Rising Costs of Doing Business

Looking ahead, 88.6 per cent of SMEs expect to see their costs of operations increasing in 2014.

Local small and medium enterprises hope to see more government support to aid them in restructuring for improved productivity

Since 2010, numerous schemes aimed at helping local small and medium enterprises (SMEs) to restructure have been introduced. Budget 2014 now marks the start of Singapore’s fifth year into restructuring.

The Post-Budget 2013 and Pre-Budget 2014 Survey conducted by the Association of Small and Medium Enterprises in preparation for Budget 2014 suggests that SMEs are doing their best to cope with the rising costs of doing business, and need more assistance from the government to support their own restructuring efforts. The survey was conducted over the closing months of 2013 and had more than 400 valid respondents.

Although the majority of the respondents (47.3 per cent) rated that Budget 2013 had a positive impact on their business, the tight labour market and rising business cost will continue to press businesses to search for ways to navigate and push through the process of economic restructuring and to conquer incoming challenges.
However, some SMEs have indicated that current schemes have not been useful to their business. 64.9 per cent of SMEs said it was because most schemes require businesses to pay upfront and be reimbursed for the costs incurred at a later time. Other top reasons included long approval time, complicated processes and high consultation fees, where SMEs indicated their concerns and feedback that “qualifying conditions need to be clearer and simpler” and “consultants charge over the budget given to SMEs.”

Perhaps a reduction in length of approval time and simplified application processes will benefit SMEs. Criteria for schemes and grants should also be clearer and more practical in order to support a greater number of SMEs.

Furthermore, SMEs have voiced for the extension of the Productivity and Innovation Credit (PIC) Scheme beyond 2014 as they restructure towards higher productivity and lower dependence on costly manpower.

In order to encourage greater innovation, SMEs would like for the PIC scheme to be expanded to include new product development as well. This would promote creativity among SMEs in developing new products and providing new services.

“SMEs have found PIC very helpful in helping defray costs or make acquisitions that have increased their productivity, so we think there’s more scope to do that,” said Mr Wee Chorng Kien, Kurt, President of ASME, in an interview with daily newspaper TODAY.

Overseas Expansion

Due to labour and space constraints in Singapore, there will be a need for local businesses to explore all options to push for productivity growth in the process of restructuring. Overseas expansion is one of those options.

71.3 per cent of SMEs expressed that they are intending to expand overseas over the next two years. Of which, a majority of them are looking to expand into neighbouring countries in the South East Asian region. Malaysia remains the most popular choice for expansion, followed by Vietnam and Indonesia.
He believes that an equity financing scheme will be critical to speed up SMEs’ growth in the restructuring process.

Numerous schemes have been introduced in 2013 and although varied and all-reaching, these schemes were too complicated with numerous criteria to meet. SMEs are urging for schemes to be more skewed or tiered to give them an added advantage.

With increasing emphasis on innovation and productivity, SMEs are actively looking to expand overseas as well. However, it is clear that the lack of knowledge, funding and guidance are concerns for many businesses. Thus, the government can do more to assist companies in their ventures abroad.

Recurrent issues of tightening labour market and rising business costs are business challenges that SMEs will continue to face this year. SMEs need to find alternative measures to thrive through the tough times.

As the Singapore economy continues to restructure to remain relevant and competitive, the need for greater government assistance is echoed by many SMEs.

Budget 2014 has been announced, so what is in it for businesses? 

Top reasons for expansion abroad include new market opportunities and low labour costs. Other key reasons include the low cost of space as well as the proximity of the market.

A noteworthy finding was that when asked about their strategy for expansion, 22.6 per cent of SMEs revealed that they have no strategy. Businesses have also raised numerous concerns with regards to expansion abroad which are mainly the lack of information and insufficient capital.

Indeed, there is room for more governmental support for SMEs with regards to their overseas expansion plans.

Mr Teo Ser Luck, Minister of State for Trade and Industry, speaking to The Straits Times on 30 January 2014, said that it is important for government agencies to provide support to SMEs. This can be in terms of providing knowledge or funding. He also hopes that SMEs can tap on this platform to venture overseas.

Separately, ASME is pushing for the government to develop an equity financing scheme. Currently, expansion through mergers and acquisitions are limited to SMEs raising capital on their own or through selling of their shares which results in the dilution of their shareholding. SMEs that are already profitable may still face expansion constraints in capital funding.

