
COST CUTTING PACKAGE

On 24 November 1998, Deputy Prime Minister ("DPM"), BG Lee Hsien Loong unveiled the cost cutting package measures worth S\$10.5 billion. The package focuses on bringing down business costs of Singapore. DPM Lee said in his speech: "This package will help to make Singapore companies, and the economy as a whole, more competitive, to reduce retrenchments and unemployment, to attract new investments and business, and to lay the basis for long term prosperity".

1. *Labour Cost*

. *10% Point Cut In Central Provident Fund ("CPF")*

The Employers' CPF contribution rate will be reduced by 10% from 1 January 1999 for up to two years. Out of this, 6% cut will come from the Ordinary Account and 4% cut will come from the Special Account. In effect, Special Account contribution will be suspended.

For older workers whose CPF contribution rates are less than 40%, and for pensionable civil servants receiving partial CPF, the reduction in their employers' CPF contribution will be pro-rated.

After two years, the CPF contribution rate will be reviewed and revised upwards should the economy recover.

. *Wage Cut*

The Government accepts the National Wages Council's ("NWC") recommendation to reduce wages by 5% to 8%. Employers are encouraged to follow the NWC's guidelines in their wage negotiations and decisions.

As a major employer, the Government will take the lead to implement the NWC's revised wage recommendations for civil servants. Firstly, the Annual Variable Component to be paid to the civil servants is reduced to $\frac{3}{4}$ month in 1998, down from two months in 1997. Secondly, the Non-Pensionable Variable Payment ("NPVP") of the monthly salaries of civil servants in Division II and above will be reduced by 1% to 5% from 1 January 1999. The cut in NPVP will be for one year and it will be reviewed at the end of 1999. Finally, the annual salary adjustments to Ministers and top civil servants will be suspended in 1999.



2. Taxes

. *10% Corporate Tax Rebate*

A 10% corporate tax rebate will be given to corporate income earned in the Year of Assessment 1999, excluding Singapore dividends.

. *Property Tax On Industrial And Commercial properties*

The one year 55% commercial and industrial property tax rebate included in the Off-Budget Measures which commenced on 1 July 1998 will be extended by another year to 30 June 2000. Housing & Development Board ("HDB") and Jurong Town Corporation ("JTC") will pass the rebates on to their tenants. Landlords in the private sector are also urged to pass on the rebates to their tenants.

. *Property Tax Exemption*

The exemption of property tax for land under development announced in the 1998 Budget will continue.

Stamp Duty

The suspension of stamp duty on contract notes for share transactions which started on 30 June 1998 will be extended for another year.

. *GST Exemption Limits*

With effect from 25 November 1998, the GST exemption limits for returning travellers are as follows:

Exemption limit for travellers:

	<u>Adults (S\$)</u>	<u>Children (S\$)</u>
More than 48 hours	300	100
Between 24 to 48 hours	150	50
Less than 24 hours	50	No exemption



3. Government Rates And Fees

. *Foreign Workers Levy*

With effect from 1 January 1999, the skilled foreign workers' levy in all sectors will be reduced from S\$100 to S\$30. The unskilled foreign workers levy in the manufacturing, marine and services sectors will be reduced by S\$90. However, the levy for unskilled construction workers and domestic maids will remain unchanged.

. *General Rates And Fees*

The Government will review all its rates and fees, and lower those where there is justification. These may include rental concessions by various ministries to tenants generally in the form of 10% rebates for one year from January 1999.

4. Land Transport

. *Road Tax Rebate*

In phase 1 of Electronic Road Pricing System ("ERP") introduced in 1998, the road tax rebate of \$200 per passenger-car-unit ("PCU") was given by the Government. In tandem with the expansion of ERP system under phase 2, a road tax rebate of S\$250 per PCU will be granted with effect from 1 September 1999.

. *Customs Duty On Cars*

With effect from 25 November 1998, customs duty on car will be reduced from the current 41% of Open Market Value ("OMV") to 31% of OMV. Customs duty on new taxis is also reduced from 17% of OMV to 7% of OMV.



. *Excise Duty On Petrol And High-Speed Diesel*

Petrol excise duty is currently 46% of pump price, subject to floor rates which vary for the different grades of petrol. Excise duty on high-speed diesel is S\$0.74 per litres.

With effect from 25 November 1998, petrol excise duty will be reduced from 46% to 40% of pump price and also the floor rates will be cut by S\$0.07 per litre. Excise duty on high-speed diesel is removed.

5. *Sea Transport*

. *Concession On Port Dues*

With effect from 1 January 1999, the Maritime and Port Authority will extend a 20% concession on port dues for container ships and harbour crafts.

. *Rebates On Rents And Handling Charges*

With effect from 1 January 1999, the Port of Singapore Authority extend a one time 10% rebate on certain rents and handling charges.

