

# Singapore Economics

## Budget: Planning for Next Generation

### Bumper fiscal year, surprise “hongbao”

Current government is looking forward and already setting the fiscal parameters for the next 4<sup>th</sup> generation of leaders. Operating fiscal revenue came in much higher than expected, due to higher corporate income tax, stamp duties and exceptional Statutory Board (MAS) contribution. Overall budget surplus was \$9.6bn (2.1% of GDP) in FY2017, far exceeding the projected \$1.9bn. This was the highest budget surplus as a % of GDP since FY2007 (a strong growth year). A one-off “hongbao” of up to \$300 will be handed out (costing \$700mn), despite it not being an election year. The govt. conservatively projects a negligible budget deficit in FY2018 at 0.1% of GDP (see Fig 1).

### GST hike only in 2021-25

The GST hike (to 9% from 7%) is still coming despite the bumper year, but deferred until 2021-25, probably “earlier rather than later.” This will be implemented in a progressive manner, with a permanent GST voucher and offset package to cushion impact on lower and middle-income households. A +2ppt hike would generate revenue of nearly 0.7% of GDP per year, and would be necessary to fund rising healthcare and infrastructure spending (see Table 2 & Fig 3).

### Higher stamp duty on high-end property

The speculated wealth tax came in the form of a hike in top marginal stamp duty to 4% (from 3%) for residential property valued in excess of S\$1 million starting 20 Feb 2018 (see Table 3). This also applies to en bloc property deals. Our analyst Derrick argues that this is a small dampener which will impact the high-end more than mass market, and should not derail the property market recovery (see *Singapore Property: Higher BSD a Small Dampener*, 19 Feb 2018).

### Imported services tax in 2020, carbon tax in 2019

GST will apply to imported services from 1 Jan 2020, even if overseas suppliers do not have a physical presence in Singapore. Imported services include apps, software, online subscription fees, marketing, IT and management services. Contrary to our expectations, GST was not extended to online sales of goods, which would fail to capture the bulk of GST leakages. Currently, imported goods costing more than \$400 are taxed. We are not entirely clear on why GST is applied to online e-services, but not goods.

A carbon tax of \$5 per tonne of greenhouse gas emissions will be implemented in 2019-23, lower than the earlier guidance of \$10-\$20 per tonne and below most countries’ carbon tax rates (see Fig 4). About \$1bn revenue collection is projected in first 5 years, but will be recycled on worthwhile environmental projects. The carbon tax will be reviewed by 2023 and increased to \$10-\$15 per tonne by 2030. Petrol, diesel & compressed natural gas are exempted as they already incur excise duties.

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## Supporting corporate innovation, internationalization

Govt. extends the wage credit scheme (co-fund employee wages for next 3 years which would cost \$1.8bn); enhances and extends corporate income tax rebate to YA2019 at 20% of tax payable (capped at \$10k); defers foreign worker levy increase for marine shipyard and process sectors for another year (see Table 5); raises tax deduction on licensing of intellectual property; and enhances double tax deduction for internationalization. These largely benefit SMEs because of the caps.

## Fostering caring & cohesive society

Support for lower-income and elderly came in form of education support; review of EldersShield insurance scheme; enhanced Proximity Housing Grant; extension of service and conservancy charges rebate (\$126mn) and encouraging individual & corporate giving. Foreign domestic worker monthly levy will be hiked to \$300 (from \$265) starting 1 Apr 2019, to reduce over-dependency (see Table 4).

