Source: *The Straits Times,* Front Page
Date: 16 October 2021

Revised carbon tax, GST will fund move to fairer, greener society

Lawrence Wong stresses need to strengthen revenue streams in order to tackle key issues

Grace Ho
Senior Political Correspondent

Singapore has to strengthen the resilience of its revenue base to meet rising spending needs, including investments to temper inequality and improve social mobility, said Finance Minister Lawrence Wong.

These include enhancing the Progressive Wage Model and income top-ups for lower-income workers and giving more targeted support to their children, seeing to an ageing population's healthcare needs, and managing carbon emissions.

The Government will announce revised carbon tax rates in next year's Budget, and indicate what to expect till 2030, to reflect the cost of carbon and better influence investment decisions, Mr Wong said.

These spending needs are why Singapore is looking to raise the goods and services tax or GST rate, although the timing would depend on overall economic conditions, including the inflation outlook, the minister added.

It must uphold a fair and progressive tax system overall, which is why it continues to study options to expand the system of wealth taxes in ways that are effective, but without undermining the country's overall competitiveness, he said.

Mr Wong discussed the Republic's fiscal strategies at the 35th Singapore Economic Roundtable organised by the Institute of Policy Studies.

In his 30-minute speech, he pledged that the lives of Singaporeans and their children will become progressively better, and nobody – and no group – will stagnate or feel excluded from the benefits of growth.

He said Singapore has succeeded thus far in running a prudent and effective fiscal policy. But this will become harder, given three key challenges or "curves": widening fault lines, and the threat to social cohesion when there is accumulated advantage by a small group of people; a rapidly ageing population, which means a shrinking labour force and greater need for health and aged care; and climate change.

To arrive at a fairer, greener and more inclusive society, Singapore must re-examine its fiscal strategies, and ensure that programmes and investments are funded in a fiscally efficient manner that preserves inter-generational equity.

Singapore has gone beyond just awarding grants to businesses, to using loans and equity to support companies. This will allow it to recycle its fiscal resources in the long run, he said. It also risk-shares with banks, and gives support or invests with private sector partners such as Clifford Capital and Heliconia.

Singapore also strengthens equity between the present and future generations, by making use of borrowing to finance long-term infrastructure projects, such as through bonds under the Significant Infrastructure Government Loan Act, or Singa.

Mr Wong noted that some think borrowing will create more fiscal space and Singapore should borrow more. But he cautioned that borrowing is not a panacea to fiscal challenges, as what is borrowed today has to be paid back tomorrow, and borrowing simply shifts the burden to the future generation.

"We should never seek to make our own lives easier at the expense of future generations. That would not be responsible. Instead, we should always seek to pass on a Singapore in good shape to our future generations," he said. "This has been a cornerstone of our fiscal philosophy since independence, and we will continue to uphold this."

Strengthening revenue resilience is crucial, he said, adding Singapore is in a relatively strong fiscal position. Its reserves are an endowment, with Net Investment Returns Contribution or NIRC giving additional revenue of around 3 per cent of GDP on average. This helps keep the overall tax burden low, where most advanced countries pay 2 to 3 per cent of GDP each year just to service their debts, he noted.

Some want Singapore to spend more from the reserves, but the idea should not be tossed about "flippantly", he said, as returns face significant headwinds today.

Ultimately, he added, the country's fiscal system must sustain a fairer and more just society. "This is our vision, and this is what our fiscal strategies have been built on."

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NUS
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Source: *The Straits Times*, pA6 & pA7
Date: 16 October 2021

Timing for GST hike will take into consideration economic conditions

Increase will come with offsets that delay effects of hike for most, says Finance Minister

Tham Yuen-C
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In deciding on the timing for the impending goods and services tax (GST) hike, the Government will look closely at the overall economic conditions, including the outlook on inflation, Finance Minister Lawrence Wong said yesterday.

He stressed that the increase will come with offsets that will effectively delay the effects of the hike for the majority of the population by five years, and for the lower income by 10 years.

Besides the offset package, the permanent GST Voucher Scheme will also be enhanced, he added.

"GST in Singapore is quite unique, compared to almost all other countries," he said, adding that the GST Voucher Scheme will defray the GST hike for lower- and middle-income households.

