

(4) CREATING A TOP QUALITY ECONOMY

4.1 We are competing in a league of both established leaders and newly-emerging cities with an edge in knowledge-based industries. They are not standing still, even in the developed world.

4.2 Munich in Germany, previously dependent on the automobile industry, is now a high-tech, knowledge-based city. Today, Munich is home to not only leading biotechnology research centres like the Max Planck Institute of Biochemistry and corporate giants such as BMW and Siemens, but also vibrant SMEs with world-beating technologies. Last year, Munich was also cited in the International Herald Tribune as the most liveable city in the world.

4.3 In the US, the city of Austin in Texas is fast establishing itself as a centre of innovation for clean technology. It was recently named by Moody's as the best place for business in the US. Austin has the third-highest number of patents among US cities in 2005, and over 44% of the population hold a college degree.

4.4 Asian cities, including even lower-cost cities, are joining in the high-value game. Hyderabad, now dubbed the second Silicon Valley in India after Bangalore, has invested heavily in education, research and digital infrastructure. It is home to Satyam, a leading IT company, and has attracted large global investors such as Microsoft, IBM and Novartis. In China, besides Beijing and Shanghai, second- and third-tier cities like Hangzhou, Qingdao and Yantai are developing highly competitive industry clusters.

4.5 Kyoto in Japan has also emerged over the last decade as a major hub for innovation, home not only to leading global companies that started out there like Murata, Kyocera, and Nintendo but also a large number of small, dynamic firms often with world-leading technologies. Kyoto has one of the highest concentrations of high-tech start-ups in Japan. It also hosts top-notch academic institutions like Kyoto University, which has produced five of Japan's nine Nobel prizes in science; and an assortment of incubator facilities. And all this happening in a city endowed with centuries-old traditions, beautiful temples and gardens.

4.6 We have what it takes to compete in the top league.

4.7 We already have a first-class infrastructure and one of the most attractive living environments in Asia. But we will invest in a total upgrade of our business, transport and IT infrastructure to enable new growth in the decades to come. The development of Marina Bay will eventually double the size of our financial district. Minister Raymond Lim has set out our plans to ensure that our roads are free-

flowing, and to make a quantum leap in our public transport infrastructure. We will double our rail network by 2020. Our expenditure on Land Transport alone from now till 2020 will add up to \$50 billion or about \$4 billion a year – about two and a half times what we have spent on all transport infrastructure – land, air and sea, over the last 20 years.

4.8 We have also embarked on a transformation of our HDB heartlands that will take place over the next 20 to 30 years, beginning with the rejuvenation of our older estates and the building of new generation public housing in estates like Punggol and Dawson. Together with the ongoing upgrading programmes in all our estates, and the green corridors and waterways that we are now developing all over the island, we will provide a vibrant and distinctive living environment for our people.

4.9 These large investments will position Singapore for its next phase of development as a global city, open up many new opportunities for growth, and help transform the quality of life for all Singaporeans.

4.10 However, our infrastructure is only the enabler. The key to our success will be our people and our enterprises. Whether we make the most of our opportunities, whether we grow, and whether we hold our place in the top league will ultimately depend on whether our people and enterprises are top quality, in every job and business they do.

Nurturing Every Skill and Talent

4.11 At all levels of our education system, we are investing more and moving up in quality.

4.12 We will commit more resources to achieve higher standards in the pre-school sector, which will especially benefit children from lower-income backgrounds. We will also enhance our financial assistance schemes (KiFAS and CFAC) to help more families with their children's fees in kindergartens and childcare centres. More details of these initiatives will be announced by MOE and MCYS later.

4.13 We will continue to invest in higher quality education in every school. We are paying our teachers competitively to ensure that we keep good and dedicated people, and have improved the pupil-teacher ratio in every school to enhance the learning experience for all our pupils. Indoor sports halls will be coming to all our schools. We are also putting more resources into overseas immersion for a broad base of students and new boarding school programmes that will enhance opportunities for bonding and a rigorous all-round education.