## Funding future infrastructure

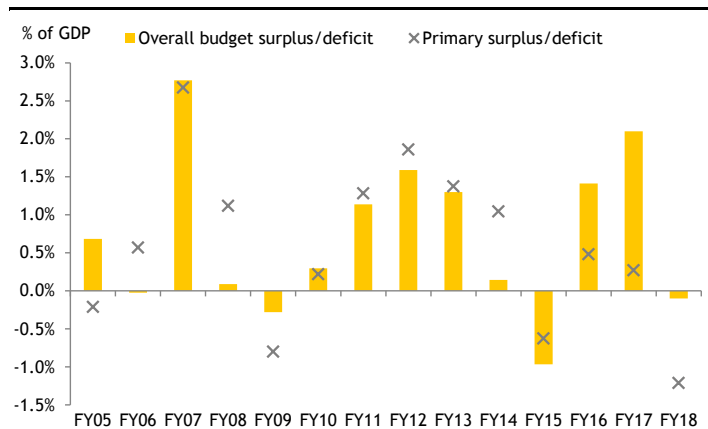
Government will establish a Rail Infrastructure Fund (S\$5bn) for future major rail lines, similar to the Changi Airport Development Fund (S\$4bn) established in 2015 for Terminal 5. Long-term borrowings are being considered for major projects such as the KL-Singapore High Speed Rail, JB-Singapore Rapid Transit System Link and Integrated Waste Management Facility, in order to spread the cost more equitably across generations. This will also help develop the local bond market.

Table 1: Fiscal Position in FY2016 to FY2018

	Actual FY2016	Revised FY2017	Estimated FY2018	Change over revised FY2017	
	\$bn	\$bn	\$bn	\$bn	% change
<b>OPERATING REVENUE</b>	<b>69.0</b>	<b>75.2</b>	<b>72.7</b>	<b>-2.5</b>	<b>-3.3</b>
Corporate Income Tax	13.6	14.4	15.1	0.8	5.2
Personal Income Tax	10.5	10.7	11.4	0.7	6.8
Withholding Tax	1.5	1.3	1.4	0.0	1.0
Statutory Boards' Contributions	0.8	4.9	0.5	-4.4	-90.6
Assets Taxes	4.4	4.4	4.4	0.1	1.2
Customs and Excise Taxes	2.7	3.2	3.4	0.2	5.3
Goods and Services Tax	11.1	10.8	11.4	0.6	5.5
Motor Vehicle Taxes	2.1	2.3	2.8	0.5	20.2
Vehicle Quota Premiums	6.0	6.0	5.6	-0.4	-6.6
Betting Taxes	2.7	2.7	2.8	0.1	2.4
Stamp Duty	2.9	4.7	3.8	-1.0	-20.5
Other Taxes	6.1	6.1	6.4	0.3	5.0
Other Fees and Charges	3.1	3.3	3.4	0.1	4.2
Others	0.5	0.4	0.4	0.0	3.7
Less:					
<b>TOTAL EXPENDITURE</b>	<b>71.4</b>	<b>73.9</b>	<b>80.0</b>	<b>6.1</b>	<b>8.3</b>
Operating Expenditure	52.7	56.1	57.7	1.6	2.8
Development Expenditure	18.7	17.8	22.4	4.5	25.4
<b>PRIMARY SURPLUS / DEFICIT</b>	<b>-2.7</b>	<b>1.2</b>	<b>-7.3</b>		
Less:					
<b>SPECIAL TRANSFERS</b>	<b>6.5</b>	<b>6.2</b>	<b>9.1</b>	<b>2.9</b>	<b>46.2</b>
Special Transfers Excluding Top-ups to Endowment and Trust Funds	2.9	2.2	1.8		
<b>BASIC SURPLUS / DEFICIT</b>	<b>-5.6</b>	<b>-1.0</b>	<b>-9.2</b>		
<b>Top-ups to Endowment and Trust Funds</b>	<b>3.6</b>	<b>4.0</b>	<b>7.3</b>		
Rail Infrastructure Fund	-	-	5.0		
GST Voucher Fund	-	1.5	2.0		
Add:					
<b>NET INVESTMENT RETURNS CONTRIBUTION</b>	<b>14.4</b>	<b>14.6</b>	<b>15.9</b>	<b>1.2</b>	<b>8.5</b>
<b>OVERALL BUDGET SURPLUS / DEFICIT</b>	<b>5.2</b>	<b>9.6</b>	<b>-0.6</b>		

