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A value creation focus

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LAYING the foundation in Singapore's continued push for economic transformation, this year's Budget stayed on the steady course of steering the country towards value creation.

From investing in the workforce to growing Singapore enterprises, no effort was spared in the drive for improved productivity and innovation under various measures announced by Finance Minister Heng Swee Keat.

As was expected, the economy and businesses were in the spotlight, receiving much attention from the government after the experience of the past few years when social issues took centre stage.

Much was given to help businesses as well as small and medium-sized enterprises (SMEs) through initiatives such as the SME Working Capital Loan scheme, where the government will co-share 50 per cent of the default risk.

The renewed focus on developing a strong core of Singapore enterprises is timely, coming against a backdrop of global economic uncertainty.

Improving labour productivity

Recognising the importance of labour productivity in the value creation and innovation drive, measures to upgrade the workforce include continued investments to SkillsFuture.

Initiatives such as Adapt and Grow were also announced, where help will be given to retrenched workers or those having difficulty in securing jobs to find new ones. Another scheme is TechSkills Accelerator, where people will be given help to acquire new skills and be matched to new opportunities.

Such measures are welcome, as they go some way in enhancing the ongoing productivity drive, which depends much in part on how workers can improve their efficiency and effectiveness.

Given Singapore's scarce and limited resources, improving human resources via a broadening and upgrading of skills raises the labour productivity.

A better trained workforce is not only able to meet the current needs of employers but can adapt to the changed conditions in future.

Boosting innovation

Apart from labour productivity, innovation - another important component of value creation - was also a major theme in this year's Budget.

Technology figured high in this regard. An Automation Support Package, estimated at a budget of over S$400 million for an initial period of three years, was announced to help firms scale up their automation projects.

There will also be a National Robotics Programme, at a budget of S$450 million over the next three years, to help firms.

The long-running Productivity and Innovation Credit (PIC) scheme, meanwhile, will see lower cash payout rates. The scheme will also expire after the Year of Assessment 2018. This may be disappointing to some businesses as the PIC is still relevant in encouraging innovation and productivity.

The scheme could be improved by tweaking it in the initial years towards productivity adoption and then focusing on value creation through innovation and internationalisation during the growth years.

In addition, the Research and Development (R&D) tax incentive scheme could have been more relevant for activities undertaken by SMEs by providing more flexibility in what qualifies as R&D.

What is observed from this year's Budget is that there seems to have been a change in the approach towards value creation and transforming enterprises.

The carrot approach to encourage businesses now appears to have moved away from broadbased tax incentives to more targeted finance-based initiatives like grants and loans.

The impact on businesses is that they would have to familiarise themselves with a new set of schemes, which requires more effort in applying for them as opposed to current broadbased PIC scheme.

Encouraging branding

What would have made this year's Budget more beneficial in the value creation journey would have been to incentivise businesses to build strong local brands.

It is a let-down that no tax incentives were made available to encourage the development of internally generated, unique Singapore brands.

Such incentives, such as tax deductions based on the market value of these brands, would have recognised the process of value creation that businesses go through in setting themselves apart.

Successful brands require much time and effort to develop over the years and would enable owners to command a higher premium as well as a bigger market.

Additionally, higher customer loyalty is fostered for products and services associated with well-built brands as compared to homogeneous ones.

While there was no blockbuster scheme announced in this year's Budget - given that it is the first Budget by the government at the start of a new term of office so some measure of prudence was required - there were nonetheless important strides made in the journey towards value creation.

Initiatives unveiled in this Budget may not be the giant leap that some businesses had hoped for. Perhaps stronger firepower has been held back in anticipation of the upcoming recommendations from the Committee on the Future Economy (CFE), due to issue its report at the end of the year.

It is hoped that the CFE will continue to encourage businesses and workers to march to the relentless beat of the economic restructuring drum.

How we can help

As a committed tax advisor to our clients, we welcome any opportunity to discuss the relevance of the above matters to your business.

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