Tertiary Education

4.14 Our university sector is entering a new phase.

4.15 NUS, NTU and SMU are stepping up to a new level of excellence that will put them decisively ahead. We will grow the number of subsidised university places from 25% to 30% of each cohort by 2015, with four publicly-funded universities. Government spending on the universities will increase by one quarter, or by \$500 million annually. Besides the four universities, we will have a range of other programmes that will enable students to earn degrees in specialised fields, like early childhood education and naval architecture. We will stand out, even among developed countries, in the way we provide a top quality range of publicly-subsidised university options to a sizeable proportion of Singaporeans to aspire toward and take advantage of.

4.16 Our young Singaporeans are taking advantage of this and they keep surprising the world with what they are capable of. Last year, a team of first-year students from the NUS won an award given to the top ten teams in the Mondialogo Engineering Competition – the largest competition for young

engineers with ideas that can change the world, organised by Daimler-Chrysler and UNESCO. They were up against 800 teams, including many with PhD students. Their project focused on how solar processing can be used to help farmers preserve fruit so as to raise their incomes. These were first-year students from NUS – three Singaporeans and two Malaysians who had done JC education in Singapore. They made up for the fact that they were only in their first year, by doing their own research, and teamed up with two senior undergraduate students from the Mumbai University Institute of Chemical Technology – using the connections between faculty of the two universities.

4.17 We will also provide enhanced assistance to needy students to make sure that financial status remains no obstacle to pursuing studies at our publicly-funded universities.

4.18 Our universities must be able to charge realistic and sustainable fees, so that they can recruit good faculty, improve their faculty-student ratios over time and provide a top quality education. This is the only way we can build a world-class university system for Singaporeans.

4.19 The Government provides very significant subsidies for university education, at 75% of costs. Students also have easy access to loans to fund a large part of their fees. This system is fair, since university graduates can expect to earn a significant premium in the employment market and to afford to pay back their loans gradually after they start work.

4.20 However, taking into account the higher costs of university education today, with the improvements in quality that we are making, we have decided to significantly enhance the bursaries given to students from the lower-income group. We will also provide more assistance for those in the middle-income brackets. This will ensure that no student needs to face an excessive burden of loans at the start of his working life. Further, through a combination of bursaries and loans, students within the bottom two-thirds of the population will not need to expend cash for either their fees or living expenses during their university years.

University Bursaries

4.21 First, for students in the lowest 20% of households who enter our universities, we will increase the CDC/CCC-University Bursary Scheme for students, from \$1,000 to \$1,600 per annum. The universities will themselves also provide further bursaries to low-income students in need.

4.22 Second, for the middle-income group, the MOE Bursary Scheme for students up to the 50th percentile of households will be increased from \$800 to \$1,200 per annum. Further, we will extend the bursaries to students above the 50th percentile but within the lower two-thirds of households by income, who will receive a lower amount of \$800. To provide greater access to credit for students in middle-income households, the Study Loan Scheme will be extended to students up to the 80th percentile of households.

Polytechnic Bursaries

4.23 We will similarly increase the bursary quantum for polytechnic students. For the CDC/CCC-Polytechnic Bursary Scheme, we will increase it from \$1,000 to \$1,200 per annum. We will also be introducing a new MOE Bursary Scheme for polytechnic students from the bottom 50% of households, as we have done at the universities. The new bursary will be set at \$800 per annum. We will also extend the MOE and CDC bursaries to students enrolled in MOE-funded diploma programmes in the arts institutions – LaSalle and Nanyang Academy of Fine Arts. Similar to the study loans for university students, the Study Loan Scheme for diploma students will be extended to students up to the 80th percentile of households.

4.24 All new and existing students can take advantage of these schemes starting from this coming academic year.

4.25 Last year we introduced Post-Secondary Education Accounts (PSEAs) for all students. I announced a top up of \$100 to \$400 for each of 2008 and 2009. I had also said that we would top up students' accounts from time to time when our surpluses allow. Given the good surplus that we had last year, I will now make a further top-up later this year. We will provide the majority of students, which includes those from all HDB homes, \$300 for those still in primary school and \$600 for those in secondary schools. Including what was announced previously, this means that secondary school students would have up to \$1,400 in their accounts by March next year to use for their post-secondary education. The additional top-up this year will cost us \$300 million.