“Typically, banks only offer financial assistance to SMEs purchasing goods, equipment and properties, yet, do not provide or only provide limited funding for SMEs interested in their expansion of equity. However, for SMEs to remain competitive in the increasingly challenging local and regional landscape, ASME urges the government to work with financial institutes, to make equity financing available to SMEs for this purpose as a debt financing option,” commented Mr Wee on the subject.
Measures outlined in this year’s Budget are targeted at businesses to further boost their productivity

Budget 2014 is an SME-centric Budget, with new and enhanced assistance schemes and initiatives to help SMEs that are willing to invest in the effort to restructure their enterprises for better growth.

Productivity & Innovation Credit Scheme

One of the more welcome measures in Budget 2014 for businesses is the extension and enhancement of the Productivity & Innovation Credit (PIC) Scheme. During the course of the Association’s and SME Centre@ASME’s business, the PIC Scheme is consistently one of the most popular schemes as it has helped SMEs in their restructuring towards higher growth. Many SMEs were interested in the PIC Scheme but came on too late to make full use of the grant. With the extension to Year of Assessment (YA) 2018, more businesses will be able to make full use of the scheme to bolster their productivity efforts.

In addition, the PIC+ enhancement is good news as well. The raising of the cap for eligible expenditure from $400,000 to $600,000 will allow SMEs to make more substantial, longer-term investments in productivity-enhancing solutions, giving more value to the initial investment. In addition, the extension of the 50 per cent tax deduction on R&D initiatives will give SMEs more incentive to develop more innovative business solutions.

However, the Budget does not include or introduce any added incentive for companies that are not already onboard the PIC Scheme to leverage on the scheme for further growth.

ICT Productivity for Growth Programme

The new ICT Productivity for Growth Programme is aimed to help SMEs scale up ICT use for improved productivity. SMEs have been making use of the Infocomm Development Authority’s (IDA) iSPRINT grant to receive support for their productivity-boosting ICT solutions, therefore a full-scale Programme will further aid SMEs to develop and implement perhaps even sector-changing ICT solutions. The 70 per cent subsidy on proven ICT products will give SMEs more confidence to purchase and use ICT solutions that have been shown to work for their respective industries.

The subsiding of SME broadband subscriptions will better allow SMEs to leverage on cutting edge ICT technology like cloud solutions, helping them to cut down on traditional paperwork and streamline their operational efficiency whether in the backroom or otherwise. This will work in tandem with the extended and enhanced PIC Scheme, as high-value productivity-enhancing solutions like cloud computing software work best with stable, hi-speed internet connections.
Catalysing Growth

The Government will set aside $150 million under the second phase of the Co-Investment Programme to co-invest with the private sector. This will allow more growth capital to be raised for Singapore-based enterprises, particularly through the SME Co-Investment Fund II which supplies much-need equity capital.

The increase of risk-share by the Government through the Micro-Loan Programme will be able to allow more young businesses to secure the funds they require to properly develop their fledging enterprises.

CPF Rate Increase for Employers

The CPF contribution rate for employers has risen by 1 percent, the timeframe of one year provided for businesses to adjust their business plans as well as the Temporary Employment Credit to offset the CPF rate increase are manageable for SMEs. It is also heartening to note that there will be no more drastic increases in contribution rates in the coming years.

Overseas Expansion

From the ASME Post-Budget 2013 and Pre-Budget 2014 Wishlist, a majority of SMEs (71.3 per cent) indicated that they are intending to expand their businesses overseas over the next two years.

The expansion of the Internationalisation Finance Scheme quantum to $30m will allow more SMEs to receive the needed support in their overseas ventures. This enhancement recognises the need to assist local SMEs to expand their businesses overseas is an essential boost to their business growth.

Further, the enhancement to the Global Company Partnership Programme (GCPP) will give SMEs more confidence in pushing for pilot and test-bedding projects. Also, SMEs prefer to have their own people on the ground in a new market, the expanded scope of support for staff attachments will definitely help SMEs in their internationalisation efforts.

An SME-Centric Budget

While the Budget contains plenty of targeted measures to help SMEs with their restructuring, it does not address the needs of enterprises that are hard-pressed because of the economic restructuring. Speaking to the Business Times, President of ASME Mr Kurt Wee commented that “the fear is that you might choke off a segment of the industry - the weaker ones that have not fully got onto the productivity bandwagon.”

In that regard, ASME and the SME Centre@ASME along with its two heartland satellite SME Centres (SME Centre@NorthEast and SME Centre@SouthEast) will continue to propagate knowledge and awareness of helpful assistance schemes, especially to the smaller and micro-SMEs that can most use such assistance.

