of the eleven existing incentives will be merged into a single umbrella Financial Sector Incentive (FSI) scheme, which offers simpler administrative procedures and more flexible qualifying criteria. The FSI scheme will offer a concessionary tax rate of 5% for qualifying high growth and high value-added activities and 10% for mature but tax-sensitive activities. As this involves a major revamp of the many existing incentives, the FSI scheme will only be implemented from YA 2004. MAS will announce more details in 6 months.

Extension of Concessionary Rate for Interest Income from Qualifying Debt Securities

10. Interest income from qualifying debt securities is currently subject to tax at a concessionary rate of 10% if it is received by a company or financial institution. With effect from YA 2003, this incentive will be extended to bodies of persons, such as management corporations, town councils, trade and industry associations, and clubs.

Tax Deduction for Special Reserves of General Insurance Companies

11. Under this scheme, general insurance companies can claim tax deduction on special reserves set aside for certain offshore risks. This scheme will take effect from YA 2003. MAS will release further details.

Promoting Enterprise Development

Development and Expansion Incentive

12. The minimum tax rate under the DEI will be reduced from 10% to 5% with effect from today. Companies that currently qualify for both the Pioneer Incentive on some activities and DEI on other activities can apply to EDB for a flat rate DEI to be applied for all qualifying activities. This will obviate the need for such companies to keep separate accounting books for different incentives awarded for each qualifying activity and reduce compliance costs for businesses. It will also provide such companies with greater certainty of the benefits when they invest in Singapore.
Enhanced Deduction for Research and Development Expenses

13. Currently, tax deductions are only granted for expenses incurred for R&D conducted in-house or outsourced to approved R&D organisations that conduct their research activities in Singapore. With effect from YA 2003, single tax deduction for expenses incurred for R&D that leads to the ownership of intellectual property in Singapore will be liberalised to include R&D outsourced to any R&D organisation, whether local or overseas. The scope of further tax deduction for R&D expenses will also be extended to all service companies.

14. Further details will be released by EDB within 1 month.

Approved International Shipping Enterprise Scheme

15. In the face of intensified competition and the changing shipping landscape, the AIS scheme will be extended and enhanced. Key enhancements to the AIS scheme are as follows:

   i. **Scope of ‘qualifying ships’**
      To exploit new opportunities in the whole arena of shipping and build diversity within our maritime cluster, the AIS scheme will be expanded to include towage vessels, salvage ships, dredgers, seismic vessels and semi-submersible oil rigs as ‘qualifying ships’ under the AIS scheme with effect from Year of Assessment 2003.

   ii. **AIS eligibility criteria**
      The qualifying criteria under the AIS scheme will also be harmonised to make the scheme more user-friendly and help ship operators to expand their operations in Singapore. The manpower requirement for operators of Floating Production Storage Offloading vessels and Floating Storage Offloading vessels under the AIS scheme will be lifted with effect from YA 2003.

16. The AIS scheme currently requires qualifying ship operators to register at least 10% of their companies fleet under the Singapore flag. This requirement will be lifted with immediate effect to give companies greater operating flexibility.

17. Details of the changes will be available from IE Singapore.
Other incentives

Extended Unilateral Tax Credit Scheme for Services Income

18. The unilateral tax credit scheme was first introduced in 1985 to encourage our firms and professionals to export their expertise and services. The scheme was meant to help the development of Singapore’s external economy by eliminating double taxation on income from specified professional and consultancy services remitted from certain non-treaty countries.

19. The unilateral tax credit scheme currently covers income from 13 categories of services remitted from 19 non-treaty countries. To further support regionalisation, the unilateral tax credit scheme will be extended to cover all services income remitted from all non-treaty countries with effect from YA 2003.

Unlimited flow-through of exempt dividends

20. Currently, companies whose income is tax-exempt or taxed at a concessionary rate are allowed to flow such exempt dividends to their own shareholders. Subsequent dividends to further tiers of shareholders are exempt provided the shareholding requirement in the company from which the exempt dividends are received is satisfied. This effectively limits the flow-through of exempt dividends to 2-tiers of shareholders.

21. As our economy matures, corporate structures have become more complex. Joint ventures have also become prevalent as a means of spreading risks in new undertakings.

