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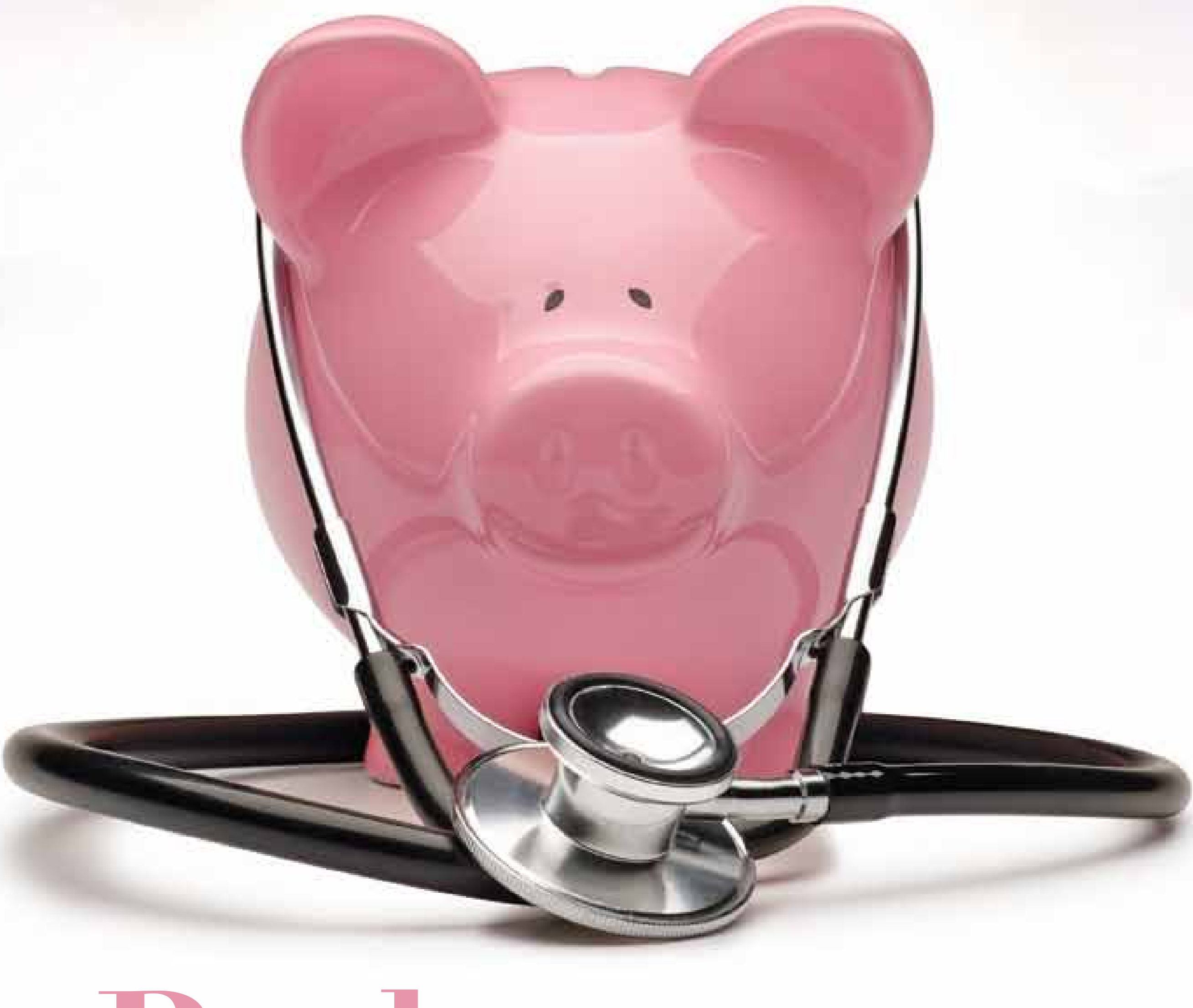

Budget 2012

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By Martin Ho

The Singapore Budget 2012, announced on 17 February 2012 by Deputy Prime Minister (DPM) and Minister for Finance Tharman Shanmugaratnam, establishes the directions of the Government in the years ahead.

A slew of enhanced and new measures were announced to set the tone of what needs to be done for the future and sustainability of Singapore in the longer term. For the healthcare sector, which is dominated by a large proportion of small and medium enterprises (SMEs), the budget comes with goodies that can be substantial, if and when they are being tapped upon.

Productivity is THE buzzword

With productivity improvement being crucial to Singapore's economic future, a great deal of emphasis was placed on the Productivity and Innovation Credit (PIC) in the last budget. This year, it is no different. Enhancements have been made to some key areas of the PIC scheme, such as a higher percentage of cash payouts, relaxing of certain criterias for in-house training, and including hire purchase investments in automation equipment for cash payouts.

These are of significance to SMEs. The higher cash payout percentage has narrowed the difference between the benefits derived from enjoying the PIC as a tax deduction, or taking it as a cash payment. This will be helpful for low profit or cash strapped SMEs where the tax savings could be as much as $60,000 in cash or $68,000 in tax deductions.[1]

The ease of in-house training costs qualifying for PIC, as well as the possibility of claiming PIC for training agents, has opened up many possibilities for the SMEs in healthcare. If the company is able to train their staff in-house, and compute the cost involved, this can be claimable under the PIC. The training for locums or doctors working for your SME could also qualify, as they could be classified as agents under your SME if you are able to meet the four conditions set out.[2]

Many types of automation equipment also qualify under the PIC and a general list of approved equipment for various industries is already available. Equipment which is not on the list will have to be separately approved. SMA, through its representative in the Inland Revenue Authority of Singapore's Taxpayers' Feedback Panel, Dr Chong Yeh Woei, is collating a list of common automation equipment used in the healthcare environment which will be submitted for pre-approval. This will make it more convenient for the PIC claims in the future. Send your suggestions to tfp@sma.org.sg.