Against the backdrop of the Covid-19 pandemic, the planned GST hike from 7 per cent to 9 per cent – which the Government has said would take place between next year and 2025, and sooner rather than later – has sparked much discussion, with many wondering when exactly it will be implemented.

Mr Wong was asked yesterday at the 35th Singapore Economic Roundtable about how inflation would influence the timing of the increase.

Inflation is flaring up around the world – jumping to 4.1 per cent in Germany and 5.4 per cent in the United States – and eroding purchasing power, and the minister said the Government is watching the situation very closely.

But he reiterated the Government's position, and said the GST hike will have to take place probably sooner rather than later.

"And we will consider the overall economic outlook, including the outlook on inflation, when we eventually decide on the actual timing of this move," he added.

The planned GST hike was announced in 2018 and is meant to help Singapore meet rising recurrent spending needs, especially in healthcare and social support.

A $6 billion Assurance Package was set aside last year to help cushion the impact of the hike.

The Government also announced plans to enhance the GST Voucher Scheme, which comprises cash, MediSave and U-Save or utilities rebates components.

Mr Wong, citing these measures, said: "When you look at that, then you appreciate that... the GST move shouldn't be looked at in isolation."

Another area that Singapore continues to explore to increase its tax base is wealth taxes, Mr Wong said.

Asked about this at the biannual meeting of private sector economists, business leaders and policymakers, he said: "Well, I shouldn't talk about what we are thinking about for the Budget. But as I said in my speech, we are studying what options there are to expand our system of wealth taxes."

He added that three factors go into the Government's consideration on this front: whether it is an effective way of taxation that will not be easily avoided; whether it can be done without undermining overall competitiveness; and whether any new wealth taxes will add to Singapore's overall revenue and resilience.

"One of the big challenges or the practical issues with any form of wealth tax is that wealth is mobile, and it can be easily avoided," he said. "Talent and wealth can move to other places, so we have to consider that very carefully."

With the recent progress in the international effort to overhaul the global tax system and set a minimum global corporate tax rate, Singapore may also see some additional revenue from corporate taxes, said Mr Wong.

Referring to the base erosion and profit shifting initiative, or Beps 2.0, to revise tax rules and clamp down on tax avoidance by multinational companies, he said: "We will update our corporate tax system accordingly to be in line with these new international norms.

"And so long as this is done on a level playing field, all countries adopt this, we will go along with that approach. Doing so may give us some additional revenue through changes in our corporate tax system."

PHOTO: JACKY HO FOR THE INSTITUTE OF POLICY STUDIES, NUS

During the 30-minute dialogue moderated by Straits Times associate editor Vikram Khanna, Mr Wong was also asked about whether the Government would revisit the fiscal rule of achieving balanced Budgets for each term of office, given the projected increase in spending and the large deficits precipitated by the Covid-19 pandemic.

The rule is enshrined in the Constitution.

To this, Mr Wong said the rule does not preclude the Government from undertaking counter-cyclical spending and in an emergency scenario, such as the pandemic, it can draw on the fiscal firepower of past reserves subject to the President's agreement.

He added that there are good reasons to keep the rule now, though nothing is ever off the table.

"I think it's a sound system that instils a culture of fiscal responsibility and stewardship, and still enables us to spend when the need arises," he said.

"Once you lose that discipline, there is no turning back. And that's why in many advanced countries, you see rising deficits, and that it doesn't get better. So I would have a care about... saying: 'It's okay, let's just allow some relaxation'."

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FISCAL DISCIPLINE

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FINANCE MINISTER LAWRENCE WONG, on the fiscal rule of achieving balanced Budgets for each term of office. He was speaking to Straits Times associate editor Vikram Khanna (far left) at the Singapore Economic Roundtable.

3 challenges that will affect fiscal strategy: Inequality, ageing society and emissions

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A study by the Ministry of Finance in 2015 found that of the children in Singapore born from 1978 to 1982 to parents who were at the bottom one-fifth of the income stakes, 14.3 per cent moved to the top one-fifth among their peers in their 30s. This was higher than corresponding figures for other countries in Northern America and Europe.

The data was recently updated for children born from 1985 to 1989, and the percentage was 14 per cent – slightly lower than before, but still much better than many other places, Finance Minister Lawrence Wong said.