22. In recognition of these, with effect from 1 Jan 2003, dividends distributed by companies out of income that has been exempt from tax under tax incentive schemes will be allowed to flow tax-free to all tiers of shareholders, regardless of shareholding level. This will apply to all credit balances in the exempt dividend income accounts of companies as at this date.

Withholding Tax Exemption for Arbitrators

23. International arbitrators are currently subject to withholding tax at the prevailing non-resident income tax rate of 24.5%. To promote the international arbitration industry in Singapore, payments to international arbitrators will be exempt from withholding tax with immediate effect.
24. The income received by non-resident professionals is currently subject to withholding tax of 24.5% net of expenses. In order to reduce the compliance cost, a final income tax of 15% will be levied on the gross income of non-resident professionals. This change will take immediate effect.

_Estate Duty Exemption for Movable Assets of Non-Domiciles_

25. To improve Singapore’s attractiveness as a private banking centre and encourage more expatriates to hold Singapore Dollar-denominated assets, the movable assets of non-domiciles will be exempt from estate duty.
# New Personal Income Tax Structure and Rates

<table>
<thead>
<tr>
<th>Chargeable Income ($)</th>
<th>Marginal Tax Rate (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>From</strong></td>
<td><strong>To</strong></td>
</tr>
<tr>
<td>0</td>
<td>20,000</td>
</tr>
<tr>
<td>20,001</td>
<td>30,000</td>
</tr>
<tr>
<td>30,001</td>
<td>40,000</td>
</tr>
<tr>
<td>40,001</td>
<td>80,000</td>
</tr>
<tr>
<td>80,001</td>
<td>160,000</td>
</tr>
<tr>
<td>160,001</td>
<td>320,000</td>
</tr>
<tr>
<td>&gt; 320,000</td>
<td></td>
</tr>
</tbody>
</table>
ANNEX 7: Not Ordinarily Resident Taxpayer Scheme

1. The Not Ordinarily Resident (NOR) Taxpayer Scheme extends favourable tax treatment to qualifying individuals for a period of 5 years of assessment. An NOR taxpayer must meet the following criteria:

   i. He must not have been a Singapore tax resident in the 3 years of assessment before the year he first qualifies for the NOR scheme; and

   ii. He must be a tax resident for the year of assessment in which he wishes to qualify for the NOR scheme.

2. An NOR taxpayer will enjoy the benefit of time apportionment of income only if he meets additional conditions: he must spend more than 90 days outside Singapore for business; and he must pay at least a floor tax rate of 10% on his total employment income. The time apportionment incentive means he pays income tax on only a portion of his employment income in Singapore. The taxable amount will be based on the number of days he spends in Singapore per calendar year.

3. In addition, an NOR taxpayer will enjoy the following benefits:

   i. Favourable tax treatment of pre-assignment income
      Individuals who relocate to Singapore are currently taxed on the income they remit into Singapore even when that income was earned prior to their relocation to Singapore. The remittance of such pre-assignment income will now be exempt from tax.

   ii. Favourable tax treatment of contributions to overseas pension funds
      Subject to the cap on the employer’s contributions to CPF for Singaporeans, the employer’s contributions to overseas pension funds on behalf of a non-citizen NOR taxpayer will be exempt from income tax in the hands of the employee.
Exempting from tax stock options granted for non-Singapore employment

1. Currently, if an employee exercises his stock options while he is in Singapore or holding Singapore employment, he would be taxed on the gains from the exercise of his stock options, even if the options were granted for employment elsewhere. Under the new tax treatment, stock option gains will be taxed to the extent that they are connected with Singapore employment. Gains from stock options granted in respect of overseas employment will not be taxed in Singapore, even if the stock options are exercised in Singapore. To be consistent, gains from stock options granted for Singapore employment will be taxed in Singapore no matter where the stock options are exercised.

Taxing stock options and restricted share awards at the end of their moratoriums

2. Currently, stock option gains are taxed at the point of exercise, with the taxable gains defined as the difference between the market price at the point of exercise and the exercise price. This is because the employee receives, and is able to realise, the benefits of share ownership at the point of exercise. Where there is a moratorium on the shares, the employee can only cash in his benefit at the end of the moratorium. Such stock options will now be taxed only after the moratorium ends. The taxable gain will be the difference between market price at the end of the moratorium and the exercise price. Restricted share awards would be treated in a similar way.

