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BUDGET 2014

# Will incentives lead to desired SME outcomes?

## Economists look at impact on areas such as innovation

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[SINGAPORE] Budget 2014 may have extended more carrots than sticks to businesses, but whether these extra incentives will meet SMEs' needs or raise productivity, innovation and competitiveness is more pertinent, according to panellists at the Economics Society of Singapore's post-Budget roundtable yesterday.

Citing results from KPMG's pre-Budget survey, KPMG tax partner Toh Boon Ngee noted that 65 per cent of businesses said the government's measures have enabled them to invest in equipment or raise labour productivity. Even so, half of the survey respondents said the measures have had "no impact" on innovation.

The question of what innovation is and how it ought to be defined under the Productivity and Innovation Credit (PIC) Scheme – which has been extended by three years and enhanced for SMEs – is important, said Ms Toh.

"Are we looking at it from the businesses' perspective? Is business innovation good enough to qualify for the PIC? Or are we looking at it from the scientists' point of view? Do we need to have special technology, be involved in some earth-shattering invention to qualify?"

That said, she is well aware that demanding definitions may result in a rigid and prescriptive system that may be counterproductive to the PIC's objectives.

Yet, there remains concern that the tax authorities err on the side of caution in reviewing claims, wary of abuse of the PIC. She suggested that an independent body could be set up to address the practical issues of how to interpret and decide what expenditure ought to qualify.

Other panellists observed that while this year's Budget gave more to less well-off individuals, the opposite seemed to be true when it comes to businesses – more has been given to the stronger.

Noting the co-investment programmes, higher risk-sharing on micro loans and productivity enhancements that benefit small firms willing to invest, David Lee, director of the Sim Kee Boon Institute for Financial Economics at Singapore Management University, said: "I see this as a Budget to enhance the fitness function of dynamic and efficient enterprises."

OCBC economist Selena Ling expressed concern over whether these incentives, welcome as they are, are delivering the desired outcomes.

She noted that while the construction sector – the only one to face a fresh levy hike in 2016 – lagged behind others in productivity growth, other services sectors such as hotels and restaurants and infocomms faced falling labour productivity too.

And while there were no fresh manpower curbs for sectors, the four consecutive years of tightening have already had some impact on business perceptions, she said. For instance, on the Global Competitiveness Index 2013-2014, "restrictive labour regulations" overtook "inflation" as the most problematic factor for doing business in Singapore.

Competition with Hong Kong is an issue not addressed in this year's Budget, Ms Toh pointed out. This is to a lesser extent because of the oft-discussed disparity in corporate and personal income tax rates, and more due to the network of tax treaties Hong Kong has signed in recent years, with more attractive rates on dividends, interest and royalties than Singapore's. In addition, Singapore does not offer outright foreign income exemption as Hong Kong does.

As for the social policies unveiled last Friday, Walter Theseira, assistant professor of economics at the Nanyang Technological University, reckons that Budget 2014 marked another step in a major shift in the Republic's social insurance policy framework.

The Pioneer Generation Package (PGP), along with the enhanced Medishield Life scheme, means that benefits are more strongly aligned with payments. A greater part of risk-sharing of health expenses is likely to now fall on policyholders, rather than the general taxpayers, he said.

He also sees a recasting of safety nets as entitlements, as Medishield Life and the PGP eliminate claims that otherwise would have fallen under the safety net that is Medifund. This is a significant change in mindset, he said.