

## Singapore Budget 2009: An Unprecedented Budget For Unprecedented Times

- Jobs Credit scheme for preserving jobs. With employers getting 12% cash on the first \$2500 of each month's wages for every employee, it is equivalent to a 9 ppt CPF rate cut.
- The budget has even sharpened Singapore's cost-competitiveness by cutting the corporate income tax rate by 1ppt to 17%, which makes Singapore's tax rate compare favourably with Hong Kong's 16.5%.
- Lending to SMEs will receive a boost with the government now upping its share of risk on bridging loans to 80% from 50%. The loan quantum will now also cater to larger companies, with the increase to \$5 million from \$500,000.
- Government-sharing in risk for trade financing.
- Households will benefit in the form of additional GST rebates worth \$580 million.
- An extension of the 20% personal income tax rebate from last year.
- The 40% property tax rebate for owner-occupied residential properties will also take away additional costs for households.
- Ensuring first time home buyers are able to afford public housing, the government has increased the additional CPF housing grant to \$40,000 from \$30,000.

A comprehensive and all-encompassing budget, the measures announced by the government this time round will definitely go some way in helping businesses and citizens cope with the unprecedented slowdown. There is little the government can do to counteract a protracted decline in external demand and the collapse of trade worldwide. The measures announced today will assist companies in their financing needs and surviving the downturn. The initiatives will also alleviate the pain that Singaporeans feel from the crisis. And in those respects, measures such as the innovative Jobs Credit, additional risk-sharing for loans and trade financing, as well as a slew of rebates for households address the issues.

One of the highlights unveiled by the government is the Jobs Credit scheme for preserving jobs. This initiative will take up more than half of the \$6.15 bn in special transfers earmarked for FY 2009. With employers getting 12% cash on the first \$2500 of each month's wages for every employee, we believe this is rather substantial-since it is equivalent to a 9 ppt CPF rate cut, and will definitely help companies keep headcount. With a straight CPF rate cut, the employees will stand to lose, but this way, there is no strain on employees' nest egg. This will have a similar impact in reducing business cost as it did in 1999, when the employers' CPF contribution rate was cut by 10 ppt to 10% to deal with the dampening effects from the Asian Financial crisis.

The budget has even sharpened Singapore's cost-competitiveness by cutting the corporate income tax rate by 1ppt to 17%, which makes Singapore's tax rate compare favourably with Hong Kong's 16.5%. We note that the corporate tax cut is not designed to help companies' cash flow, since it is effective only in YA2010. This move, rather, serves to make Singapore attractive as a hub for companies, positioning the country for an upturn in the economy.

Singapore Budget Statistics							
SGD bn	FY2003	FY2004	FY2005	FY2006	FY2007	FY2008	FY2009
						Revised	Budget
Operating Revenue	25.31	27.47	28.17	31.29	39.65	40.50	33.43
<i>Taxes and Fees</i>	<i>25.31</i>	<i>27.47</i>	<i>28.17</i>	<i>31.29</i>	<i>39.65</i>	<i>40.50</i>	<i>33.43</i>
Total Expenditure	28.50	28.95	28.63	29.90	33.31	38.90	43.62
<i>Operating Expenditure</i>	<i>19.99</i>	<i>20.35</i>	<i>21.44</i>	<i>23.92</i>	<i>26.22</i>	<i>29.25</i>	<i>32.16</i>
<i>Development Expenditure</i>	<i>8.51</i>	<i>8.60</i>	<i>7.19</i>	<i>5.98</i>	<i>7.09</i>	<i>9.65</i>	<i>11.46</i>
Primary Budget Balance**	<b>(3.19)</b>	<b>(1.48)</b>	<b>(0.46)</b>	1.39	6.34	1.60	<b>(10.20)</b>
<i>as % of GDP</i>	<i>(2.0)</i>	<i>(0.8)</i>	<i>(0.2)</i>	<i>0.6</i>	<i>2.6</i>	<i>0.6</i>	<i>(4.1)</i>
Less: Special Transfers	0.60	1.66	0.83	3.57	2.20	7.40	6.15
Add: NII Contribution	1.90	3.04	2.78	2.13	2.30	3.65	7.67
Overall Budget Balance	<b>(1.89)</b>	<b>(0.10)</b>	<b>1.49</b>	<b>(0.05)</b>	<b>6.44</b>	<b>(2.15)</b>	<b>(8.67)</b>
<i>as % of GDP</i>	<i>(1.2)</i>	<i>(0.1)</i>	<i>0.7</i>	<i>(0.0)</i>	<i>2.6</i>	<i>(0.8)</i>	<i>(3.5)</i>