The drive for greater innovation, automation and productivity is here to stay. Healthcare SMEs will enjoy some savings if they are proactive in adopting automation and training their staff, among other aspects of business development, within the next three years, while the PIC is available.

The budget for the Ministry of Health (MOH) indicates that another $13 million will be allocated to the National Electronic Health Record project this year. With that in mind, technology adoption may soon become a necessity. We can only hope that such technology adoption and automation will result in a longer term savings for the patients and doctors, and a better healthcare system. To speed up the general adoption of technology in the healthcare sector, it will also be necessary for the Government to look beyond financial support, and help the SMEs to find the right partners to walk through their entire process of adoption to ensure success. If not, the SMEs may not be able to reap the full benefits of technology, but may be instead laden with systems that are new, different, and unable to meet their needs.

Shift in manpower structure

The restrictions on foreign labour come as no surprise with the direction set by the Government at least two Budgets ago. This time round, for the service industry, the impact on foreign labour quotas comes twofold: 1) the Services quota has been reduced to 45%, and 2) the S Pass holders sub-quota has been reduced to 20%.

The reduction from 50% to 45% can be significant for SMEs which employ a small number of staff. For example, an SME may have two staff, of which one is a foreigner. Such a situation will not be allowed after the transition date of 30 June 2014.

This move is possibly because the Government wants to set aside these skilled jobs for Singaporeans and PRs, which are better paying and more sought after by the local workforce, as compared to the Work Permit group of jobs. This, coupled with higher Central Provident Fund rate for older workers (to be offset by the Special Employment Credit), may not result in higher costs in the short term, but will definitely increase manpower costs in the midterm, especially for healthcare SMEs who will face greater difficulty in retaining staff in full employment Singapore. Again, this means that it is probably necessary for SMEs to move into innovation and automation, and to reduce their reliance on manpower in the next few years, through structural changes of how they conduct their practices.

Building healthcare capacity

The funding for MOH will be doubled over the next five years from $4 billion to $8 billion. This year, the increase is from $4 billion to $4.7 billion (an increase of 17.8%). This marks a significant increase as compared to the increase in the previous year. A part of this increase goes into making long term care, including home care, more affordable. This appears to be the right direction to move in, with our ageing population and the practicality of building more hospital beds to meet the demands of long term care patients.

The capacity of the acute hospitals, community hospitals and long term care services will also be significantly increased by 2020. The increase in capacity is needed to meet the expected increase in demand for such facilities in the future, given that the current occupancy rate for acute beds is more than 80%, but the waiting time is below the key performance indicators (KPIs) set by MOH.[3] This move beckons the question, how will such capacity building be supported?

Even with the third medical school up and running by 2020, the projected number of medical graduates who will presumably be at medical officer level by then, does not appear to be sufficient, nor have sufficient experience to appropriately service and support the increased capacity. This, coupled with the increase in private hospitals and clinic space in the next few years, will likely reinforce, or even increase, the move of doctors from the public to the private sector. It could possibly result in a situation worse than the current one, where the doctors in the public sector will be overseeing more beds, with more junior staff, and fewer of them to share the load.

In his Budget speech, the DPM mentioned "engaging many more healthcare professionals … and paying them more competitively". Could this be the solution to meet manpower requirements of the plans by 2020?

Most motivational theories support the argument that pay is a possible reason for doctors' move from the public to the private sector. However, it is unlikely to be the only, or even the key reason. I hope that any review of talent management in the healthcare sector will go beyond just a simple look at pay adjustments, and also into the mentorship, team dynamics, work environments, and non-core work scopes of the doctors, among other issues. To obtain a clear understanding of such issues, we need go down to the ground and build a trusting environment, so that they can surface and be adequately dealt with.

We may be able to reduce the manpower shortages to a certain extent with Singaporean and PR doctors, but in all likelihood, the gaps will be filled by more foreign-trained foreign doctors. Seen in the wider social context, this could pose social issues within the healthcare sector, which are not much different from what Singapore can expect to face should its foreign population continue to increase.

There is much wisdom in what the DPM stated near the beginning of his Budget 2012 speech, which was the need to moderate the growth of the foreign workforce and to keep the dependence to about one-third, and the rationale for this probably goes beyond economic reasons. SMA

Suggestions for the PIC and other tax matters? Email tfp@sma.org.sg.

Notes

1. Calculated using the current tax rate of 17%.

2. Details of the PIC and FAQs, including the four conditions set out for training for agents, can be found in http://iras.gov.sg/irashome/PIcredit.aspx and the corresponding FAQ link.

3. The details of the budgets of various ministries, including that of MOH, and their KPIs can be found at http://www.singaporebudget.gov.sg/budget_2012/revenue_expenditure/toc.html.

Martin is a CPA Singapore by training and is currently Chief Administrator of SMA. This commentary was written by Martin in his personal capacity and does not represent the views of SMA, the SMA Council or SMA News.