Table 1 - Structure of New PSEA Top-ups

Age of Child in 2009	Annual Value of Home less than or equal to \$11,000	Annual Value of Home more than \$11,000
7 to 12	\$300	\$150
13 to 20	\$600	\$300

4.26 Details on financial assistance schemes for post-secondary education are at [Annex A](#).

Continuing Education and Training (CET)

4.27 From kindergarten up to universities, we are investing more and enhancing financial support for students. However, a key focus going forward will now be continuous education for adults. This is going to be absolutely essential for us to retain the competitiveness of our workforce, in a world where we are competing on skills, quality and productivity, and not on costs alone.

4.28 Two weeks ago, PM launched the National CET Masterplan, which sets out our strategy to invest in our people over the next 10 years. We expect to spend, on recurrent expenditure alone, \$400 million per year on CET by 2010. To support this long term engagement, I will top-up the Lifelong Learning Endowment Fund (LLEF) by \$800 million this year, bringing it to \$3.0 billion.

4.29 As the Government ramps up its spending on CET, employers will remain key players in the training of workers. Currently, they contribute a Skills Development Levy (SDL) on workers earning \$2,000 and below. As we move to provide CET to workers across all levels, we should broaden the base for the SDL. Employers will now contribute the SDL on *all* workers they employ, up to the first \$4,500 of gross remuneration. The wider base will allow us to reduce the levy rate from 1% to 0.25%. This will be broadly neutral in terms of levy collections, but will reduce the overall burden on smaller companies and employers of lower-wage workers. The change will take effect from 1st October 2008.

4.30 We will also help Singaporeans who take the initiative to upgrade themselves, by extending subsidies beyond vocational CET. Currently we do not subsidise part time degree programmes. We will now provide subsidies for part-time degree programs at the three publicly-funded universities and UniSIM for those who have not previously benefited from a government-subsidised undergraduate education. Singapore citizens will be able to pay subsidised fees, with the government meeting 40% of the cost of these programmes.

4.31 We will also make further refinements to the existing tax relief for course fees to help individuals claim the relief more easily when they take up academic, professional or vocational courses. Details on this are at [Annex B-1](#).

Making Innovation Pervasive

4.32 We must make innovation pervasive in our economy.

4.33 Singapore is already host to a good share of global companies, the HPs, Novartis and Mitsui of the world. They are moving their activities up the value chain and increasingly investing in R&D in Singapore. We now also have a few home grown companies like Venture Corp, which has some six hundred R&D engineers worldwide, and about half of them in Singapore. Our strategy is to spread innovation across the corporate sector, enhance incentives for enterprises small and big to do R&D and push for greater commercialisation of research generated in our institutes of higher learning.

Investing in World Class R&D Capabilities

4.34 We will increase our overall research spending to \$7.5 billion per annum by 2010, or 3% of the GDP, with one-third of this being publicly funded research. Through the National Research Foundation (NRF), A*STAR and our academic institutions, we are developing deep capabilities in research fields which have a clear value proposition for Singapore. This year, I will top up the National Research Fund by \$800 million, bringing it to a total of \$1.8 billion.

4.35 Top international scientists are coming here because they see Singapore as a place where high impact research can be done. But we are also attracting and nurturing young, up and coming researchers. Just two weeks ago, the NRF awarded research fellowships to ten outstanding young researchers from eight different countries to conduct cutting edge research in Singapore. Four of them had studied in Singapore or have been teaching at our universities. One of them was Dr. Yeo Yee Chia, who at age 36, has been granted some 150 patents. The NRF fellowship will allow Dr. Yeo to lead research efforts on advanced transistor technology, an area that could create new advantages for Singapore's semiconductor industry.

Pushing for Commercialisation of Research

4.36 Having the facilities and talent for top-class research is not enough, however. As our research entities develop our R&D capabilities, we will also do more to

create value out of R&D so that we benefit our enterprises and our economy over the long term. We will facilitate incubation of early-stage ideas that are developed in our universities and research institutions, and partner with venture capital funds to help the institutions spin off companies.

