

Short on hongbaos, long on the supply side

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Panellists at a forum yesterday had differing views on the contents of this year's Budget - but agreed on two points.

First, that Budget 2010's largely supply-side measures will aid positive structural change and set Singapore on a long-term, productivity-driven growth path. And second, that it was no 'hongbao' or 'election-year Budget', given the lack of individual income tax cuts or rebates.

The panel discussion was organised by the Singapore Centre for Applied and Policy Economics at the National University of Singapore.

Participants welcomed the broad thrust of the Budget - especially measures aimed at raising business' productivity. Among the 'carrots' within the \$5.5 billion set aside for productivity over the next five years, the centrepiece Productivity and Innovation Credit drew the most positive feedback from the panellists, who thought it 'generous' and 'targeted'.

Chia Ngee Choon, deputy head of the NUS Department of Economics, questioned whether, as a tax credit scheme, it assumes that all small and medium enterprises (SMEs) can pay for R&D, innovation, automation and training activities out of their own pocket first. But she did note that R&D grants supplement the credit's incentive.

The incentive offered to angel investors is 'very interesting', said Deloitte & Touche tax partner Sum Yee Loong, as it means an upfront tax deduction on their initial investment and non-taxable capital gains when they eventually divest. Details to come should address whether angel investors with multiple investments could be deemed by tax authorities to be 'in the business of investing' and thus have divestment gains taxed, he said.

But the 'stick' announced - higher foreign worker levies - will likely have a negative impact, particularly on companies that depend heavily on imported labour, such as those in F&B, said independent financial consultant and analyst Joseph Kwok. 'The one to two-year gap may not be enough for them to train up or attract local ones,' he said.

Assoc Prof Chia agreed there could be a 'transition or substitution problem'.

Panellists also lauded the 'inclusive' nature of measures aimed at making growth more socially equitable. These include moving to a more progressive tiered property tax regime that means lower and middle-income property owners living in their homes pay less tax.

But this may not have an actual wealth redistribution effect, said Deloitte's Mr Sum. He reckoned that, in effect, it reverses the impact of a measure in last year's Budget - the removal of tax on higher-value homes or secondary residences with a net annual value of more than \$150,000. It is therefore likely that beneficiaries of that last exemption are the ones who will pay slightly more tax under the new regime, Mr Sum said.

The panellists also voiced disappointment over the lack of incentives aimed at the financial services sector, and to encourage the growth of green industries.

And there was disagreement over whether the top marginal personal tax rate needs to be cut further. Mr Sum said Singapore's tax rate is still very competitive globally, with an effective rate that can work out lower than in Hong Kong, a key competitor for talent.