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Time to consider a wealth tax for S'pore

Fiscal sustainability and fairness are some reasons for revisiting the tax mix

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For The Straits Times

A goods and services tax (GST) hike alone will not be enough to balance the Government's budget, say the writers. They add that a planned 2 percentage point hike in GST would raise an additional $3 billion annually or broadly around 0.65 per cent of GDP – this pales in comparison to the expected deficit of 2.2 per cent of GDP this year. ST PHOTO: KELVIN CHNG

Prudence, discipline and fairness have been the hallmarks of fiscal management in Singapore.

However, Covid-19 has massively tipped the budget balance into unprecedented negative territory, with the country registering a record overall deficit of 13.9 per cent of gross domestic product (GDP) last year.

The sharp deterioration in public finances would have been much worse if not for large contributions of investment income from past government reserves and those invested by the Monetary Authority of Singapore (MAS), Temasek and GIC.

This endowment income from accumulated reserves (the so-called Net Investment Returns Contribution or NIRC) accounted for 17.4 per cent of the Government's total revenue on average from 2015 to last year, making it the single largest source of revenue.

Apart from the pandemic-induced fiscal strains, structural factors are expected to exert long-term pressures on government spending.

Some of these factors, highlighted by the International Monetary Fund (IMF) in its latest report on the Singapore economy in July, include the expected rise in healthcare spending from a rapidly ageing population, the need to replenish depreciating infrastructure, fundamental realignments in public planning necessitated by climate change and technological disruptions requiring sustained investments in upskilling workers.

On top of this, there also appears to be a yearning by some segments of the population for more comprehensive social insurance in the face of rising economic uncertainties.

In addition, the recent agreement by the Group of Seven on a globally agreed minimum corporate tax rate and continued work by the Organisation for Economic Cooperation and Development (OECD) to make it harder for multinational companies to exploit differences in tax rates in different countries could further dent revenue mobilisation from corporate taxes in Singapore.

FINANCING PUBLIC SPENDING IN A SUSTAINABLE MANNER

Many other countries faced with unprecedented fiscal challenges are either choosing to kick the can down the road or exploring ways to tighten their belts.

However, Singapore already maintains a relatively lean government, spending about 18 per cent of its GDP (even with additions of transfers and relevant endowments funded by the Government). This is much lower compared with the OECD where average spending is around 40 per cent of GDP.

While there may be some scope to enhance cost efficiencies, additional revenue mobilisation is of paramount importance for fiscal sustainability.

This is where the much discussed but delayed goods and services tax (GST) increase becomes important.

The only question is when, rather than if, the GST will be increased, an issue that other countries in the region with an ageing population, most notably Japan, have also had to confront.

However, a GST hike alone will not be sufficient to balance the Government's budget.

GST contributed about 12.7 per cent of the Government's total revenue on average between 2015 and last year.

Extrapolating from that, a planned 2 percentage point hike in GST would raise an additional $3 billion annually or broadly around 0.65 per cent of GDP (though that depends on its impact on consumption and the overall state of the economy).

While these additional revenues will certainly be helpful, they pale in comparison to the expected deficit of 2.2 per cent of GDP this year and are unlikely to be able to adequately cover the other expected structural increases in expenditure in the future.

In this regard, a wealth tax has gained increasing prominence in policy debates.

The IMF, in its April Fiscal Monitor report, has suggested that "countries could consider taxes on wealth while accounting for design and implementation challenges".

While a wealth tax is levied on the stock of net wealth (the value of total owned assets minus liabilities) of an individual, an income tax is imposed on labour income (wages, salaries, dividends, interest) in the case of labour income tax or on profits in the case of corporate income tax.

FROM TAXING INCOME TO TAXING WEALTH

Apart from resource mobilisation, wealth taxes are partly justified as a means of addressing significant wealth polarisation and rising income from assets, which in turn could exacerbate income inequality, a point forcefully made by French economist Thomas Piketty a few years ago.

More recently, speaking in his private capacity, MAS managing director Ravi Menon noted during an IPS-Nathan lecture on July 22: "To promote an inclusive society, it might make sense to shift the balance in Singapore's tax structure away from taxing income towards taxing wealth."

Often referred to as the "Monaco of the East" by outsiders, Singapore appears to have become an increasingly attractive destination for high-net-worth individuals (HNWIs) given its low and attractive tax rates, a stable political and business environment, its status as a regional hub and, more recently, its effective management of Covid-19 compared with many other countries.

While official data on wealth inequality for Singapore is not available – at least not publicly – the Global Wealth Report 2021 by Credit Suisse suggests that the share of wealth of the top 1 per cent in Singapore was 33.9 per cent at the end of last year.

Even though this data is not easily verifiable, if it is accurate, it suggests that Singapore's wealth is distributed in a highly skewed manner compared with the OECD average (about 20 per cent) and is more aligned with wealth concentration seen in the United States, where the top 1 per cent own one-third to two-fifths of the nation's wealth and the top 10 per cent own around 70 per cent of wealth.

The wealth tax is by no means a novel idea and has been levied historically to fund post-war reconstruction and development efforts in Europe.

The broadest form of wealth tax is one that is levied on a person's overall net worth. In the 1990s, about a dozen European countries imposed a wealth tax, but this has mostly been dismantled, with the exceptions of Norway, Spain and Switzerland currently.

(Belgium tried to introduce a limited wealth tax on financial assets in 2018).

France, in particular, has experimented with wealth taxes under the late President Francois Mitterrand (it was called a solidarity tax), but net revenues generated were paltry as it resulted in capital flight, emigration of HNWIs or evasion via shifting wealth into harder-to-value assets, while tax administration costs were non-trivial.

DIFFERENT FORMS OF WEALTH TAXES

Taxing immovable objects is a more stable revenue mobiliser and more administratively straightforward than a general wealth tax, which involves trying to value all assets (physical, financial, intangible).

This is where a property tax – which is a narrower form of wealth tax – becomes attractive. Although Singapore already imposes various stamp duties and property taxes, there may be scope for the introduction of a capital gains tax on real estate (which is strictly speaking a form of income rather than wealth tax) and/or making taxes on this asset class much more progressive across the board, with additional surcharges on "luxury properties" (defined based on a threshold assessed value).

Another specific form of wealth tax that is actively under discussion in various countries is the inheritance tax – or its closely related cousin, the estate tax – as a feasible alternative.

Unlike a general wealth tax, inheritance and estate taxes continue to be imposed in 24 of 38 OECD countries.

In fact, Singapore levied an estate duty in the past but repealed it in 2008 in a quest to help develop its nascent wealth management industry and possibly in response to Hong Kong having done the same in 2006.

Circumstances may have changed since then. Singapore is now well established as a wealth hub and its many attributes beyond tax breaks have become quite well-known and appreciated.

Added to this is the fact that there seems to be a shift away from unbridled tax competition with economies in the region and elsewhere looking to rein in casino capitalism and unmitigated wealth polarisation.

THE IMPLICATIONS

While Singapore is in a much stronger fiscal position than most other countries with no net debt for now, the Covid-19 shock has made more urgent and apparent the need to mobilise additional fiscal resources to meet future challenges.

The only question seems to be what form such a wealth tax should take and what lessons can be learnt from worldwide experiences, so that it can be designed to ensure that the twin goals of fairness and fiscal sustainability are met without compromising economic dynamism.

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