Source: Ministry of Finance; figures may not add up due to rounding;  
\*\* Surplus (Deficit) before Special Transfers and Net Investment Income (NII) contribution

Lending to SMEs will receive a boost with the government now upping its share of risk on bridging loans to 80% from 50%. The loan quantum will now also cater to larger companies, with the increase to \$5 million from \$500,000. In addition, sharing the risk for trade financing is a welcome move and will go help spur bank lending.

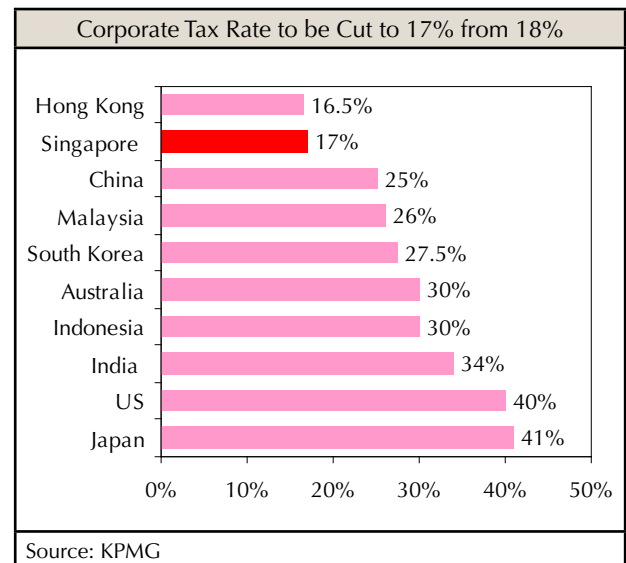
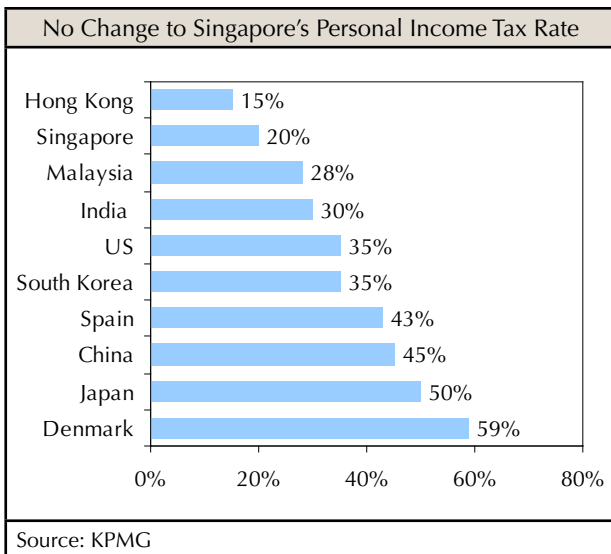
The biggest budget ever, this fiscal year will see a deficit of \$8.67 bn, or 3.5% of GDP, double that in 2001. This is about one third more than we had envisioned, at -\$6.6 bn (2.5% of GDP). To finance this, the Government will need to tap into \$4.9 bn (2% of GDP) from past reserves, which is also twice that of what we had estimated at \$2.56 billion or about 1% of GDP. While this is a bigger budget than we had anticipated, we do not rule out other off-budget measures in the months ahead, should the global economy continue to worsen. As a comparison, in 2001, the government distributed \$11.3 bn in off-budget measures.

