Profitable firms likely to profit more from wage credit

By Teh Shi Ning

MORE profitable companies stand to benefit more from the Wage Credit Scheme (WCS) since bonuses, commissions and overtime pay are included in calculations of gross monthly pay increments.

But this will not detract from the scheme’s key objectives, observers say. It is also too early to gauge whether the three-year WCS may raise staff turnover in the lower-wage segment of the hiring market, they add.

The WCS — under which the government will fund 40 per cent of wage hikes for Singaporean employees up to a gross monthly wage of $4,000 — was much debated in Parliament this week and continued to be discussed out of Parliament too.

Given that it applies to growth in the total remuneration package including bonuses and commissions, more profitable firms to dish out larger bonuses could conceivably reap more from the WCS. But that is in line with the scheme’s stated aim of encouraging companies to share productivity gains with their employees, said OCBC economist Selena Ling.

“From a macro perspective, if a company is not profitable and is not going to survive, why would you give them a subsidy? It’s not a handout per se. It’s meant to help with easing some of the restructuring pains that SMEs are going through,” she says.

Basing the scheme on the total remuneration package also discourages companies from merely raising an employee’s monthly salary and cutting back on his bonuses. If total remuneration doesn’t go up, there’s no wage credit.

Also, companies that are not profitable enough to raise wages may well be those which have not invested in productivity, or have yet to realise productivity gains in their profits, notes KPMG tax partner Chiu Wai Ling.

Rather than feeling discriminated against, such firms ought to relook processes to see if they might get a net cash benefit by investing in activities that qualify for Productivity and Innovation Credit and PIC bonus.

Singapore International Chamber of Commerce chairman Shanmugaratnam Shanmugam, who is also KPMG’s tax partner, says the scheme is not ar financially inflated, says Ernst & Young Solutions LLP human capital tax partner Grahan Wright. As credits are calculated on an annual basis, a smart employer would not hike basic wages in advance but wait till later in each year to assess productivity gains and recognise these in WCS-eligible bonuses, he said.

In any case, the alternative of pegging credits to increases in basic salaries is worse. “Bonuses and basic pay are only timing differences in the overall salary cost burden. Tying the WCS to just basic pay increments would simply allow manipulation between basic pay and bonuses,” says David Sandison, partner of PwC Services LLP.

In response to MPs’ concerns over whether larger firms should be excluded, Deputy Prime Minister Tharman Shanmugaratnam explained in Parliament on Thursday that it was difficult to draw the line — a large enterprise with thin margins may need more aid than a very profitable small company.

Still, SMEs hire two thirds of Singaporeans currently earning a gross wage under $4,000, so the bulk of the $3.6 billion set aside for the WCS would still go to them, he said.

As for the scheme’s impact on the hiring market, SMU’s Prof Sum, thinks that it “may give rise to the undesirable effect of poaching”, though this is unlikely to be significant. Employers will receive the wage credit for giving an overall pay rise to a new hire, even if the employee was working for a different company in the previous year.

But whether turnover picks up hinges as much on employee attitudes. “If employers get it into their minds that they should get additional increments because the government is funding part of it, it could raise wage expectations regardless of underlying productivity,” says Mr Wright.

The wage credit is unlikely to have any impact on new entrants to the workforce, such as fresh graduates, even though they will yield no WCS benefit to employers. “It is a very tight labour market at the moment, so the chances of graduates getting hired are actually very high,” says Ms Ling.

Michael Smith, country director of recruitment firm Randstad Singapore, agrees. “What graduates lack in experience, they make up for in enthusiasm and a fresh perspective. The majority of employers know this, and acknowledge the role they have to play in nurturing and developing local talent,” he says.

It will not distort the labour market either. Since the credit is available to all businesses, salaries will continue to be determined by market forces, Mr Sandison says.

Overall, observers think that parsing a scheme too finely for the sake of meeting all concerns may not be beneficial. “The WCS has been described as being too blunt. But my reaction to that is that the more you engineer it to be sharper, the more complicated it will be and the more loopholes that may be created,” says EY’s Mr Wright.