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Raising tax revenue the 'sustainable and responsible' way to fund Singapore's expenditures: Lawrence Wong

Finance minister says increasing GST helps share burden of taxation across entire population, including tourists, foreigners

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THE sustainable and responsible way to fund Singapore's recurrent expenditures is to raise tax revenue and to do so with a fair and progressive tax system, Finance Minister Lawrence Wong said on Friday (Oct 15).

"Healthcare alone will demand an additional 3 per cent of gross domestic product (GDP) in spending over the next 10 years. That, plus our investments to reduce emissions, provide quality education, maintain security and so on," he said at the 35th Singapore Economic Roundtable organised by the Institute of Policy Studies.

Added up, Singapore's needs are significant and growing, he said.

Wong was outlining 3 key priorities that underpin Singapore's fiscal moves as it tackles the challenges of inequality, ageing and climate change.

One way is to ensure Singapore's programmes and investments are funded in a fiscally efficient manner that preserves intergenerational equity.

This takes the form of using loans and equity to support companies, risk sharing with banks and investing with private-sector partners, as well as using borrowing to finance long-term infrastructure projects.

While some believe borrowing will create more fiscal space, Wong said it is not a solution, as it simply shifts the burden to the future generation. This is why it is necessary to strengthen the resilience of Singapore's revenue base – its second priority. Singapore's Net Investment Return Contributions (NIRC) brings an additional revenue of about 3 per cent GDP on average, helping to keep overall tax burden low.

While some people have objected to certain tax increases because they are regressive and disproportionately affect lower-income groups, Wong said such concerns are not as applicable to Singapore.
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"Some want us to spend even more from our endowment, but let's not toss this idea about flippantly. Our returns from the NIRC are already facing significant headwinds in a more challenging global investment environment," he said. "And we must not underestimate the kinds of shocks that may plague us in the future."

The country has had to use more than S$50 billion from the reserves during the Covid-19 pandemic, 10 times the amount it drew for the 2009 global financial crisis. This is why raising tax revenue is the sustainable and responsible way to fund Singapore's recurrent expenditures, he said.

However, doing so through income taxes will become increasingly challenging and unsustainable for the working population amid rapid ageing.

"This is key to understanding why we are looking to increase our goods and services tax (GST). It is a tax on final consumption, and it helps to smoothen the burden of taxation across the entire population young and old, and including tourists and foreigners when they spend money here," Wong said. The GST is expected to be raised sometime during 2022 to 2025.

Wong noted that the GST or value-added tax (VAT) is now central to tax systems around the world, many of which have much higher rates than Singapore.

While some people have objected to certain tax increases because they are regressive and disproportionately affect lower-income groups, Wong said such concerns are not as applicable to Singapore.

Tied to the GST is a permanent GST Voucher scheme to defray the tax burden for low- to middle-income households, he noted, and this gets enhanced when the GST rate is raised. Likewise, U-save rebates will also be raised accordingly as the government introduces higher carbon taxes.

Wong added that the government will announce the revised carbon tax rate for 2024 during next year's Budget, with an indication on what to expect up to 2030.

What is more important, he said, is to consider the taxes and transfers system as a whole, rather than look at individual tax items. Singapore's system is a progressive one, having always maintained a high level of transfers to the lowest income households, he said.

Another element of progressivity is to consider not just a person's income but his wealth, he pointed out. Singapore already taxes wealth through property tax, stamp duties on residential properties, and additional registration fees on motor vehicles.

"Our policies should continue to promote broad-based wealth accumulation among Singaporeans – but just as we have tempered income inequality over the years, we also need to guard against rising wealth inequality," said Wong.

During a dialogue moderated by *The Straits Times* associate editor Vikram Khanna, Wong noted that the government is studying possible options for expanding wealth taxes that are effective and not easily avoidable.

He added that the government wants to ensure it does not undermine Singapore's overall competitiveness even as it addresses progressivity concerns. "Because wealth is mobile – talent and wealth can move to other places, so we have to consider that very carefully," he said, adding that this is one of the biggest challenges of wealth taxes.

A key way to address this is through deeper international cooperation, he said, adding that it is already happening through projects such as the Inclusive Forum on the Base Erosion and Profit Shifting (BEPS 2.0) as well as international discussions on carbon taxes.

But with BEPS 2.0, tax incentives also become less salient, although Wong said that is just one of several reasons why multinationals would want to come to Singapore. "We need to therefore strengthen our non-tax factors and compete on all of these other capabilities that will ensure that we are able to attract our fair share of investments," he said, referring to factors such as the quality of Singapore's workforce, its ease of doing business and intellectual property protection.