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The Government is not putting all its eggs in one basket but assiduously broadening the base over the years and relying on three major taxes to sustain our economy – taxes on income (corporate and personal income taxes), taxes on consumption (GST) and taxes on wealth (asset taxes).
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Budget 2024

It's getting harder to project future government revenue

Variances in corporate income tax, property taxes and GST can be worrying, but the overall broadening of the tax base provides some stability.

Simon Poh

Every finance minister has a sacred but unenviable task: Manage a nation's budget, with the country's future at stake.

Fiscal sustainability has become a real problem in some countries, underscoring another important role for the finance minister, and that is to rein in public spending. But many fail on this score, and some governments have resorted to substantial borrowing to fund escalating expenditures.

This is not likely to occur in Singapore because our Constitution requires the government of the day to run a balanced budget over its full term.

Even so, many view the finance minister in Singapore as a "God of Fortune" who dishes out handouts, sometimes even windfalls, to households and businesses each year. It does not help that the Singapore Budget is typically announced in February, which coincides with the Chinese New Year, a season associated with hope for abundance, prosperity and good fortune.

In 2024, Deputy Prime Minister and Finance Minister Lawrence Wong delivered a Budget statement that did not disappoint. While dispensing generous assistance to practically everyone, he projected an overall deficit of $3.6 billion, or 0.5 per cent of gross domestic product (GDP), for fiscal year (FY) 2023 – a deficit offset by the Budget surpluses of $1.9 billion and $1.7 billion generated in the previous two FYs.

In fact, FY2023 would have seen a surplus if not for the $7.5 billion Majulah Package Fund, announced at the 2023 National Day Rally. This comfortable fiscal position was achieved primarily through higher corporate income tax collections, which saw a 17 per cent uptick compared with a previous estimate, given the higher-than-expected economic rebound in 2022.

All in all, Singapore Budget 2024 will come at an enormous $131 billion cost for a small city-state, with social spending making up almost half, to refresh our social compact and achieve a more inclusive society. Even so, DPM Wong projects a small overall surplus of $780 million, essentially a balanced fiscal position.

LESS ACQUAINTED WITH GOVERNMENT REVENUES

Whenever the Budget is discussed, government estimates for expenditure, both immediate and for the medium term, are made public and become a talking point. We have heard how we might have a "longer-term fiscal time bomb" on our hands.

Most Singaporeans are well acquainted with the mantra of our increased spending on healthcare – the main reason for the recent 2 per cent goods and services tax (GST) hike – decarbonisation initiatives in line with the Singapore Green Plan 2030, and social needs.

Close to $40 billion will be spent by 2030 on Forward Singapore policy moves to strengthen our social safety net. By then, government spending will increase to about 20 per cent of GDP.

In contrast, there is little conversation regarding the projection of government revenues beyond the immediate year ahead, despite this being a critical parameter constraining how much we can spend. The reason is simple: It is far easier to project future expenditure than future revenue.

Indeed, an examination of the major contributors to total operating revenue shows why it is so hard to estimate revenues.

UNCERTAINTY OVER CORPORATE TAXES

Corporate tax revenue used to be the top contributor to government revenues until Net Investment Returns Contribution was introduced in 2009. In FY2023, corporate income tax collections, at $28.4 billion, made up more than a quarter of total operating revenue.

A similar target of $28 billion has been set for FY2024. But external risks may threaten this corporate tax revenue base – mainly changes in global corporate income tax rules under the Organisation for Economic Cooperation and Development's Inclusive Framework on Base Erosion and Profit Shifting 2.0 initiative.

One part of it, or what is called Pillar One, proposes reallocating taxing rights on profits to market jurisdictions with the largest consumer base. When implemented, Singapore will see lower takings. Fortunately, delays have obscured a clear timeline for implementation.

A second part, or what is called Pillar Two, proposes to introduce a global minimum effective tax rate of 15 per cent for large multinational corporations (MNCs) with global annual revenue of at least €750 million (S$1.09 billion).

Two components of Pillar Two will be implemented in Singapore from Jan 1, 2025. First, an Income Inclusion Rule will subject the overseas profits of MNCs parented in Singapore to a minimum effective tax rate of 15 per cent, regardless of where they operate.