## For Corporates

Besides Jobs Credit, other measures like SPUR- which provides higher course fee support for companies, pay for workers training and expand the training scope, will help employees find jobs with more ease. Workfare income supplement will also help supplement low-income earners. The government is also creating jobs to help absorb new graduates and cushion unemployment, with 18,000 public sector jobs to be made available over 2 years in childcare, tertiary education and restructured hospitals.

The property market, which has seen its fortunes fall in the 4th quarter of last year, has also been given a boost with the deferment of property tax for land which is approved for development. This will enable property developers to hold back on their intended developments.

The slew of rebates like property tax rebates for industrial and commercial properties as well as road tax rebates for goods vehicles, buses and taxis will be helpful in reducing operating expenses for businesses.



### For Households

Households have also not been left out, from the man-in the street and the low income earners, to the elderly and financially-strapped students. Although the government did not cut the GST rate, households will benefit in the form of additional GST rebates worth \$580 million, on top of the one that will be due in July this year. An extension of the 20% income tax rebate from last year was also announced, helping to offset the disappointment in the income tax rate remaining unchanged. Low income earners and the elderly also gain in the form of increased allowances, service and conservancy rebates, topping up of ElderCare Fund and Medifund. The 40% property tax rebate for owner-occupied residential properties will also take away additional costs for households. Ensuring first time home buyers are able to afford public housing, the government has increased the additional CPF housing grant to \$40,000 from \$30,000.

### Infrastructure Spending

This recession has seen other countries such as China, the US, and Europe aggressively pump-priming the economy. Singapore is also increasing public sector construction spending significantly, with \$18 billion to \$20 billion worth of contracts expected to go ahead. This compares with \$15 billion last year and \$6 billion in 2007. Projects include HDB lift upgrading and rejuvenating housing estates. We believe this is positive for the construction industry, and we expect construction to keep growing in 2009, as other sectors of the economy see a downturn.

## Main Fiscal Measures Announced

### **For Corporate Sector:**

- Corporate income tax rate will be reduced from 18% to 17% effective from YA2010.
- Special Risk-Sharing Initiative (SRI): 1) new Bridging Loan Programme (BLP) will cater to loans of up to \$5 million (up from \$500,000 currently). Government's share of risk on these loans will increase from 50% to 80%. Banks will set their own interest rates. Effective from 1 February 2009 for one year period and cater to loans of up to four years maturity. 2) the Government will step in to share the risk for trade financing, including 75% for trade loans.
- Extend the tax deduction on loss provisions made pursuant to MAS Notice 612 for banks, as well as other equivalent MAS notices for finance companies and merchant banks, for three Years of Assessment.
- 40% property tax rebate for industrial and commercial properties for 2009. JTC, HDB and SLA will provide a 15% rental rebate to their tenants and land lessees.
- Defer property tax for land which is approved for development for up to two years until 21 Jan 2011, or the TOP date of the development, whichever is earlier.
- Allow a one-year extension of the project completion period for private residential projects. The Government will also extend the period for developers with qualifying certificates to dispose of all residential units in their developments, from two to four years, and allow developers to rent out unsold residential units during this period.
- Enhancement of the current loss carry-back relief system for this year and the next (YA2009 and YA2010).
- The cap on losses that can be claimed against past taxable income will be raised to \$200,000 from \$100,000 currently. Businesses will be allowed to claim losses against their preceding three years of taxable income, instead of just the immediate preceding year under the current scheme.
- Expand the scope of the Foreign-Sourced Income Exemption scheme which was introduced in 2003 to cover all foreign-sourced income. Conditions that are currently required for foreign-sourced income to be exempted from tax when remitted to Singapore will also temporarily be lifted.
- 30% road tax rebate for goods vehicles, buses and taxis for one year effective 1 July 2009. The special (diesel) tax for un-hired taxis will be waived for one year.
- Extend the special tax exemption for CNG (Compressed Natural Gas) vehicles for two years till 31 December 2011. However, from January 2012, a CNG unit duty will be introduced at \$0.20 per kg.
- 20% concession in port dues will be granted to all harbour craft engaged in commercial activities.
- Freeze government fees and charges with immediate effect, to the end of 2009.
- Grant an accelerated capital allowance for equipment acquired this year and in 2010. Such investments can be written down within two years with 75% of the write-down taking place in the first year.

