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Singapore today: An egalitarian approach to tax

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For The Straits Times

I read with great interest Professor Steven Kelman's article about Singapore 50 years ago and now.

Prof Kelman suggested that Singapore was now being run like a corporation ("the nation appears to have moved from being a cause to being more of a corporation") and had moved away from its socialist roots.

He argued that the taxation policy had become less egalitarian and cited the maximum rates for personal and corporate income taxes and the regressive goods and services tax as evidence.

For example, the top individual income tax rate fell from 55 per cent in 1980, to 20 per cent in the early 2000s before going up to 22 per cent in 2015. Corporate tax rate fell from 40 per cent to 33 per cent in 1987, to 26 per cent in 2000 and 17 per cent in 2010.

While I agree with the notion of GST as a regressive tax, I disagree with some of the arguments about the tax rates being unreasonably low and less egalitarian.

While examining tax policy, it is important to look beyond direct income taxes and tax rates.

Let me first address tax rates.

The United States, with which Prof Kelman compared Singapore, has a number of deductions and the higher tax rates become applicable after all the deductions (for example, the deduction for mortgage interest), making the tax rates far lower than the stated maximum tax rate. A significant percentage of US citizens do not pay any federal income taxes because of the multitude of deductions that are allowed.

Singapore, on the other hand, has very few deductions. Thus comparing the maximum tax rates gives us an inaccurate picture of the gap between the progressiveness of the Singapore tax policy versus the US tax policy (or any other country that offers extensive deductions).

While the direct taxes may be lower (even without allowable deductions) in Singapore, the tax burden on high-income earners is not necessarily lower.

This is because the two items that higher-income earners use (either because of a genuine need or a want) are taxed heavily.

Many higher-income people live in condominiums, where the prices paid by owners include the steep land costs and stamp duties paid at the point of purchase, which can run into tens of thousands of dollars, as well as significantly higher property taxes (which are progressive).

Additionally, car ownership is taxed heavily in multiple ways – through the vehicle quota system, duties on cars, taxes on petrol and road tax. Increasingly, car owners are paying higher usage charges, such as Electronic Road Pricing and parking charges.

Lower-income groups, on the other hand, are provided subsidised housing in the form of Housing Board flats – probably the biggest subsidised housing programme in the world. They also use more extensively public transport, in which the Singapore Government has invested tens of billions of dollars, and the fares are well below the fares observed in many developed countries.

The Singapore Government also extensively subsidises education and healthcare. While primary and secondary education is either free or offered at nominal costs, in many countries, tertiary education is another matter.

The tuition fees for Singapore universities are well below even the resident tuition fees paid by students in the US. Just to cite one example, the Ohio State University, which is ranked 56th in the US among national universities, charges tuition fees of US$10,700 (S$14,400) a year to Ohio residents, almost twice as much as the National University of Singapore.

While these subsidies in transport, education and healthcare are available to all Singaporeans, they tend to be used more intensively by lower- or middle-income earners. For example, higher-income earners may educate their children in foreign universities or choose private rooms when hospitalised.

Even with similar usage patterns, the quantum of subsidies bestow a larger proportional benefit on lower-income earners.

The story for corporate tax is similar. While the US corporate tax rate is high on paper, a multitude of deductions and credits lower the effective tax rate to about 18 per cent – not far from the corporate tax rate in Singapore.

My intent was not to say whether the Singapore tax system is optimal or more appropriate than the system elsewhere. I just wish to point out that broad indicators such as maximum tax rates are likely to lead to inaccurate conclusions about whether a system is egalitarian or not.

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For instance, there is a tax preparation industry in the US which does good business because of the complexity of the tax code.

A simpler tax code with lower tax rates and few deductions eliminates the need for a professional tax accountant and thus reduces frictions – either the government gets the money or the taxpayers keep it.

A complex tax code, combined with a high tax rate, also encourages tax avoidance. To avoid the high corporate tax rate, several US corporations have shifted their headquarters to other countries or they have not repatriated their foreign profits back to the US.

Lower tax avoidance may be one reason why Singapore may be able to maintain healthy finances even with lower tax rates.

In addition to redistribution, tax policy is also an instrument for encouraging particular behaviours.

High taxes on car ownership and usage, for instance, are not only for generating revenues but also for discouraging the ownership and usage of personal transport. That the revenue generated can be used to subsidise public transport is an added benefit, which is a form of redistribution that is tangible but less visible than direct handouts.

Though I did not visit Singapore 50 years ago, what I have seen in 25 years of acquaintance with Singapore is that the Government has become increasingly egalitarian by helping lower-income groups, especially when we recognise that factors beyond progressive taxes on personal income and direct handouts can promote egalitarianism.

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