More details on the individual scheme’s or measure’s implementation will be made available by the respective Ministries/statutory boards in due course.
Measures for businesses

(A) SUPPORTING INNOVATION AND SKILLS

(A1) Extension and Enhancement to the Productivity and Innovation Credit (PIC) Scheme ($3.6 billion over three Years of Assessment (YAs))

- PIC Extension. To give businesses more time and certainty to put in place productivity improvements, the PIC Scheme, which lapses after YA 2015, will be extended for three years (i.e. YA 2016 to YA 2018) at the current support level. The expenditure cap for each qualifying activity is combined across the three years, which means businesses can claim enhanced tax deductions, up to $1.2 million ($400,000 x 3 YAs).

- PIC+ scheme. To help firms that are making substantial investments to revamp their businesses, we will raise the expenditure cap for each of the six qualifying activities from the current $400,000 to $600,000 with effect from YA 2015. This means that qualifying SMEs that have hit the combined cap of $1.2 million (across three YAs) can now claim enhanced tax deductions for up to $1.8 million in qualifying expenditure.

1 Under the PIC scheme, businesses can enjoy in each YA 400% tax deductions on up to $400,000 of qualifying expenditure in each of the six qualifying activities, or a 60% cash payout on up to $100,000 of qualifying expenditure incurred for all six qualifying activities.

2 An entity is a qualifying SME if (a) its annual turnover is not more than S$100 million or (b) its employment size is not more than 200 workers. This criterion will be applied at the group level if the entity is part of a group.

3 $1.8 million is the combined expenditure cap per qualifying activity for YA 2016 to YA 2018. The combined cap applicable in YA 2015 is $1.4 million ($400,000 for YA2013 and 2014, and $600,000 for YA2015).

(A2) Extension of Research & Development (R&D) Tax Deductions Scheme

To continue encouraging more R&D in Singapore and provide more certainty to businesses, the broad-based 50% additional tax deduction on qualifying R&D expenditure, which lapses after YA 2015, will be extended for ten years till YA 2025. The further tax deduction for EDB-approved R&D activities, which lapses after 31 March 2015, will also be extended till 31 March 2020.

(A3) Extension of Writing Down Allowance Scheme for Intellectual Property Rights

As part of our ongoing efforts to build Singapore as an IP hub, the Writing Down Allowance Scheme for Intellectual Property Rights, which lapses after YA 2015, will be extended for five years till YA 2020.

(A4) Extension and Enhancement of the Land Intensification Allowance (LIA) Scheme

To continue encouraging businesses to optimise land use, the LIA Scheme, due to expire next year, will be extended for five years till 30 June 2020. The LIA will also be extended to the logistics sector, as well as to
businesses carrying out qualifying activities on airport and port land.

**(A5) Top-up to Lifelong Learning Endowment Fund ($500 million)**

In line with the long-term commitment to Continuing Education and Training, the Government will top up the Lifelong Learning Endowment Fund by $500 million, bringing the total fund size to $4.6 billion.

**(B) ADOPTING ICT SOLUTIONS TO INCREASE PRODUCTIVITY**

**(B1) ICT for Productivity and Growth Programme ($500 million over three years)**

To accelerate the adoption of ICT solutions among SMEs, IDA will, over the next three years:

- Promote the adoption of proven ICT-based productivity solutions by subsidising 70% of the qualifying costs, and reimbursing the vendors directly so that SMEs need not apply for the subsidy.
- Encourage SMEs to pilot emerging technology solutions, by funding 80% of the qualifying costs, up to a maximum of $1 million subsidy per firm.
- Provide SMEs that tap on qualifying ICT-based productivity solutions with a 50% subsidy on their Next Generation Nationwide Broadband Network (NBN) subscriptions for up to two years, capped at $120 per month for fibre subscription plans of at least 100 Mbps.
- Support SMEs that adopt NBN to roll out Wireless@SG services at their premises by providing a one-time subsidy of up to $2,400 for them to set up the necessary equipment.
- Overcome installation challenges and facilitate access to NBN connectivity for non-residential buildings, by subsidising building owners up to 80% of the costs of in-building works up to a maximum of $200,000 per building.

The Programme is expected to benefit more than 10,000 SMEs.