The minister cited these figures to illustrate the important role education has played in addressing inequality and enabling Singapore to make good progress on social mobility over the decades.

Investments in schools, the Institute of Technical Education, polytechnics and universities over the decades have given children many more opportunities and choices than their parents, and more pathways to success, he said yesterday.

And there is still more work to be done to continue to reduce inequality and promote greater social mobility among all segments of society, and throughout their working lives, he added, as Singapore seeks to avoid the angst and frustration seen in societies that have become more stratified.

This is why efforts to expand the Progressive Wage Model and enhance the Workfare Income Supplement for lower-wage workers, give extra targeted support to their children from pre-school, and help adults improve their job prospects through SkillsFuture are under way, he said.

He was speaking at the Singapore Economic Roundtable organised by the Institute of Policy Studies, where he touched on three key challenges or curves that will determine the trajectory of Singapore's fiscal strategy in the years ahead – inequality, demographics and emissions.

Like other countries, Singapore will need more fiscal resources to tackle these challenges effectively, said Mr Wong, adding it has to re-examine its strategies.

The goal, he added, is to build a society that is even fairer and more just – where every child can achieve his dreams and every worker can stand tall, and where every person can be accepted regardless of social background or age, race or religion.

"But how can we ensure sufficient resources without placing an undue burden on our current or future generations? That is a question that keeps many finance ministers awake at night," he said.

"We must be alive to the immense responsibility the Government has as steward of our resources. What we have inherited from yesterday, we must wisely guard; what we have been entrusted with today, we must responsibly utilise.

"With that, we can then continuously strengthen our social compact, and provide an ever-stronger architecture of security and opportunity for all Singaporeans," he added.

On the demographic challenge, Mr Wong noted that Singapore is one of the fastest ageing societies, with one-quarter of Singaporeans projected to be 65 and above by 2030. This can place significant strain on society, he added.

The Republic's healthcare spending has already tripled in dollar terms over the past decade, and is now at 2.2 per cent of gross domestic product (GDP). This expenditure is set to increase further to 3 per cent of GDP by 2030.

On the demographic challenge, Mr Wong noted that Singapore is one of the fastest ageing societies, with one-quarter of Singaporeans projected to be 65 and above by 2030. This can place significant strain on society, he added. The Republic's healthcare spending has already tripled in dollar terms over the past decade, and is now at 2.2 per cent of gross domestic product (GDP). This expenditure is set to increase further to 3 per cent of GDP by 2030.

"The revenue from the increase in GST will go towards supporting our healthcare expenditure. But this revenue will not be enough to cover the additional healthcare spending," he said. "And we can expect healthcare spending to keep rising even beyond 2030, while the decline in the working-age citizen population will shrink our income tax base.

"These are difficult problems, and there are no easy solutions."

With shrinking labour force growth, productivity will be key, added Mr Wong. This means helping businesses to transform and shift away from manual processes, and equipping people with new skills.

It also means growing the silver economy, raising the retirement and re-employment ages, and providing wage top-ups and grants to incentivise companies to employ senior workers.

"The demographic curve may be inevitable, but it is a window of opportunity too," he added.

"We must shift mindsets to embrace productive longevity and view our seniors as assets. We must make sure our seniors can all look forward to a fulfilling life, be it in retirement or in a new job, and have a sense of security in their golden years."

On the emissions curve, he said Singapore is committed to this global effort, and is taking proactive steps to decarbonise its economy.

This will not be an easy transition because the country is at a double disadvantage – a lack of land space and natural resources which makes it very challenging to scale up renewable energy, and significant flood risks as a low-lying island.

But Singapore's economic story has always been one where it defied the odds, he said.

"So we are seriously considering the import of green electricity, and findings ways to overcome the high cost, and technical and security challenges."

He noted that Singapore is also actively pursuing new opportunities to grow as a sustainable finance hub, and investing in research and development on new technologies such as hydrogen and carbon capture.

"These will take time to bear fruit, but they can put us in good stead in the longer term," he said.

Mr Wong added that the three challenges of inequality, demographics and emissions are interlinked. "For example, an ageing population can exacerbate inequality, while inequality can make the lower-income more susceptible to the effects of climate change. We will tackle these challenges comprehensively, to arrive at a fairer, greener and more inclusive society," he said.