A second component, the Domestic Top-up Tax, will ensure MNCs pay a minimum effective tax rate of 15 per cent on their Singapore profits.

So long as the impacted MNCs currently operating in Singapore stay put, there should be additional corporate income tax revenue in the short term, but it will be hard to project how long this will last. We cannot rule out MNCs reshoring, given the lack of tax advantages to staying in Singapore.

DPM Wong has introduced a Refundable Investment Credit in Budget 2024 to encourage MNCs to make sizeable investments in Singapore by awarding them corporate income tax offsets. But we cannot rule out other jurisdictions doing the same or reacting with even more attractive incentives to compete for foreign investments.

ISSUES WITH OTHER TAX REVENUES

Personal income tax was the second major contributor after corporate tax. In FY2023, individual income tax collections were also higher than expected at $17.5 billion, making up one-sixth of total operating revenue.

But what is the picture beyond FY2024? Again, it will be hard to project, as the bulk of GST revenue will depend on the spending patterns of tourists and higher-income locals. And, after four years since the pandemic struck, Changi Airport has yet to see a full recovery to pre-Covid-19 passenger traffic levels.

But there is little scope to increase individual tax rates without affecting our competitiveness and ability to attract and retain talent in Singapore. The top marginal rates were raised to 24 per cent from 22 per cent in Budget 2022 and are set to take effect from the 2024 year of assessment.

Projections cannot be spot on as personal income tax revenue collections may well be affected by a global economic slowdown or the implementation of Pillar Two, which may result in MNCs and their key personnel relocating to other jurisdictions.

Revenue from GST is another issue. To effect the rise of 2 percentage points from 7 per cent to 9 per cent, the Government had to bring in the big guns. To justify the increase and cushion the pain, it had to debate the move vigorously in Parliament, announce the measure well in advance to give businesses time to adjust, while also staggering the increase over two years to mitigate the impact on the cost of living for ordinary Singaporeans.

These efforts are bearing fruit, with GST well poised to overtake individual tax as the second major contributor after corporate tax from FY2024. GST revenue is projected to increase from $16.4 billion in FY2023 to $19.4 billion.

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GST takings in FY2023 came in at $16.36 billion, lower than the estimated $17.38 billion. This is most likely attributable to less accurate projections. There are no major revamps to our GST system on the horizon after three decades, but spot-on projections are again unrealistic.

There is a third area where revenue forecasts can also be less than predictable. In Singapore, we have been taxing wealth mainly through property taxes and stamp duties, both low-lying fruit that are cost-effective to implement and simple to target.

Revenues generated from these can be significant when the property market is buoyant, as the past few years demonstrate. Higher certificate of entitlement (COE) premiums and vehicular taxes also translated into $7.26 billion – 22.4 per cent more than previous years.

But we cannot expect these revenues to be sustainable, given the volatility of the property market and COE premiums.

BUDGET MARKSMANSHIP IN TURBULENT TIMES

"Our ability to invest in our economy, our society and our resilience has to be anchored on a strong fiscal position," DPM Wong said on Feb 16, as he underscored the importance of fiscal responsibility.

Having a stable and sustainable base of government revenue sources is Singapore's best shot at fiscal security. But gone are the days when we could achieve Budget marksmanship with low variance of 2 per cent. Instead, we are seeing 17 per cent to 27 per cent gyrations in specific tax collections.

To this end, it is heartening to note DPM Wong's confidence in his Budget statement that Singapore should still have sufficient revenues to maintain a balanced Budget over the coming years.

The 2024 Budget is, after all, the first instalment of our Forward Singapore programmes under our road map to build our shared future together.

And the Government is not putting all its eggs in one basket but assiduously broadening the base over the years and relying on three major taxes to sustain our economy – taxes on income (corporate and personal income taxes), taxes on consumption (GST) and taxes on wealth (asset taxes).

All the above sources of revenues are important because when one engine is not doing well, there are others that can come to the rescue.

• Simon Poh is an associate professor (practice) of the Department of Accounting at NUS Business School. The opinions expressed are those of the writer and do not represent the views and opinions of the National University of Singapore.