4.37 Polytechnics and ITEs too will be encouraged to commercialise their innovations. MOE has established an Innovation Fund of \$10 million to help seed their ideas and products, and to bring their innovations to the point that could attract industry funding.

4.38 The push to create knowledge in our universities and polytechnics and to find ways to commercialise it will over time benefit our enterprises in many ways. We already have several examples, including in traditional industries. Like Lee Hwa Jewellery, a company founded over 30 years ago by Mdm Tan Su Lan. Lee Hwa created something entirely new, 'purple gold' jewellery. Not many people know this, but purple gold has something to do with Singapore Polytechnic. The technology was first developed by Dr Loh Peng Chum, who was then at Singapore Poly. He took it to Lee Hwa, which then spent a few million dollars to perfect the technology. Purple gold is now sold in numerous cities, from London and Dubai, to Tokyo and Seoul.

Incentivising Enterprise and Innovation

4.39 We will help all our companies move up the innovation ladder. Last year's Budget enhanced our tax competitiveness for all businesses. We made Singapore one of the lowest tax locations in the world to start and grow an enterprise. In this year's Budget, we will make Singapore one of the most competitive places for companies, big and small, to do R&D.

4.40 Firstly, I will increase the tax deductions allowed for R&D done in Singapore from 100% to 150%. This enhanced deduction means that for every \$100,000 of local R&D spending, a company will be able to deduct \$150,000 from its taxable income. I will also lift the requirement that the R&D done in Singapore must be related to a company's existing business, so as to allow it to qualify for the deduction even if it is doing research in new areas unrelated to its current activity.

4.41 Secondly, I will introduce a new broad-based tax allowance which will provide a further push for innovation amongst companies in Singapore, and especially the SMEs. Companies will be granted R&D tax allowances each year, up

to an amount of 50% of the first \$300,000 of their chargeable income. This allowance can be used to defray incremental expenditure on R&D done in Singapore in subsequent years. This will provide additional resources for SMEs to invest in innovation, whatever their field of business. It is extra funds that they will lose if they do not use them for R&D.

4.42 Thirdly, I will also introduce an incentive to help our high-tech start-ups. Turning R&D into marketable products usually takes time, during which they may have no taxable income. Currently, they carry forward their losses for tax purpose. The new incentive, called R&D Incentive for Start-Up Enterprises (or RISE), will allow them to convert immediately these losses into a cash grant of up to about \$20,000. They will get this as long as they incur at least \$150,000 during the year for doing R&D in Singapore. This scheme will be available for enterprises in their first three years of assessment. As with the other incentives I have mentioned, we will review the scheme after five years.

4.43 The three schemes will provide a significant incentive for all companies, small and big, to do R&D. *Start-ups* which have not yet turned a profit, will benefit from reduced costs when they do R&D. A *small company* that is around the 80th percentile of taxpaying companies, and which spends an additional \$150,000 on R&D, would find its effective tax rate being reduced from around 9% currently, to almost zero. For a *medium-sized company*, around the 90th percentile, its effective tax rate will come down from about 15% to 10%. The three schemes together will cost about \$250 million a year.

4.44 Details of these R&D initiatives are at [Annex B-2](#).

Catalysing Innovation in Public Services

4.45 The public sector itself will be more active in innovation. A new Public Service Innovation Framework will serve to promote public-private collaborations that will bring about breakthrough public services.

4.46 The Government will set aside \$90 million over three years as a seed fund for experimentation, test-bedding and building capabilities. Each Ministry will have a Chief Innovation Officer to drive and coordinate this process. The Public Service is always looking for solutions to problems, big and small, that innovative enterprises could participate in. Private companies with new ideas for

technologies and services can offer them for joint development prior to the procurement stage.

4.47 Some examples are well known, like how our companies have taken advantage of NEWater and TradeXchange to develop whole new capabilities and grow. There are other lesser known examples. One of them is Cadi Scientific, founded by four Singaporeans, just five years ago. They approached Singapore General Hospital with a prototype device and offered to work together with the hospital to develop a thermal sensor that could automatically transmit body temperature readings wirelessly to a central system. It freed up time for the nurses, and also meant that patients need not be disturbed from their rest.