6. *Air Transport*

. *Rebates*

With effect from 1 January 1999, the Civil Aviation Authority of Singapore will give airlines a 10% rebate on landing fee. The current rebates given to airport retailers are extended for another year to June 2000.



7. Industrial Land And Buildings

. *Jurong Town Corporation*

JTC will reduce its posted rentals for industrial land, of an average of 24% to 40% depending on location, while rentals for flatted and standard factories will come down by 20% to 30%.

The lower rates will take effect on 1 January 1999. These will be permanent reductions, not temporary rebates. The revised posted rents will form a lower base for subsequent rental adjustments.

For lessees paying rentals at posted rates, there will be no rental escalation for two years in 1999 and 2000. Thereafter, the annual increase of their rentals will be capped at 5.5%, with adjustments depending on the business conditions from year to year. Alternatively, lessees may opt for a fixed rate of 4% increase per annum throughout their lease duration.

Existing lessees who are paying rentals above the posted rate will have their contractual rent reduced to the revised rates. Those paying below the revised posted rates will continue to enjoy their current rebates to the end of 1999.

. *Housing & Development Board*

HDB will make similar adjustments. HDB will reduce rentals for industrial land lessees and commercial and industrial tenants which are above the revised posted rates. Rebates for commercial and industrial tenants will be subject to an overall cap of 20%. Land lessees and tenants of industrial factories, workshops and commercial properties who are paying below the new posted rates will continue to enjoy their current rebates to the end of 1999.

8. Telecommunications

. *Licence fee*

With effect from 1 January 1999, the telecommunication Authority of Singapore will reduce the licence fee for mobile radio-communications stations.



. *Tariff Reduction Package*

With effect from 1 January 1999, Singapore Telecom will implement a tariff reduction package including rate reductions, new calling plans, volume discounts and others. Details will be announced at a later date.

9. Utilities And Rebates

. *Tariff Rebate*

With effect from 1 January 1999, Singapore Power will increase the rebate on electricity tariffs for two years, amounting to an average 7.7% reduction in electricity tariffs. Details will be announced at a later date.

. *Removal Of Government Tax*

With effect from 1 January 1999, the 2% government tax levied on household utilities bills will be removed.

. *Utilities Rebates*

The utilities rebates given to 1-4 room households will be extended for a further two years to 2000. Yearly rebates are S\$100 for 1 to 3-room flats and S\$50 for 4-room flats.

. *HDB Rent And Service & Conservancy ("S&C") Rebates*

The rebates for HDB rentals and town council S&C charges will be extended for a further two years to March 2001.

Details of rebates	<u>1-room flat</u>	<u>2-room flat</u>	<u>3-room flat</u>
	S\$	S\$	S\$
Monthly rental rebates	: 12	8	NA
Monthly S&C rebates	: 8	7	4



. *Public Transport Rebate*

With effect from 1 January 1999, a S\$0.50 fare rebate will be given for every S\$10 topped up into farecards. Also a 5% discount will be given for monthly concession stamps. The concession will be given for twelve months.

10. Others

. *Hospital Bills*

The Government and restructured hospital will review their charges. The details of reduction will be announced later and be implemented in 1999.

. *Assistance For Home Mortgage Commitments*

The wage and CPF reductions will affect many Singaporeans who have committed to mortgages, especially those who repay their mortgages out of CPF contributions. After the CPF cut, approximately 18% of CPF members will not have enough monthly contributions in the Ordinary Account to pay for their housing instalments. The Government will allow CPF members to use funds from their Special Account to meet the shortfall caused by the CPF cut.

For CPF members who have depleted their savings in both Ordinary and Special Accounts for the repayment of their mortgages, they can apply for the Bridging Loan Scheme to be introduced by the Government. The loan will be given at a concessionary rate of 0.1% above the CPF rate. Such loan is available to private property mortgages, as well as HDB flat owners paying HDB market interest rates for their mortgages.

Most HDB lessees are already paying the concessionary interest rate of CPF rate plus 0.1% on their mortgages. To assist them, HDB allows them to include more working family members as joint owners to draw on their CPF funds. They may be able to reduce monthly instalments, lengthen the term of their mortgage loan, or defer mortgage payments. Those with payments in arrears may pay the outstanding sum by instalments. HDB will also assist applicants taking possession of new flats who are affected.



Investment Allowance

To encourage investments in both manufacturing and services, investment allowance of 30% will be liberally granted for investments in productive equipment used for qualifying activities which include manufacturing, engineering, computer-related services and a wide range of specified services. A higher allowance of 50% will be considered for investments which meet stricter requirements like contribution to value added.

Note: The above presented are based on the speech by DPM Lee Hsien Loong in Parliament on 24 November 1998, giving Government's response to the Committee on Singapore's Competitiveness's recommendations.

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