Extending the scope of existing stock option incentive schemes to include other forms of employee share ownership plans

3. Employee share ownership schemes will now qualify for concessionary tax treatment granted under the current incentive schemes, so long as there is a holding period that achieves similar effect as the vesting period requirement in our stock option incentive schemes. This will also make it easier for companies to meet the 50% participation rate requirement under the Company Stock Options (CSOP) Scheme, as recommended by the ERC Sub-Committee.

Requiring Singapore companies to collect the taxes on stock gains from employees who exercise their stock options after leaving Singapore

4. These companies will have to track their employees and collect the taxes when the employees exercise their stock options, if the employees are allowed
to exercise the stock options even after leaving Singapore. This covers all employees, including ex-employees. Stock options are in fact deferred employment compensation. Thus, employers who grant stock options should be responsible for declaring the stock options gains when the gains are realised. Details will be released by IRAS in 3 months.
### ANNEX 9: Rebates for Service & Conservancy Charges and Rent

#### Rebate Package (from 1 Apr 2003 to 31 Mar 2008)

<table>
<thead>
<tr>
<th>HDB flat type</th>
<th>Number of months of S&amp;CC waiver</th>
<th>2003</th>
<th>2004</th>
<th>2005</th>
<th>2006</th>
<th>2007</th>
</tr>
</thead>
<tbody>
<tr>
<td>1-room</td>
<td></td>
<td>5</td>
<td>5</td>
<td>5</td>
<td>4</td>
<td>3</td>
</tr>
<tr>
<td>2-room</td>
<td></td>
<td>4</td>
<td>4</td>
<td>4</td>
<td>3</td>
<td>2</td>
</tr>
<tr>
<td>3-room</td>
<td></td>
<td>4</td>
<td>3.5</td>
<td>3</td>
<td>2</td>
<td>1</td>
</tr>
<tr>
<td>4-room</td>
<td></td>
<td>3</td>
<td>2.5</td>
<td>2</td>
<td>1.5</td>
<td>1</td>
</tr>
<tr>
<td>5-room</td>
<td></td>
<td>2</td>
<td>1.5</td>
<td>1</td>
<td>0.5</td>
<td>0.5</td>
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</tbody>
</table>

<table>
<thead>
<tr>
<th>HDB flat type</th>
<th>Reduction in S&amp;CC</th>
<th>2003</th>
<th>2004</th>
<th>2005</th>
<th>2006</th>
<th>2007</th>
</tr>
</thead>
<tbody>
<tr>
<td>1-room</td>
<td>$8</td>
<td>$8</td>
<td>$4</td>
<td>--</td>
<td>--</td>
<td>--</td>
</tr>
<tr>
<td>2-room</td>
<td>$7</td>
<td>$7</td>
<td>$2</td>
<td>--</td>
<td>--</td>
<td>--</td>
</tr>
<tr>
<td>3-room</td>
<td>$4</td>
<td>$4</td>
<td>$2</td>
<td>--</td>
<td>--</td>
<td>--</td>
</tr>
<tr>
<td>4-room</td>
<td>--</td>
<td>--</td>
<td>--</td>
<td>--</td>
<td>--</td>
<td>--</td>
</tr>
<tr>
<td>5-room</td>
<td>--</td>
<td>--</td>
<td>--</td>
<td>--</td>
<td>--</td>
<td>--</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>HDB flat type</th>
<th>Number of months of rent waiver</th>
<th>2003</th>
<th>2004</th>
<th>2005</th>
<th>2006</th>
<th>2007</th>
</tr>
</thead>
<tbody>
<tr>
<td>1-room</td>
<td></td>
<td>4</td>
<td>4</td>
<td>4</td>
<td>3</td>
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</tr>
<tr>
<td>2-room</td>
<td></td>
<td>2</td>
<td>2</td>
<td>2</td>
<td>1.5</td>
<td>1</td>
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</tbody>
</table>