4.48 Today, their device has been developed further, into a system that measures many vital signs – blood pressure and respiratory rate – known as SmartSense. SmartSense has been adopted by Tan Tock Seng Hospital, and is now being trialled in hospitals in Thailand and Taiwan.

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4.49 We are stepping up our focus on R&D and innovation on all fronts, through our universities and public sector institutions, by incentivising R&D in our enterprises including SMEs and start-ups, and through closer interaction between the public sector and private enterprises. We cannot expect quick results from the investments we make today and the incentives we are providing. We may have to do more in future years. But what we do now to make innovation more pervasive in the economy, and to grow new enterprises that are driven by R&D, will eventually pay off.

Enhancing Business Competitiveness

4.50 We have to keep our business costs competitive, and not let them run ahead of the cities we are competing with.

Office Space Constraints

4.51 In the short term, we face tightness in *office space* capacity, caused by the surge in business growth, especially in the business and financial sector. Office rentals have risen sharply. Although office space still costs 30% to 50% less in Singapore on average, compared to Hong Kong and Tokyo, the pace of cost increases has been rapid and unsettling for businesses.

4.52 The tightness in office space should ease over the medium term, with the completion of major projects currently under construction, such as Phase 1 and 2 of the Marina Bay Financial Centre, the Marina View sites and South Beach. By 2012, we will have an additional 1.4 million sqm of office space.

4.53 But we are addressing the short term problem. The Government has released 15 transitional office sites and vacant state properties, which will yield 150,000 sqm of additional office space. Companies are already relocating to some of these sites, and to our new regional centres.

4.54 Further, the Government has decided to relocate several agencies out of the Central Area. We will now free up 20,000 sqm or more by first quarter 2009 for use by the private sector. This is equivalent to twenty floors or more of an Office Tower Block in Suntec City.

4.55 *Construction costs* are another short term problem. The combination of higher raw material prices and work on major new projects such as the two integrated resorts and petrochemical complexes has caused costs to spike up. To ease the pressure, the Government has earlier announced the deferment of some \$2 billion worth of Government projects. We have now decided to defer *another close to \$1 billion* of projects. This deferment will only affect projects which are less urgent. Key investments such as the expressways, the Downtown Line and the NUS University Town will not be affected.

Tax Competitiveness

4.56 We will continue to keep our taxes competitive so as to provide every incentive for work and enterprise, and generate economic growth for the future.

4.57 With our 18% Corporate Tax rate and the enhancements we have made to our Partial Tax Exemption scheme last year, our corporate tax regime is competitive. The R&D incentives I have announced will provide further reductions in effective tax rates for companies over time. I will make additional refinements this year to give a further boost to entrepreneurial companies and SMEs.

Start-Up Tax Exemption Scheme

4.58 First, I will liberalise our start-up tax exemption scheme. Currently, all shareholders must be individuals before the company is eligible for the scheme. This is too restrictive. I will therefore allow the tax exemption for start-ups as long as there is at least one individual shareholder with at least a 10% shareholding.

Equity Remuneration Incentive Scheme

4.59 Many companies are seeking to use equity-based remuneration to attract and retain talent. Several years after the dotcom bubble, equity in the form of stock options or share awards remains a relevant tool for young and fast-growing companies.

4.60 There are currently two tiers of tax incentives for equity-based remuneration – one for employees of SMEs and another for those in larger companies. Some of our larger companies would like to use equity remuneration for key employees to encourage them to take risks and grow the company. However, they are currently restricted from doing so as the existing incentive requires them to offer share awards or stock options to *at least 50%* of their employees. I have decided to adjust this condition so that they are only required to issue stock options or shares awards to *at least 25%* of the company's employees.

4.61 I will also introduce a new and more attractive tier for start-up companies besides the two current tiers targeted at SMEs and larger companies. As the risks involved in start-ups are naturally higher, it is reasonable to grant their employees a larger exemption from personal income tax on the gains they make on their stock options or share awards.

