National University of Singapore

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Property stamp duties likely to contribute more to public coffers in years to come

This will take some pressure off the need to raise taxes on personal income, corporate income and goods and services for higher government expenditure

Simon Poh

Early indications following news of the latest additional buyer's stamp duty hikes suggest that the residential property market may yet again emerge relatively unscathed, says the writer. ST FILE PHOTO

Governments are always looking for the next tax dollar to fund society's growing needs.

In Singapore, barring the Net Investment Returns Contribution from the reserves, the top three contributors to government operating revenue for many years have been corporate income tax, personal income tax and the goods and services tax.

In financial year (FY) 2022, these have accounted for almost 60 per cent of operating revenue, generating about \$22.7 billion, \$15.4 billion and \$14.5 billion, respectively.

But we should expect property stamp duty to rise in the coming years and become an increasingly important source of funding for public services.

STAMP DUTIES WILL HELP PAY FOR MORE PUBLIC SERVICES

This particular tax has grown in spurts from \$3.9 billion in FY2020 to a height of \$6.8 billion in FY2021 during a property market frenzy.

The 2023 Budget statement released on Valentine's Day estimated a revenue from stamp duty of about \$5.8 billion in both FY2022 and FY2023, but this part of the fiscal pie will likely be larger than projected.

First, the stamp duty revenue estimates for FY2023 were made in February, well before the latest cooling measures kicked in. An additional \$500 million for FY2022 is expected from the hikes in buyer's stamp duty (BSD) for both residential and non-residential properties announced at Budget 2023 – a figure that has yet to include the latest hikes in additional buyer's stamp duty (ABSD) announced in late April.

Second, there is implicit recognition that the latest ABSD hikes must be carefully messaged to avoid suggesting that the purpose is redistributive in nature. This is a theme consistently emphasised over the past year as political leaders talked up the need for those with greater means to pay more taxes to maintain a progressive system.

Instead, the Government has taken great pains to frame the latest round of cooling measures, the third in the last 16 months, as policies aimed at promoting a "sustainable property market" where housing demand is moderated and owner occupation is prioritised. It also exercised equal care to signal indirectly that this was not meant to be a revenue-generating exercise, underscored by the absence of figures on projected revenue increases.

In a March interview, National Development Minister Desmond Lee emphasised that the Government was cognisant of the risk of overcorrecting the residential property market, even as it sought to stabilise the sector and keep housing prices in line with economic fundamentals, while curbing foreign and local investment demand.

WHY PROPERTY STAMP DUTY COLLECTION WILL LIKELY CONTINUE RISING

Following news of a significant 22 per cent jump in total tax revenue from \$49.6 billion in FY2020 to \$60.7 billion in FY2021, Deputy Prime Minister Lawrence Wong explained last September that the higher collection of "sentiment-based revenue" like property stamp duty, which accounted for the lion's share of the increase, cannot be a stable and sustainable source of revenue to meet Singapore's rising recurrent expenditure.

Indeed, the housing market can be volatile. Stamp duty as a revenue source can be unpredictable as it depends on the volume of transactions, transacted prices and animal spirits over the prospects for prevailing economic conditions and the outlook for the property market.

Yet early indications after the news of the latest ABSD hikes suggest that the residential property market may yet again emerge relatively unscathed.

The first condominium launch following the announcement of the latest cooling measures, that of Blossoms by the Park in the coveted rest of central region District 5 of Buona Vista, saw more than 70 per cent of the units snapped up at its opening weekend.

Singaporeans and permanent residents formed the majority of buyers, while foreigners accounted for the remaining 4 per cent on the first day of sale – a drop from the 7 per cent figure in the first quarter of 2023 but in line with the average proportion of foreign investments in private property in recent years.

Although the steepest hike in ABSD targets foreigners, the demand from this less price-sensitive group of home buyers appears insatiable. This group of ultra-high-net-worth individuals who have shifted their wealth here in setting up family offices care less about short-term gains and more about the fact that Singapore residential properties offer a stable investment and a reliable hedge against inflation.

A recent Bloomberg report suggests that family offices set up in Singapore have funnelled most of their money into residential property, including luxury penthouse apartments and mansions.

This sounds plausible if many foreigners believe that committing to purchases of such properties will demonstrate their desire to sink roots into Singapore for the long term and enhance their chances of obtaining permanent residency or citizenship status.

Given the doubling of the ABSD rates for foreigners, ABSD collections from this group may rise so long as at least half do not change their purchase plans.

CLOSING LOOPHOLES

Another factor potentially fuelling higher stamp duty collection is the latest round of regulatory clampdown by the tax authorities to close common loopholes employed to avoid taxes.

A parent buying a residential property for his child and transferring it into a nameless living trust will now be charged an upfront ABSD rate of 65 per cent, up from 35 per cent prior to April 27. This ABSD may be refunded later if all conditions for remission are met.

There is also much heated discussion on how "99-to-1" property deals may lead the Commissioner of Stamp Duties to collect a 50 per cent surcharge on top of making good the stamp duty for cases of tax avoidance, after such arrangements were exposed in The Straits Times and raised in Parliament in April. Stiffer penalties will be slapped on more blatant acts of stamp duty evasion – up to four times the outstanding amount due, the authorities have said.

An estimated 0.5 per cent of private residential property transactions from 2018 to 2021 involved such arrangements, Senior Minister of State for Finance Chee Hong Tat told Parliament. This works out to 479 units or so, according to property firm OrangeTee & Tie.

We should therefore expect an increase in stamp duty collections from taxpayers who come clean and from Inland Revenue Authority of Singapore audits.

This is further strengthened by stamp duty revenue that takes other forms. For instance, additional conveyance duties when buyers choose to buy shares of a property-holding entity – introduced in 2017 – with rates rising in tandem with the new BSD and ABSD rates, can translate to a much higher stamp duty burden.

In a hot property market where homes continue to change hands at a high volume, the seller's stamp duty, which applies to the sales of residential and industrial properties within three years of acquisition, can also add to stamp duty collections.

Predicting stamp duty collections will continue to be nebulous and tricky when market sentiments remain volatile. Yet, based on the latest announcements and measures undertaken by the authorities, we can cautiously and optimistically expect continued growth over the next few years, barring external shocks to the global economy seriously affecting Singapore and its property market.

If this holds up, the overall effect is to diversify Singapore's tax revenue base and move away from the traditional focus on the three major tax types. What this also means is that attracting family offices here does not seem all that bad, even if property remains their investment asset class of choice – just so long as stamp duties are sufficiently adjusted to dampen the impact on the private residential market for Singaporeans.

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