## Main Fiscal Measures Announced

### **For Corporate Sector:**

- Grant an accelerated writing down of renovation and refurbishment expenses incurred this year and the next. Businesses will be allowed to write down these expenses fully within one year, from the current three years.
- Remove all limits on qualifying funds so that they can accept investments freely from resident corporates, in addition to resident individuals.
- Suspend duty and GST on goods temporarily removed from Zero-GST or licensed warehouses for auctions or exhibitions.
- Additional \$45 million fund to the Maritime Cluster Fund (MCF).
- Set up the \$230 million Singapore Media Fusion (SMF) fund.
- Set aside \$180 million in the Core Innovation Fund (CIF) over the next two years.
- Top up the National Research Fund by \$400 million this year

### **Measures to Preserve Jobs:**

- Jobs Credit provides cash grant to employers of 12% of the first \$2,500 of the wages of each employee who is on the CPF payroll. It will be given in four quarterly payments, with each payment being based on the workers who are with the employer at the time.
- Increase the subsidy rate for PMET (professionals, managers, executives and technicians) courses that are eligible for SPUR to 90% from 80%.
- The EDB will introduce a \$100 million programme where EDB co-shares manpower, training and related costs with companies, especially focused on engineering and technical jobs.
- Low-income workers will receive an additional 50% of the WIS payments. The work eligibility criteria of the WIS Special Payment will be relaxed.
- Government will be expanding recruitment with a total of 18,000 public sector jobs to be made available over the next two years.

## Main Fiscal Measures Announced

### **For Individuals:**

- Double the GST Credits that households will receive in 2009. The additional GST Credits will be paid out on 1 March 2009.
- Additional one month of S&CC rebates for those in one to three-room HDB flats, who will therefore receive a total of 3 to 4.5 months for this year. Those in larger flats will receive a total of one to two months of rebates.
- Additional one month of rental rebate for eligible households in public rental flats. In total, they will get three to four months of rental rebates this year.
- Personal income tax rebate of 20% for tax residents for YA 2009, capped at \$2,000.
- Individual tax residents who have lost their jobs in 2008 or lose their jobs in 2009 will be able to pay their personal income taxes this year in instalments of up to 24 months, up from 12 months.
- 40% property tax rebate for owner-occupied residential properties for 2009.
- Remove tax on Net Annual Value of residential property with higher value or secondary residences with effect from YA 2010.
- Increase the maximum Additional CPF Housing Grant (AHG) quantum from \$30,000 to \$40,000, and raise the household income ceiling from \$4,000 to \$5,000 for first-time home-buyers.
- Increase the Public Assistance (PA) rate for single-person households by \$30 from \$330 to \$360.
- For government pensioners, the Singapore Allowance will be increased by \$20 per month to \$240.
- Top up the Public Transport Fund to \$10 million.
- Add \$100 million each to the ElderCare Fund and Medifund this year.
- Increase the tax deduction for donations made in 2009 to Institutions of Public Character (IPCs) and other approved institutions from 200% to 250%.
- Additional \$15 million to support government-funded voluntary welfare organisations (VWOs).
- Increase funding to the CCC-Comcare Fund to \$7 million a year, for the next two years.
- Direct support to households and community groups amounting to \$2.6 billion in 2009.

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