

Press Release: ERC Tax Package Focuses on Jobs and Growth

Jobs, or the lack of them. This was the key issue addressed by the ERC Sub-Committee on Policies related to Taxation, the CPF system, Wages and Land (TCWL), which released its report on taxation on Thursday. In the face of the worst unemployment since 1986 and with the economy emerging from the sharpest downturn since independence, the ERC has unveiled the first component of its strategy for boosting Singapore's economic fortunes and creating more jobs for Singaporeans.

By proposing a substantial cut in income taxes, the Sub-Committee aims to attract more businesses to locate in Singapore and generate higher growth, more jobs and better incomes for all Singaporeans. The Sub-Committee recommends significant immediate reductions in corporate and personal income taxes, for income earned in 2002. It also recommends a target of 20 percent to be achieved within 3 years for both the corporate tax rate (from 24.5 percent) and the top marginal personal income tax rate (from 26 percent), with corresponding cuts across income bands.

The ERC Sub-Committee has proposed that the loss in government revenues be partially made up by a two-percent point increase in the GST rate, from 3% to 5%, in 2003. Even with this increase, the GST rate would still be one of the lowest worldwide.

GST Offset Package

The Sub-Committee proposed that the government provide Singaporeans with an offset package to help them adjust to the GST increase, as in 1994 when the GST was introduced.

Mr Tharman Shanmugaratnam, Senior Minister of State (Trade and Industry & Education), who chaired the Sub-Committee, said, "The GST increase is essential if we are to cut income taxes to, and regain economic dynamism and jobs for all. Helping Singaporeans adjust to the GST increase through this transition must be a major priority of the government.

GST Offset Package

DPM Lee Hsien Loong, Chairman of the ERC, said in his response to the recommendations by the Sub-Committee, "The bold recommendations on tax policies will lay the groundwork for the Singapore economy to grow, prosper and create jobs in a more uncertain and competitive environment." DPM Lee also said, "If the government decides to restructure taxes and increase GST, it will certainly implement a comprehensive offset package to help Singaporeans adjust."

In addition to the offset package, the Sub-Committee recommended that the government pay special attention to the impact of the GST increase on education, health care and public transport costs. It also proposed that a committee to combat profiteering and undue price increases be set up, similar to what was done in 1994.

Corporate Tax Changes

The Sub-Committee proposed a comprehensive set of corporate tax changes to help position Singapore as a business hub and support the growth of local enterprises. Apart from the cut in the corporate tax rate from 24.5% to 20%, the Sub-Committee recommended the introduction of group relief, to allow corporate groups to offset the losses of one company against the taxable profits of another company within the same group. It also proposed replacing the full-imputation corporate tax system with a more efficient one-tier system; selective enhancements and simplification of tax incentive schemes; and more liberal treatment of foreign business income remitted to Singapore.

The Sub-Committee also recommended that intellectual property be treated like physical assets for tax

purposes, in recognition of the growing importance of knowledge-based activities in the Singapore economy.

Personal Tax Changes

The Sub-Committee proposed bold measures to lighten the personal tax burden so as to encourage hard work and enterprise, and boost Singapore's role as a "talent capital". Besides cutting the personal income tax rate, the Sub-Committee recommended that the government consider removing tax on all interest income in Singapore, and personal income remitted back to Singapore from abroad. It also proposed improvements to the taxation of stock options to strengthen Singapore's entrepreneurial culture and help Singapore compete for talent. In addition, the Sub-Committee recommended not taxing earnings attributable to time spent outside Singapore for employees who are "temporary tax residents". These measures should make Singapore a more attractive location for regional and international activities.

Smaller Budget Surplus

The proposed tax changes are expected to reduce the government's projected annual budget surpluses. But the Sub-Committee emphasised the need to avoid deficits in the government budget. It noted that the GST has proved a resilient and important source of revenue. The proposed GST increase will make up for about half of the revenue loss from income tax cuts in the medium term. As Mr Shanmugaratnam said, "The government has to spend on healthcare, education and other social programmes to meet the needs of the people, without running into deficit.

Mr Shanmugaratnam said that the tax changes are a critical part of Singapore's strategy to attract investments, grow the economic pie, and provide good jobs for all Singaporeans.

The full report is available at the [ERC web site](#)

ERC Sub-Committee on Policies Related to Taxation, the CPF system, Wages and Land

11 April 2002