

Four tax measures to look out for in Singapore Budget 2022

The timing of a GST hike, review of wealth tax system, increase in carbon taxes and changes to the corporate tax system in response to BEPS 2.0 will likely be addressed. **BY SIMON POH**

ON FEB 18, Finance Minister Lawrence Wong will deliver his first Budget Statement for the nation. We discuss here 4 tax measures that will most likely be addressed in his speech.

Timing of GST hike and whether it will be a phased increase

Given the need to fund our ever-increasing recurrent spending needs especially in healthcare due to an ageing population, it is always a question of when, rather than whether the proposed 2-point hike will take place in the current government term.

With Prime Minister Lee Hsien Loong's signal in his New Year message following Singapore's better-than-expected economic growth of 7.2 per cent in 2021, implementation of the 2-percentage point hike is likely to narrow down to 3 possible dates.

The first is Apr 1, 2022, which to me is too soon. Another date is Jul 1, 2022, the popular choice with many observers. This is because the last time a similar 2-point GST hike took place at one go was in July 2007, and the announcement was made by the then finance minister in his Budget speech in February 2007. The last possible date is Jan 1, 2023, which will give businesses and individuals ample time to prepare. I am inclined to believe and hope that Wong will opt for this date to address the fears of inflation expressed by many.

Similar to 2007 where there was a substantial offset package to help the lower-income group cope with the increase, the current hike will also be accompanied by a S\$6 billion Assurance Package to help delay the impact of the GST hike by up to 5 or 10 years for the middle and lower-income groups respectively.

A phased increase is likely not on the cards this year, similar to 2007. This is because raising GST by 2 percentage points at one go can save costs for businesses that otherwise would have to adjust their systems twice.

On Jan 1, 2023, there are a couple of new rules on the extension of GST to business-to-consumer imported non-digital services, as well as low-value goods imported by air or post that will take effect. Rather than subject consumers to too many changes all at the same time, it may be better to roll out the GST hike earlier in July 2022.

Review and possible expansion of wealth tax system

Faced with increasing calls for the government to consider more types of wealth taxes, the finance minister had indicated 4 months ago that Singapore will continue to study how it can expand its wealth tax system to address both income and wealth inequality.

Ideally, it will be most equitable to levy a pure wealth tax that is computed based on a prescribed percentage of an individual's net wealth, that is, after netting off their liabilities such as loans against all their assets such as cash and both movable and immovable properties. This can be a one-off exercise or done on an annual basis. But it is tricky and administratively cumbersome and expensive to design such a means-tested system, considering how mobile certain assets and talent can be, and how difficult and subject-



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ive it can be when attempting to value assets at different times.

Practical considerations will override any overemphasis on achieving fairness in designing a wealth tax system that would be broadly effective. These include ensuring that the tax cannot be easily avoided, especially by those with more means; balancing between progressivity and staying competitive to continuously grow our economy; and striving to add to the country's revenue adequacy and resilience.

Measured against these criteria, it may be hard to implement direct wealth taxes, capital gains tax or even bring back estate duty.

Property taxes such as property stamp duty and property tax remain low-hanging fruits as they are good proxies for wealth. Additional tax revenue can be generated efficiently with administrative ease by just introducing higher thresholds, but the government should be mindful that these are calibrated carefully so as not to affect the broad middle-income group.

Increase in carbon taxes

With the launch of the Singapore Green Plan 2030 last year, the government has indicated in recent times that there is an urgent need for a stronger price signal amid the accelerated implementation of decarbonisation projects. The current carbon tax rate of S\$5 per tonne applicable from 2019 to 2023 is set to be revised upwards to the higher limit of the range of S\$10 to S\$15 per tonne from 2024, not so much to generate tax revenue, but to drive behavioural changes in taxpayers to reduce their greenhouse gas emissions and work towards a zero-waste national goal.

Adjustments to corporate tax system in response to BEPS 2.0

On the back of ongoing discussions under the Organisation for Economic Co-operation

and Development (OECD) Base Erosion Profit Shifting (BEPS) project to address tax challenges arising from the digitalisation of the economy – commonly referred to as BEPS 2.0 – further implementation details were released by OECD on Dec 20 last year.

Under Pillar 2, multinational enterprises (MNEs) with a global turnover in excess of 750 million euros (S\$1.15 billion) that operate in jurisdictions that are subject to an effective corporate tax rate of less than 15 per cent will have to top up the taxes paid in those jurisdictions in their "home" jurisdiction. The top-up will be based on the difference between the corporate minimum tax of 15 per cent and the effective tax rate levied in that other jurisdiction.

Both the current and immediate past finance ministers had indicated in the past year that when international tax rules are changed, the government will consider making changes to our corporate tax system accordingly, in consultation with businesses and tax professionals.

There are around 1,800 such MNEs in Singapore, and many pay effective tax rates of well below 15 per cent because of various tax incentives. Once the global minimum tax comes into force in 2023, it will undermine Singapore's position since the benefits of tax incentives will be neutralised, thus diminishing its attractiveness as a hub with lower tax rates. This may likely translate to lower corporate tax revenues unless appropriate and effective adjustments are made to collect this top-up tax in Singapore, rather than relinquish this right to another jurisdiction.

Would our tax incentive regime be revamped and does this spell the demise of incentive schemes with zero tax rates such as the pioneer incentive? Budget 2022 may well answer these questions.

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