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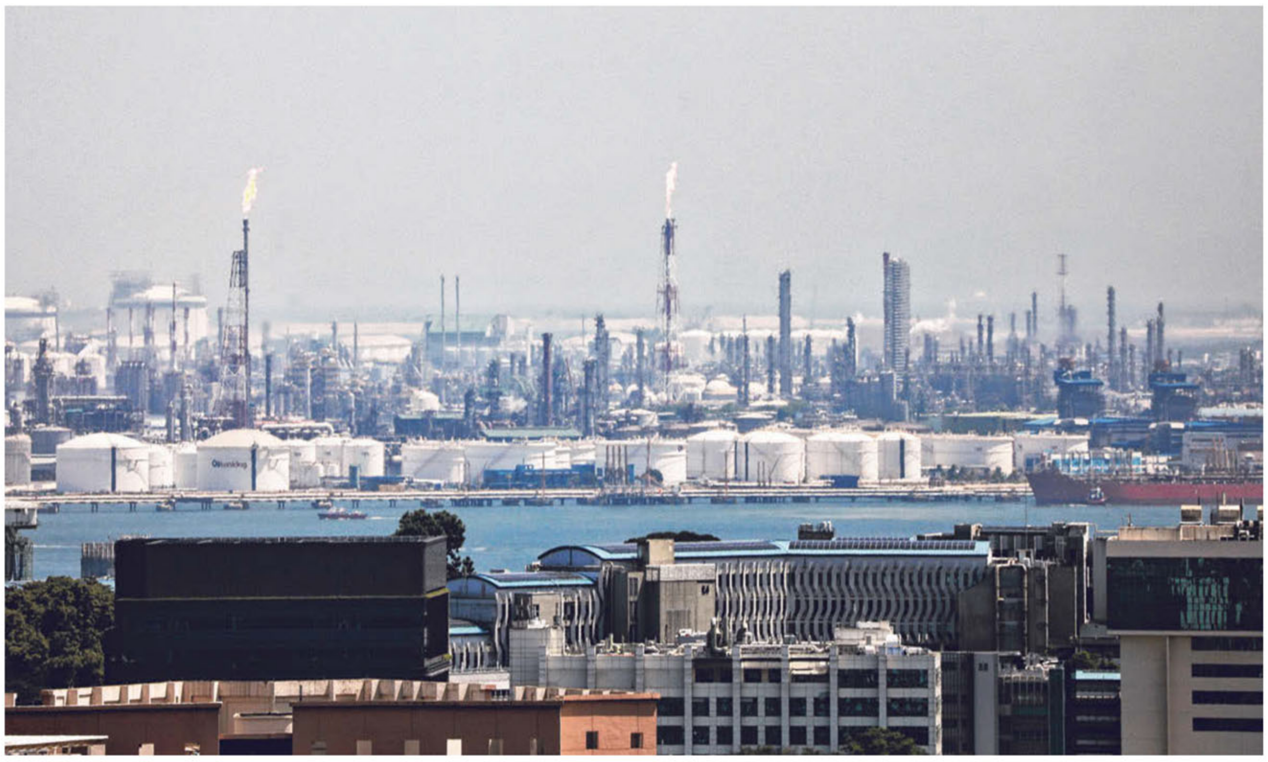
Singapore's sizeable investments in refining petrochemicals, such as those on Jurong Island (right), were made long before climate change came to the fore, and it will be very hard to change this overnight, said Finance Minister Lawrence Wong. ST FILE PHOTO



To be announced in next Budget: Revised carbon tax for 2024, and what to expect till 2030

Singapore's revised carbon tax rate for 2024 will be announced in next year's Budget, which will also indicate what to expect up to 2030.

As carbon taxes are raised, U-save rebates will also be enhanced to help lower- and middle-income households with the transition, Finance Minister Lawrence Wong said yesterday.

Speaking at the 35th Singapore Economic Roundtable, he said the Republic's carbon price today – at $5 per tonne – is too low.

This is why the Government is reviewing the level and trajectory of its carbon tax, to reflect the cost of carbon and influence investment decisions effectively, he said.