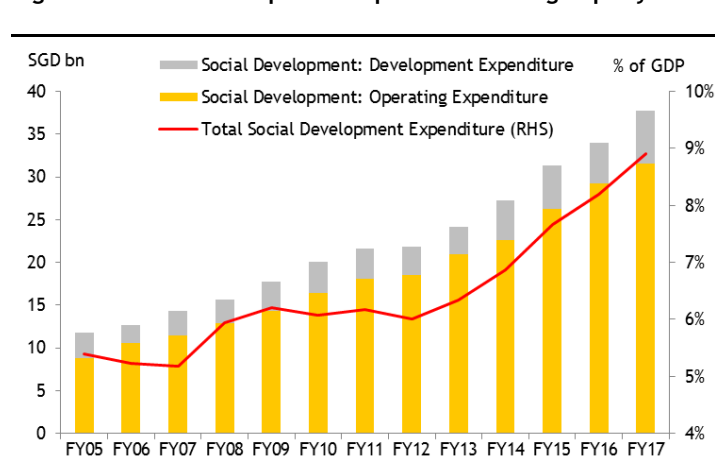
Source: CEIC, Budget 2018, Maybank Kim Eng

Figure 1: Overall Budget Balance vs. Primary Balance, FY2005 - FY2018



Source: CEIC, Budget 2018, Maybank Kim Eng estimates

Figure 2: Social Development Expenditure Rising Rapidly



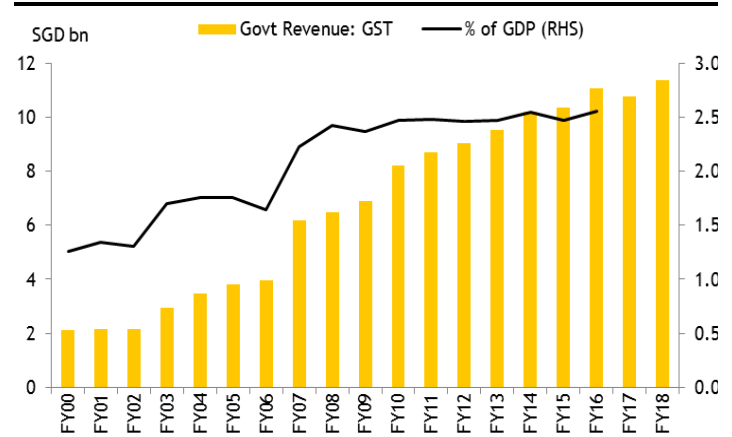
Source: CEIC, Maybank Kim Eng

Table 2: GST, VAT and Sales Tax Rates

Country	Standard rate*
United Kingdom	20%
China	17%
India	15%
Philippines	12%
Indonesia	10%
Korea	10%
<b>Singapore (proposed)</b>	<b>9%</b>
Japan	8%
<b>Singapore (current)</b>	<b>7%</b>
Thailand	7%
Malaysia	6%
Taiwan	5%

Source: Ernst &amp; Young, Budget 2018, Maybank Kim Eng

Figure 3: GST Revenue Remained Steady Between 2.5% and 2.7% of GDP Over the Past 7 Years



Source: CEIC, Budget 2018, Maybank Kim Eng

Table 3: Tax Change for Residential Properties

Rates	Tiers	
	Current	Starting 20 Feb
1%	First \$180k	First \$180k
2%	Next \$180k	Next \$180k
3%	Amount exceeding \$360k	<b>Next \$640k</b>
<b>4% (New)</b>	-	<b>Amount exceeding \$1mn (New)</b>

Source: Budget 2018, Maybank Kim Eng

Table 4: FDW Levy Rates

Type of Levy	Current Monthly Rate	Revised Monthly Rate (from 1 Apr 2019)
Normal	1st FDW	\$265
	2nd FDW	\$265
Concessionary	\$60	\$60 (no change)

