Singapore Budget 2016 - Highlights & Commentary

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Budget 2016 Overview

The Minister for Finance presented his inaugural Budget 2016 Statement in Parliament on Thursday, 24 March 2016. This also happens to be the first Budget of the current term of the Government and bears the theme, Partnering for the Future – The Future Beyond SG50: New World, New Challenges.

Overall, this budget is prudent with a focus on partnership between businesses, the government and the people as well as an emphasis on the creation of value through innovation and internalisation whilst attempting to address the challenges of the global economy now what with increased volatility in the securities and commodity markets and upheavals in the international socio-political environment.

Budget 2016 – The Main Thrusts

The key thrusts of the budget this year are as follows:

1) Addressing Near Term Concerns for SMEs
2) Transforming the Economy Through Enterprise and Innovation
3) Strengthening Singapore's Competitiveness as a Hub with Competitive Financial, Trading and Marine Sectors
4) Building a Caring and Resilient Society

Some initiatives in these main thrusts are summarised below.

Addressing Near Term Concerns for SMEs

- Raising the Corporate Income Tax Rebate for the YA 2016 and 2017 to 50% of tax payable, subject to an annual cap of $20,000
- Extending Special Employment Credit to Year 2019
- SME Working Capital Loan of up to $300,000 per SME will be introduced and the government will co-share 50% of the default risk of such loans with participating financial institutions, to encourage lending to the SME
- Deferring work permit levy for Marine and Process sectors

The initiatives to address the near-term outlook for SMEs are very much targeted to this sector and seek to alleviate the pressures that many small businesses face both from the cash flow, liquidity and to a somewhat scoped-out operational perspective for the marine and process sectors. The economy is showing growth in certain segments like the medical technology, chemical manufacturing, and tourism sectors, which are doing rather well while the marine and offshore sector is particularly affected by the downturn in the oil and commodity prices. In addition, SMEs form a large portion of the local economy. Hence, the laser focus on this segment and sectors.

Transforming Enterprises

- Launching Business Grants Portal in Quarter 4 of Year 2016 to reduce the hassles for firms to visit different government agencies for different schemes
- Rolling out New Automation Support Package by providing funding up to 50%, capped at $1 million and additional 100% investment allowance, capped at $10 million for expenditure on automation projects
- Increase the capping for 25% M&A allowance as well as the stamp duty relief – from $20 million to $40 million respectively
- Extension of the non-taxation of companies' gains on disposal of certain equity investments
- Extension of the Double Tax Deduction for Internationalisation Scheme
- Option to write down the cost of acquiring IP over different periods of 5, 10 or 15 years
- Reduce PIC cash payout rate to 40% for expenditures incurred from 1 August 2016 onwards
- Discontinue PIC schemes after YA 2018
- Increased resources for the Research, Innovation and Enterprise (RIE) 2020 Scheme

In line with the theme to partner Singaporeans and businesses, the government is taking an industry-wide approach to enable firms to develop rather than to provide broad-based incentives. The new automation package is an enhanced solution to enterprises that embrace innovation while the business grants portal will aid SMEs in tapping grants and other incentives at a single point instead of having them applying to different agencies. The expiry of the PIC in YA 2018 and the reduction of the cash payout to 40% has probably run its course and is due for retirement given that most of the claims pertain to automation equipment and training activities both of which have been enhanced by the automation package and the Skillsfuture programme. These initiatives seek to address the cyclical weaknesses that the Singapore economy is facing.

Strengthening Singapore's Competitiveness as a Hub, Financial and Trading Sector and Marine Sector

- Continuation of support through various schemes for Finance and Treasury Centre, Trustee Companies, Insurance Companies and Maritime Sector

These critical high-value add industries continue to be encouraged as the output from these sectors forms a significant portion of the economy.

Building a Caring and Resilient Society

- Introducing a Pilot Business and IPC Partnership Scheme from 1 July 2016 till the end of 2018, which allows a 250% tax deduction on qualifying costs incurred, capped at $50,000 per IPC
- Supporting Families with Children through various schemes such as Child Development Account (CDA) First Step grant, KidSTART and Fresh Start Housing Scheme
- GST Vouchers and rebates for Service & Conservancy charges
- The first payout covering two quarters of April to June and July to September 2016 of Silver support scheme will be made in July 2016

Other Changes

- Enhancing the Revitalisation of Shops package to support promotional activities and upgrading projects in housing estates.
- Further development of Jurong Innovation District and Changi Airport Terminal 5
- Enhancing Workfare Income Supplement (WIS) scheme by raising the qualifying income ceiling and increase its payouts
- Personal income tax relief will be capped at $80,000 per YA from YA 2018 onwards
- Removal of partial exemption of home leave trips to expatriates.
- Enhancing the Global Trader Programme (Structured Commodity Finance) ("GTP(SCF)") scheme
- Extending the Not-for-Profit Organisation ("NPO") tax incentive
- Providing for allocation of pre-commencement to the pre-incentive and incentive income
- Withdrawal of the Approved Investment Company scheme from YA 2018
- Withdrawal of the tax exemption on income derived by non-residents trading in Singapore from YA 2018

The budget is nicely balanced with initiatives to take care of the underprivileged and the lower income earners. The government recognises that it is important to support families with young children and needy seniors and has enhanced the Workfare Income Supplement Scheme. As well, businesses are being encouraged to undertake corporate social responsibility activities that benefit the community and motivate employees while enjoying tax breaks as if these were direct cash donations. Somewhat surprising was the one of two changes to the personal income tax regime, namely, the capping of personal relief to $80,000 appears to be somewhat contradictory to the procreation measures.

In summary, a pragmatic budget that seeks to grow the economy by addressing cyclical weaknesses, enabling firms to develop via industry transformation and by enabling people to acquire new skills.

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