Fixtures and Fittings Incentive

4.62 A regular bugbear concerns the expenses that companies incur on fixtures, fittings and installations in their premises. Some renovation expenses are currently not eligible for capital allowances. For example, if a restaurant wants its bar counter to qualify for capital allowances, the surest way is to put it on wheels. I have decided to introduce a new incentive to help businesses, and especially SMEs, keep their costs down. Businesses will be granted a special allowance for the costs of fixtures, fittings and installations incurred, to be written down over three years. The allowance will be limited to expenses of \$150,000 every three years. This new allowance will be particularly helpful for SMEs in the services industries (they are unable to take advantage of the Industrial Building Allowance scheme for manufacturing firms). Whether it is a fashion or F&B outlet, the upgrading they make to the interior design of their premises is integral to the experience they offer to their customers. Overall, this measure will save our businesses about \$130 million a year in tax. The cap at \$150,000 of expenses is essential because if we allowed all businesses to deduct all expenses involved in renovating their premises, we would face significant revenue loss.

Promoting New Financial Activities

4.63 Singapore's financial centre has seen good growth and has significant new opportunities ahead, particularly in Asian markets. Islamic finance is a promising area and we will ensure that Singapore's financial markets are conducive for its growth. To encourage more Shariah-compliant financial activities to be done out of Singapore, I will introduce a 5% concessionary tax rate for income derived from qualifying Shariah-compliant activities, specifically in the areas of lending, fund management, insurance and reinsurance. I will also extend the tax exemption currently granted to non-residents and resident individuals on income from Qualifying Debt Securities to all investors of qualifying *sukuks* (Islamic bonds), including resident non-individual investors.

4.64 To strengthen Singapore as a wealth management hub, I will introduce a tax incentive scheme for family-owned investment holding companies. The scheme will allow these companies to enjoy the same scope of exemptions that individuals currently enjoy on Singapore and foreign-sourced investment income.

4.65 To further develop Singapore as a premier insurance centre, I will introduce a tax incentive scheme for licensed insurance and reinsurance brokers. They will be taxed at a concessionary rate of 10% on the income they derive from offering insurance broking and advisory services to offshore clients.

4.66 I will also enhance other financial sector tax incentives comprising those related to project finance, Qualifying Debt Securities and asset securitisation transactions, as well as extend the Financial Sector Incentive scheme for another five years.

Developing the Maritime Hub

4.67 To deepen our maritime financing capabilities and to tap on new business opportunities created by the buoyant shipping market, I have decided to provide a concessionary tax rate of 5% or 10% on income from leasing of containers under the Maritime Finance Incentive. I will also allow partners to enjoy the incentive.

Tax Credit for Foreign-Sourced Income

4.68 We will also make other specific tax changes. To eliminate the possibility of double taxation for our companies that venture abroad, I will extend unilateral tax credit to all foreign-sourced income that they earn in countries with which Singapore does not yet have an Avoidance of Double Taxation Agreement.

Overseas Talent Recruitment Scheme and Not-Ordinarily-Resident Scheme

4.69 To help businesses continue to attract talent from around the world, I will extend the Further Tax Deduction scheme, which allows for further tax deduction for relocation and recruitment expenses for another five years till 2013. I will also refine the Not-Ordinarily-Resident scheme, which is relevant to individuals with regional work responsibilities, so that it covers not only salary but also benefits in kind.

4.70 Details on these tax changes are at [Annex B-3](#)

Individual Taxes

Estate Duty

4.71 I mentioned last year that we would review Estate Duty. We collect about \$75 million per year on average from Estate Duty.

4.72 We inherited estate duty from the British. The rates we originally had were high – until 1984, the top rate was 60%. (Today's inheritance tax in the UK is in fact still 40%.) Our current rates are much lower; 5% for the first \$12 million of dutiable assets and 10% thereafter.