Source: Budget 2018, Maybank Kim Eng

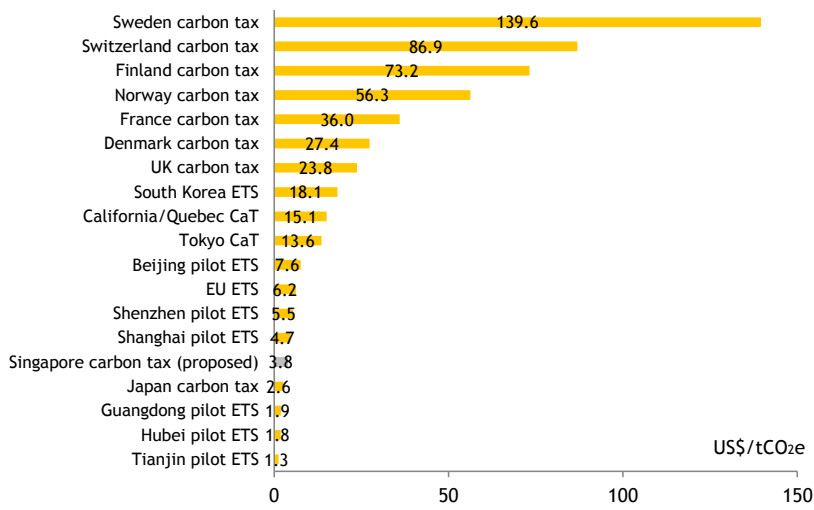
Table 5: Foreign Worker Levy Schedule

Sector/ Pass Types	Tier	Sector Dependency Ratio (DR)	Levy Rates (\$) (R1/R2)		
			1-Jul-17	1-Jul-18	1-Jul-19
S-Pass	Basic Tier (All)	≤10%	330	<b>330</b>	To be announced in 2019
	Tier 2 (Services)	10-15%	650	<b>650</b>	
	Tier 2 (Other Sectors)	10-20%	650	<b>650</b>	
Construction WPH	Basic Tier	≤87.5%	300/650	300/700	<b>300/700</b>
	MYE-Waiver		600/950	600/950	<b>600/950</b>
Services WPH	Basic Tier	≤10%	300/450	<b>300/450</b>	To be announced in 2019
	Tier 2	10-25%	400/600	<b>400/600</b>	
	Tier 3	25-40%	600/800	<b>600/800</b>	
Marine Shipyard WPH	Basic Tier	≤77.8%^	300/400	<del>350/500</del> <b>300/400</b>	To be announced in 2019
Process WPH	Basic Tier	≤87.5%	300/450	<del>300/500</del> <b>300/450</b>	
	MYE-Waiver		600/750	<del>600/800</del> <b>600/750</b>	
Manufacturing WPH	Basic Tier	≤25%	250/370	<b>250/370</b>	To be announced in 2019
	Tier 2	25-50%	350/470	<b>350/470</b>	
	Tier 3	50-60%	550/650	<b>550/650</b>	

^Marine Shipyard DRC was reduced from 81.8% to 77.8% in Jan 2018, as previously announced at Budget 2013.

Note: Numbers in red are Foreign Worker Levy rates announced in Budget 2018.

Source: Budget 2018, Maybank Kim Eng

**Figure 4: Existing Carbon Prices Around the World**


Source: World Bank, Budget 2018, Maybank Kim Eng

**Table 6: Corporate Tax Rates - Is Singapore Still Competitive?**

Country	Corporate Tax		
	2018	2009	Change in Tax Rate
India	34.6	34	0.6
Japan	30.9	40.7	-9.8
Philippines	30	30	0
Indonesia	25	28	-3
China	25	25	0
Malaysia	24	25	-1
Korea	22	24.2	-2.2
*United States	*21	35	-14
Thailand	20	30	-10
United Kingdom	19	28	-9
Taiwan	17	25	-8
<b>Singapore</b>	<b>17</b>	<b>18</b>	<b>-1</b>
Hong Kong	16.5	16.5	0

\*Tax bill was passed in Congress and signed into law by President Trump on 22 Dec 2017.

Source: KPMG, Maybank Kim Eng

**Table 7: Individual Income Tax Rate for Top Bracket**

Country	Individual Income Tax		
	2018	2009	Change in Tax Rate
Japan	55.95	50	+6
China	45	45	0
United Kingdom	45	40	+5
Taiwan	45	40	+5
Korea	40	35	+5
United States	37	35	+2
India	35.5	30	+6
Thailand	35	37	-2
*Philippines	35	32	+3
Indonesia	30	30	0
Malaysia	28	27	+1
<b>Singapore</b>	<b>22</b>	<b>20</b>	<b>+2</b>
Hong Kong	15	15	0

\*Income tax rate for the richest (with annual taxable income over PHP8mn) was raised under TRAIN, while the tax rates were lowered for the rest.

Source: KPMG, Maybank Kim Eng

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