2-2012

Productivity Incentive at Work

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Publication: The Business Times, p 12
Date: 28 February 2012
Headline: Productivity incentive at work

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Q: The recent proposal by Finance Minister Tharman Shanmugaratnam to reduce the Dependency Ratio Ceilings (DRCs) is likely to drive up labour costs for the SMEs. How does the Productivity and Innovation Credit (PIC) help SMEs offset such an increase?

A: In the short term, the proposed reduction in DRCs may give rise to wage pressure on SMEs. It is precisely for this reason that PIC was introduced in the Singapore Budget 2010.

Under this broad-based tax incentive scheme, generally, expenditures incurred in the following areas of the innovation value chain will qualify for the claim of PIC – R&D done in Singapore; the registration of Intellectual Property (IP); acquisition of IP; investments in design done in Singapore; purchase of equipment or software aimed at automating processes; and training employees so as to upgrade skills and capabilities.

The PIC is an extremely generous scheme introduced by the government to encourage SMEs to increase productivity and innovation. It has been made available for all businesses from YA (Year of Assessment) 2011 to YA2015.

Under the PIC, qualifying expenditures will basically qualify for a 400 per cent tax deduction; and the amount that qualifies for PIC is up to $400,000 per year for each of the six activities above.

For example, if a company is to spend $400,000 on the purchase of computers and another $400,000 on staff training, it will be able to claim total tax deduction of $3.2 million ($800,000 x 400 per cent).

Another way to look at the PIC scheme is that the government will provide a subsidy of $68 for every $100 that a company spends ($100 x 400 per cent x 17 per cent) on qualifying expenditures. In other words, the company's net cost is only $32 ($100 - $68).

With better-trained staff and the use of automation equipment (68 per cent subsidised by the government), the overall cost to the company should, in the medium to long term, see a decrease in cost.

In the service industry – especially in the F&B sector – there is constant concern about the shortage of staff. Consideration can be given to some simple "automation".

For instance, a restaurant can consider the "automation" of its ordering process. This can be done by training staff to take orders (and billing) using hand-held devices. The orders can then be automatically transmitted to a screen in the kitchen. The chefs can then cook the dishes as the items ordered appear on the screen. Such a simple automation process should be able to improve the efficiency of the waiting staff by anything between 20 per cent and 50 per cent. This will mean a 20-50 per cent reduction of the number of waiting staff.

The net position will be that the restaurant ends up being able to pay its staff better and yet incurring lower total staff costs, which means that the restaurant would end up with higher profits.

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Good pickings: *With better-trained staff and the use of automation equipment (68 per cent subsidised by the government), the overall cost to the company should, in the medium to long term, see a decrease in cost*