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Opportune time to tweak tax policies to help vulnerable groups

By Simon Poh

THE Committee on the Future Economy has identified seven strategies for Singapore to stay ahead and achieve sustainable economic growth in a challenging global climate. One key message of its report is the need for our people to possess deep skills and be inspired to learn throughout their lives as they deal with the rapid pace of technological development and constant disruptions in the future economy. The ultimate goal is for the fruits of our growth to be enjoyed by all Singaporeans as we continue to strive to be an inclusive society.

In line with the inclusivity theme, Budget 2017, to be unveiled on Feb 20, can introduce new initiatives or tweak our existing tax policies to help certain vulnerable groups of individuals. To this end, I have seven recommendations.

First, for retrenched workers who have lost their jobs and take time to find new ones, we should not tax any form of retrenchment benefits that are paid to lay off such workers, so long as the amounts involved are reasonable. Our current tax policies tax salaries in lieu of notice as well as any gratuities paid in recognition of the employees' past service. Only the lump sum portion of a retrenchment benefit package that compensates a retrenched worker for the loss of office is exempt from tax. As retrenched workers may be out of job for prolonged periods, they need to rely on these last payments from their employer to tide them over a difficult period and the last thing that should happen to them is for their cash positions to be eroded by taxes.

Second, to promote lifelong learning by workers of all ages, we should change our current system of granting tax reliefs for courses. Instead of allowing resident individual taxpayers to claim reliefs in the year that they incur course fees, we can adopt a credit system whereby course fees paid can be credited to an account maintained by the individual taxpayer in his or her lifetime that can be claimed any time in the future. This will address a situation where a retrenched worker or a new job entrant needs to upgrade by attending relevant courses to enhance their employability but may not benefit from the tax breaks in a year when they derive little or no taxable income. The usual annual cap can apply, and it may now be timely to increase this cap from S$5,500 to S$7,000 to drive home the importance of training and upgrading one's skills. On a related matter, when the government is ready for the next top-up, the Skills Future Credit should be extended to all Singapore adults, ie those aged 21 and above. The current age limit of 25 excludes individuals who may need to use these credits to attend relevant courses at their early stage of employment.

Third, to address an ageing population and encourage our senior citizens to stay employed or contribute actively to grow our Singapore economy, it may be timely to increase the earned income relief. Currently, reliefs of S$6,000 and S$8,000 are granted to taxpayers in the age group of 55 to 59 and those 60 and above. These can be increased to S$8,000 and S$10,000 respectively. At the same time, a higher earned income relief of S$12,000 can be introduced for our more senior citizens aged 65 and above.

Fourth, there is scope to increase handicapped spouse relief, handicapped child relief, handicapped sibling relief and handicapped parent relief by S$1,500 from their current amounts. This again is in line with our goal of being an inclusive and more tolerant society.

Fifth, to address our low growth rate and recognise the high cost of bringing up our next generation, it is timely to increase the qualifying child relief of S$4,000, last revised in 2008. A nominal increase of S$1,000 is proposed, with no change in the working mother child relief. With the overall cap of S$80,000 on personal income tax reliefs already introduced in Budget 2016 from the Year of Assessment 2018, the progressivity of our personal income tax regime is preserved.

In fact, to further enhance this progressivity, we can introduce a sixth measure to lower the tax burdens of our low-income earners while raising the taxes only for the very high income earners. The current exemption on the first S$20,000 of taxable income can be raised to S$40,000. On the other hand, a new and higher tax bracket of 24 per cent can be considered for very high taxable income, say above S$2 million.

Last but not least, a late *hongbao* by the government in the form of a one-off 50 per cent personal income tax rebate capped at S$1,000, similar to the one introduced in Budget 2015, should bring some relief to our individual taxpayers as they face the challenges of the future economy.

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