4.73 Estate duty is a means to rebalance opportunities with each new generation and prevent wealth from being concentrated in fewer and fewer hands over time. It was especially relevant at the time when the bulk of wealth comprised land that was passed down through the family. Today, however, wealth is being created in many more ways and by a wider group of entrepreneurs, many of whom start off with little.

4.74 Wealth is also being managed today on a global basis. Proponents of removing estate duty have therefore argued that removing it would encourage wealthy individuals from all over Asia to bring their assets into Singapore, thus supporting the growth of the wealth management industry. Ordinary Singaporeans have also argued that having worked, paid taxes on their income and property, and built up their savings, they want to be able to pass it on to their families. Some are in fact liable for Estate Duty when their estates receive large life insurance payouts.

4.75 The current low exemption limit for non-residential assets, set at \$600,000, compared to the higher limit of \$9 million for residential properties in fact tends to affect our middle and upper-middle-income estates disproportionately compared to wealthier ones. We have considered raising the \$600,000 limit for non-residential assets so as to correct for this. However, this would further shrink what is already a narrow tax base and render the tax less effective.

4.76 I have therefore decided to remove Estate Duty from our tax regime, with effect from today. It is not just a practical or expedient measure, but one that on balance will be in our collective interest. If we make Singapore an attractive place for wealth to be invested and built up, whether by Singaporeans or foreigners

who bring their assets here, it will benefit our whole economy and society, not just the individuals who build up their wealth. It is not a zero sum game.

4.77 I would however encourage individuals who have accumulated wealth to think of how they can use it to make a contribution to society, and make full use of the enhanced incentives we introduced last year to promote philanthropy. This will benefit our schools, universities and hospitals, and the growing range of charitable causes in Singapore.

4.78 With the removal of Estate Duty, our remaining tax on wealth would be the tax on property. We should retain this tax. It is an efficient tax, set at a low rate in relation to the full value of the property, especially for owner-occupied homes. You cannot tax-plan it away. It also does not affect our middle and upper-middle-income estates disproportionately compared to wealthier ones. This is why most countries have some form of tax on property – including even Hong Kong, which like us does not have capital gains tax and has already done away with Estate Duty. Only Ireland does not have a tax on residential property, but the Irish have capital gains tax, inheritance tax and gift tax.

4.79 Details on Estate Duty are at [Annex B-4](#).

Personal Income Tax

4.80 For most taxpayers, Singapore's personal income tax regime is already one of the most competitive in the world, because our marginal tax rate schedule is highly progressive. We will not be making any further move on personal income tax rates this year. But we will continue to watch this and ensure that we are always able to attract and keep talent in Singapore, including those at the top end. After we amend the Constitution to revise the framework for drawing investment income from our reserves, we will reassess our options on corporate and personal income tax and lower rates further should it become necessary.

4.81 As the Government had a strong surplus last year, however, we will give something back to taxpayers this year. I will give an income tax rebate of 20% for all resident taxpayers for Year of Assessment 2008. The rebate will be capped at \$2,000. Having this cap allows us to target the rebate at those below the top income brackets. The income tax rebates will cost the Government \$380 million.

Miscellaneous Tax Changes

4.82 Last year, I announced that we would progressively move towards taxing liquors on the basis of alcoholic content, rather than on the basis of volume. We are now already taxing many liquors, including beer and stout, on the basis of their alcoholic strength. However, other liquors like wine, whisky, and brandy are still taxed based on volume. With effect from today, all alcoholic beverages will be taxed on the basis of their alcoholic content. Most liquors will see a slight reduction in duty rates. The rationalisation of the duty rates will be broadly revenue neutral.

4.83 The Government has already announced the reductions in the Additional Registration Fee of vehicles and the 15% cut in road taxes that will accompany the expansion of the Electronic Road Pricing system.

4.84 We will also introduce changes to the tax levied on private diesel cars. The current special tax on private diesel cars is too punitive, and explains why we only have one such car on the road today. The changes will narrow the difference in the cost of fuel consumption that a motorist faces, between a Euro-IV car and a petrol car.

4.85 Details of the special tax and liquor duties are at [Annex B-5](#).

4.86 With the Speaker's permission, I will continue later with the changes we will make to build a resilient community.