<table>
<thead>
<tr>
<th>HDB flat type</th>
<th>Reduction in Rent</th>
<th>2003</th>
<th>2004</th>
<th>2005</th>
<th>2006</th>
<th>2007</th>
</tr>
</thead>
<tbody>
<tr>
<td>1-room</td>
<td>$12</td>
<td>$12</td>
<td>$6</td>
<td>--</td>
<td>--</td>
<td>--</td>
</tr>
<tr>
<td>2-room</td>
<td>$8</td>
<td>$8</td>
<td>$3</td>
<td>--</td>
<td>--</td>
<td>--</td>
</tr>
</tbody>
</table>
## Impact of Economic Restructuring Package on Representative Households

<table>
<thead>
<tr>
<th>Household (Item, $, avg)</th>
<th>1-room HDB</th>
<th>2-room HDB</th>
<th>3-room HDB</th>
<th>4-room HDB</th>
<th>5-room HDB</th>
<th>Exec. HDB</th>
<th>Private</th>
</tr>
</thead>
<tbody>
<tr>
<td>Household income¹</td>
<td>22,700</td>
<td>22,300</td>
<td>42,200</td>
<td>52,900</td>
<td>77,200</td>
<td>95,100</td>
<td>149,700</td>
</tr>
<tr>
<td>Income tax savings²</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>59</td>
<td>296</td>
<td>447</td>
<td>1440</td>
</tr>
<tr>
<td>(a)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Additional GST</td>
<td>336</td>
<td>373</td>
<td>548</td>
<td>695</td>
<td>903</td>
<td>1,132</td>
<td>1,679</td>
</tr>
<tr>
<td>payable annually³ (b)</td>
<td></td>
<td></td>
<td></td>
<td></td>
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<td></td>
<td></td>
</tr>
<tr>
<td>Net additional tax</td>
<td>336</td>
<td>373</td>
<td>548</td>
<td>636</td>
<td>607</td>
<td>685</td>
<td>239</td>
</tr>
<tr>
<td>payable annually</td>
<td></td>
<td></td>
<td></td>
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<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(c)=[(b)-(a)]</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Annual rental and S&amp;CC</td>
<td>228</td>
<td>228</td>
<td>110</td>
<td>96</td>
<td>66</td>
<td>0</td>
<td>0</td>
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<tr>
<td>rebates⁴ (d)</td>
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<td></td>
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<tr>
<td>Number of adults⁵ (e)</td>
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<td>2</td>
<td>2</td>
<td>3</td>
<td>3</td>
<td>3</td>
<td>3</td>
</tr>
<tr>
<td>Economic Restructuring</td>
<td>520</td>
<td>520</td>
<td>520</td>
<td>760</td>
<td>760</td>
<td>760</td>
<td>400</td>
</tr>
<tr>
<td>Shares per year⁶ (f)</td>
<td></td>
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<td></td>
<td></td>
<td></td>
<td></td>
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</tr>
<tr>
<td>Total annual benefits</td>
<td>748</td>
<td>748</td>
<td>630</td>
<td>856</td>
<td>826</td>
<td>760</td>
<td>400</td>
</tr>
<tr>
<td>(g)=(d)+(f)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Number of years of</td>
<td>11</td>
<td>10</td>
<td>6</td>
<td>7</td>
<td>7</td>
<td>6</td>
<td>8</td>
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<tr>
<td>additional tax offset</td>
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<td></td>
<td></td>
</tr>
<tr>
<td>[(g)*5]/(c)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

### Notes:

1) Household incomes are estimated based on the 1997/98 Department of Statistics (DOS) Household Expenditure Survey (HES) and adjusted to 2001 levels.

2) Income tax savings are based on a typical 2-earner household with 2 school-going children. The first income earner is assumed to earn 70% of the household income. The income tax computation takes into account personal relief, earned income relief, CPF relief, child reliefs, NSmen relief and further reduction of the tax rates to 20% in subsequent years.

3) The additional 2% GST payable is calculated based on the average household expenditure (excluding imputed rent) from the 1997/98 HES, adjusted to 2001 levels.

4) Average of S&CC and rental rebates received from 2003 to 2007.

5) The assumed number of adults for each household-type generally corresponds to the average number of adults per household in the 1997/98 HES. If the actual number of adults in the family is less than that assumed, the household consumption (and consequently additional GST payable) should also be correspondingly lower.

6) The ERS is based on the number of adults indicated in (e). We assume that one of them is an active NSman.