Mr Wong said the carbon price is a key lever for the green transition of Singapore's economy, and the Government is mindful that businesses will need predictability and time to adjust.

Responding to a question on whether Singapore should try to phase out investments in the fossil fuel sector at a dialogue moderated by Straits Times associate editor Vikram Khanna, the minister noted that the sizeable investments in Singapore in refining petrochemicals were made years ago, long before climate change came to the fore, and it will be very hard to change this overnight.

These companies have created many good jobs for Singaporeans, do not just serve Singapore but the region and the world, and are committed to being best in class in terms of energy efficiency, he said.

"I have no doubt that as we raise our carbon price – which we will do – over time, companies will internalise the carbon price, and our industry mix will shift over time."

He noted the most promising options today are clean hydrogen and carbon capture, but these technologies are not available for immediate deployment, and Singapore is investing heavily in research and development to better understand its options and be in a strong position for this green transition.

Mr Wong added: "Importing green electricity can help, but surely we don't want to import 100 per cent of our electricity. There are limits to importing power – there are technical issues, there are energy security issues as well."

In his speech on Singapore's fiscal strategy, the minister underlined that the sustainable and responsible way to fund recurrent expenditures is to raise tax revenue.

"Totalled up, our needs are significant and growing. Some of these can be borne through income taxes. But, with rapid ageing, it will not be sustainable and will make it hard for our working population."

This is key to understanding why the Government is looking to increase the goods and services tax (GST), he said. It is a tax on final consumption, helps to smoothen the burden of taxation across the entire population young and old, and includes tourists and foreigners when they spend money here.

The Government announced plans to raise the GST rate from 7 per cent to 9 per cent in Budget 2018, and said in Budget 2020 that it would also roll out a $6 billion Assurance Package to cushion the impact of the hike on lower- and middle-income households. It has also announced that the hike will take place between next year and 2025, but sooner rather than later, subject to the economic outlook.

As the Republic considers different ways to raise more revenue, it must continue to uphold a fair and progressive tax system, added Mr Wong.

Some people object to certain tax increases because they are regressive and disproportionately impact the lower-income, he noted. But these concerns are not so applicable in Singapore's context, he explained, as it works very hard to mitigate the impact of specific tax components, especially for the vulnerable. For example, the GST is tied to a permanent GST Voucher Scheme to defray GST for lower- and middle-income households.

What is more important is not to look at individual tax items, but to consider the taxes and transfers system as a whole, the minister added, noting Singapore has always maintained a high level of transfers to the lowest-income households.

"Our taxes and transfers system today is progressive, and we will keep it that way. For the middle-income, we maintain a low tax burden so that they can enjoy the rewards of their hard work and have the freedom of choice in their expenditures."

Mr Wong noted that many European countries with extensive welfare systems impose hefty income taxes on the middle class at over 30 per cent and value-added tax rates ranging from 20 to 25 per cent. In contrast, Singapore has kept its public expenditure lean yet effective – half of its working population do not have to pay personal income taxes, and GST rates are where they are today.

"Going forward, we will need to raise revenue to fund our additional expenditure. But we will move forward carefully, to make sure that overall public spending remains effective, and that taxes remain as low as possible for the middle class," added Mr Wong.

Another element of progressivity, he said, is to consider not just a person's income but also his wealth, and those who are more affluent should pay their fair share of taxes.

Singapore, he stressed, already taxes wealth in various forms – via property tax and stamp duties on residential properties, and via additional registration fees on motor vehicles. The home ownership policy and public housing subsidies have mitigated some of the divergence in wealth seen elsewhere.

Policies should continue to promote broad-based wealth accumulation among Singaporeans, he said. But just as Singapore has tempered income inequality over the years, it also needs to guard against rising wealth inequality, he added.

"That is why we continue to study options to expand our system of wealth taxes – in ways that are effective and add to our revenue resilience without undermining our overall competitiveness."

With an increasingly mobile tax base, deeper international cooperation is needed, added Mr Wong.

"Every country should be free to set its own tax rate. But with mobility of capital and talent, taxes are no longer purely domestic issues," he said. "This is why there is a need for enhanced international coordination on tax matters as well as international tax standards... It is important for us to have a seat at the table, and to do our part to shape the evolving rules on international taxation."

Grace Ho