Budget 2023's tweaks to the tax system – including higher buyer's stamp duty rates for residential and non-residential properties on the pricier end – send a clear message that Singapore will use tax as a public policy tool to safeguard progressivity. ST FILE PHOTO

Sin duty hikes and new wealth tax: Singapore house-cleans its tax system

Innovative tax tweaks are making the country's tax system fairer, more progressive and sustainable

Simon Poh

Who does spring cleaning after Chinese New Year?

And yet on Tuesday, Deputy Prime Minister and Finance Minister Lawrence Wong demonstrated that some house cleaning was in order, as he delivered his Budget statement.

Under Mr Wong's leadership, Budget 2023's numerous tweaks to the tax system have sent a vivid message that Singapore will use tax as a public policy tool to disincentivise undesired behaviour, safeguard progressivity and keep up with growing government expenditure and changes in the global tax system.

BIGGER SIN TAXES

As announced by Mr Wong, smokers are expected to pay more with a 15 per cent increase in excise duties on tobacco products with immediate effect. Such sin taxes – taxes on undesirable commodities with adverse health effects such as alcohol and sugar – always have advocates ardently arguing to price in the bill of higher future healthcare costs and promote healthier lifestyles.

Coming just five years after the last increase by 10 per cent, the time may indeed be right to send another clear signal to discourage smoking.

Wide speculation concerning an impending sugar tax in Budget 2023 has been quelled for now. Mr Wong may seem as if he had opted for familiar ground in deciding to raise the tobacco excise duties.

But while this change is expected to pull in only $100 million, the potential for government revenue upside on other sin taxes is huge. With a high bar for tobacco, there is arguably more room for the Singapore Government to move aggressively on sugar and alcohol in the future.

CLOSING LOOPHOLES TO ENSURE TAXES REMAIN PROGRESSIVE

In the same vein, the increase in vehicle taxes is hardly surprising in a land-scarce country with a buoyant car market that is keen to keep a lid on traffic congestion and emissions, yet is finding it tough to do so when taxing vehicular use through the electronic pricing system can generate backlash from drivers.

In this, the 2022 record-high prices for a certificate of entitlement required for every vehicle on the road may have suggested to the authorities that there was room to tax ownership.

Still, this year's announcement of higher marginal additional registration fee rates for expensive vehicles did raise eyebrows, given that the last hike came just last year in Budget 2022.

Nonetheless, this move, coupled with a $60,000 cap on the preferential additional registration fee rebates – which seek to encourage car and taxi owners to deregister dirty, less-efficient vehicles early – has made vehicle taxes more progressive overall by ensuring that owners of high-end luxury vehicles pay more taxes. Singapore and Singaporeans benefit from this move as a further $200 million will be added to public coffers, giving the Government greater fiscal space.

A similar ethos of creating greater progressivity in the Singapore tax system to keep pace with rising incomes was also reflected in adjustments to the Working Mother Child Relief scheme.

Working mums will receive a fixed tax relief amount for each child regardless of their income level for children born in 2024 and after, closing another tax loophole favouring the well-to-do. For decades, high-salaried working mums benefited more from the scheme as they could save substantial personal taxes since the scheme was initially pegged to earned income.

WEALTH TAX

Property stamp duties also featured in Mr Wong's slew of tax measures to prepare Singapore in its new way forward.

Following Budget 2022 where property taxes for non-owner occupied residential properties and high-end residential properties were hiked, this time around he levied higher buyer's stamp duty (BSD) rates across both residential and non-residential properties on the pricier end.

Given the progressive nature of the change and its skewed effects towards higher-end properties, Mr Wong essentially levied a new wealth tax to boost government coffers.

Estimated to take in $500 million more each year, it establishes higher property taxes on luxury homes as a fixed feature of the tax system, providing the Government with an equitable and sustainable source of additional tax revenue.

Compare this with past changes in the BSD regime, which focused on cooling speculation in the property market by levying higher rates on the additional buyer's stamp duty in 2021, limiting the impact to investors buying a second or subsequent property, or hikes to the BSD rates of the top end of residential properties in 2018.

MORE REVENUE SOURCES

These innovative moves in Budget 2023 seek to broaden Singapore's tax revenue streams further and come at a timely juncture. Corporate income taxes – the largest source of the nation's tax revenues, may face headwinds as impending changes in global tax rules as a result of the Base Erosion and Profit Sharing initiative loom.

Mr Wong has clearly signalled that Singapore cannot rely narrowly on any one major tax type to fund the country's projected future increases in government expenditure.

Rather, a safer and more sensible strategy is to rely on a good mix of taxes on income, assets and consumption, to ensure Singapore's tax system remains resilient amid global developments.

Equally important, however, is the need to ensure that the overall tax burden does not rest disproportionately on any category of taxpayers.

"Taxation pays for the provision of public goods and services... it is also a key ingredient in the social contract between citizens and the economy," the World Bank and PwC wrote in their Paying Taxes 2020 publication.

The challenge is how to convince Singapore businesses and Singaporeans that taxes eventually cannot be something someone else pays.

• Simon Poh is associate professor (practice) at the National University of Singapore Business School's Department of Accounting, where he specialises in tax matters.