**(C) CATALYSING INVESTMENT IN GROWTH ENTERPRISES**

**(C1) Phase II of the Co-Investment Programme (up to $150 million)**

Under the second phase of the Co-Investment Programme, the Government will set aside up to $150 million to co-invest with the private sector to catalyse more patient growth capital for Singapore-based enterprises. The additional capital will be allocated to two new funds: i) the SME Co-Investment Fund II which supplies equity capital, and ii) the SME Mezzanine Growth Fund which supplies mezzanine capital.

**(C2) Enhancement to the Micro-Loan Programme**

To spur further lending to young SMEs, the Government will increase the risk which it shares with participating financial institutions for loans to young SMEs (less than three years since registration) under the Micro-Loan Programme from 50% to 70% for FY 2014 and FY 2015.

**(D) SEIZING GROWTH OPPORTUNITIES OVERSEAS**

**(D1) Enhancement to Internationalisation Finance Scheme**

To further help companies make additional asset investments abroad or fund working capital expenses for secured overseas projects, the maximum loan quantum supported by the Internationalisation Finance Scheme will be raised from $15 million to $30 million.
(E3) Increase in Foreign Worker Levies for Construction Sector

The levy for “Basic Skilled” (R2) MYE Work Permit Holders (WPHs) in the Construction sector will be increased from $600 to $700 in July 2016. Levies for “Higher Skilled” (R1) WPHs will remain unchanged to further encourage construction firms to opt for higher skilled WPHs.

(E4) Introduction of Market-Based Skills Recognition Framework

To complement the existing upgrading pathway which requires WPHs to pass a skills certifications test to achieve R1 status, a new Market-Based Skills Recognition Framework will be introduced. The new framework will allow “Basic Skilled” workers who have worked in Singapore for six years and who earn a salary of at least $1,600 to upgrade to “Higher Skilled” status.

(E5) Extension of Period of Employment for R1 WPH

The maximum period of employment for R1 WPHs from Non-Traditional Sources and the People’s Republic of China will be extended by four years from 18 to 22 years for the Construction, Marine and Process sectors.

(F) OTHER MEASURES

(F1) Enhancement to the Early Turnover Scheme

To further incentivise commercial vehicle owners to replace their vehicles early, the Early Turnover Scheme will be enhanced by lengthening the bonus Certificate of Entitlement period for the replacement vehicle4.

(F2) Extension of Carbon Emissions-based Vehicle Scheme

The Carbon Emissions-based Vehicle Scheme will be extended to June 2015, with a view to refining the scheme thereafter.

(F3) Increase in Tobacco Excise Duties ($70 million per year)

Excise duties for cigarettes and other manufactured tobacco products will be increased by 10%. This will take effect from 21 February 2014.

4 Under the Early Turnover Scheme, owners who de-register their Pre Euro and Euro I vehicles before the end of statutory life will pay lower, pro-rated Certificate of Entitlement (COE) premium for their replacement vehicle, as they can transfer the unused period of their COE to the replacement vehicle. They will also get a bonus COE period for their replacement vehicle based on the current vehicle’s remaining statutory life.
(F4) Increase in Liquor Excise Duties ($120 million per year)

The excise duty rate of all liquor types will be raised by 25%. The duty rate of Shandy will also be rationalised to that of beer. These changes will take effect from 21 February 2014.

(F5) Increase in Employer CPF Medisave Contribution Rates

To help Singaporean workers save for their healthcare needs, the employer CPF contribution rate will be increased by 1 percentage point for all workers. This increase will be channelled into the Medisave Account.

To alleviate impact on businesses, employers will receive a one-year Temporary Employment Credit to offset 0.5 percentage point wages for Singaporean and Permanent Resident workers up to the CPF salary ceiling of $5,000.

The changes will take effect from January 2015.

(F6) Increase in CPF Contribution Rates for Older Workers

To boost the retirement adequacy of older Singaporeans, the Government will raise their CPF contribution rates. These are on top of the increase in employer CPF contribution rates for the Medisave Account for all workers. All increases in employer contributions will be allocated to the Special Account. The 0.5 percentage point increase in contribution rate from employees aged 50 to 55 years will go to the Ordinary Account.

To help employers cope with the increase, the Government will provide an additional one-year offset of up to 0.5 percentage point through the Special Employment Credit.

The changes will take effect from January 2015.

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<th>Employee Age (Years)</th>
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<td>(Employees)</td>
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<tr>
<td>Above 50 – 55</td>
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* Includes 1 percentage point increase in Medisave contribution rate for all workers introduced in Budget 2014.