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SINGAPORE

Wealth Tax For Singapore? - A Walk Around The Implications

Wealth tax is a subject that refuses to go away. However, arguably justified, it has many critics, and Singapore is reportedly considering the idea. This article delves into the details.

There has been talk that Singapore, one of the world's main wealth management centres, might introduce a form of wealth tax to raise revenues as the city-state opens up after the pandemic. Is this wise? While there is a lot of talk about inequality and the large gains some HNW individuals have enjoyed, would such taxes raise sufficient revenue to justify what is, according to one view, an assault on private property rights? A number of countries are said to be considering it – including the US. The record of wealth taxes is patchy: Sweden, once a poster child for high-tax socialism, got rid of them a few years ago. Switzerland, however, has a form of a wealth tax at the cantonal level. France introduced such a tax but scrapped it in 2017.

So what is the state of debate in Singapore about wealth taxes, and what might happen? To grapple with these and other questions is Adrian Sham, partner and head of employer solutions and private clients at Grant Thornton Singapore.

Singapore saw a 10 per cent increase in its ultra-high net worth individual population in 2020. This included the likes of Google co-founder Sergey Brin and James Dyson, founder of Dyson, who have recently established or are in the process of establishing a family office in in the jurisdiction.

These high-profile moves come as UHNW individuals seek to take advantage of Singapore's high security, excellent education, health system, low taxes, and generous incentives for family offices. The COVID-19 pandemic may have accelerated this process, as Singapore's management of the crisis allows people to lead more 'normal' lives compared with most countries.

In this article, we examine how Singapore taxes wealth, if at all, and what the possibilities are for extending the rate or reach of wealth taxes.

The current environment

To fund COVID-19-related support measures, many countries have gone heavily into debt. Singapore is in a comparatively better economic position than most as the city-state has not borrowed any money to fund its pandemic spending. Singapore, therefore, does not have the same external pressures to raise taxes to recoup the monies spent.

With the backdrop of the country's historic desire to attract wealth into the country, it is unsurprising to see minimal wealth taxes in Singapore. Tharman Shanmugaratnam, who was the finance minister a decade ago, summarised the plan succinctly in his 2008 budget speech when he stated: "If we make Singapore an attractive place for wealth to be invested and built up, whether by Singaporeans or foreigners who bring their assets here, it will benefit our whole economy and society, not just the individuals who build up their wealth." (1) This is unlikely to change, as demonstrated by the recent efforts of the Economic Development Board to successfully woo family offices to Singapore (2).

The wealth tax options

Globally, there has been much discussion on raising additional taxes to fund COVID-19 spending. There has been a spotlight on wealth taxes to raise taxes as well as help address a rising inequality divide which has only become wider during the pandemic.

Wealth tax can come in different forms ranging from a pure wealth tax (e.g., a flat percentage tax on an individual's total net worth) to other forms of wealth taxes such as inheritance/estate tax, capital gains taxes and property taxes.

Net asset tax

A flat tax on net worth is the purest wealth tax as it applies equally across the board and it is the easiest to design to ensure that it is a progressive tax, unlike most other wealth taxes which are typically transactional in nature. A pure wealth tax is a dying breed as the number of Organisation for Economic Co-operation and Development (OECD) countries with wealth taxes has steadily declined over the years. Singapore could consider an annual or a one-off wealth tax, but this would have a significant impact on its status as a wealth management hub.

While a one-off wealth tax would be more palatable, it would not be recommended as it would raise questions as to whether a one-off wealth tax could be repeated in future and the uncertainty could put off HNW individuals from moving to or remaining in Singapore.

The following are transaction-based wealth taxes.

Capital gains taxes

Similar to a pure wealth tax, it would be surprising to see Singapore implement a capital gains tax system as it would significantly impact the wealth management industry in Singapore.

Estate duty

Estate duty is effectively a tax on assets passed down upon at an individual's death. This typically affects the middle class as they have the wealth to pay the tax but not enough wealth to pay/justify planning for the tax (4). Shanmugaratnam repealed the estate duty in 2008 to "support the growth of the wealth management industry" and to protect ordinary Singaporeans who have worked hard all their lives and already paid taxes on their income. He also went on to say that "with the removal of estate duty, our remaining tax on wealth would be the tax on property" which is a nice segue into the wealth taxes that Singapore should focus on (5).

Real estate

Singapore does have some taxes on transactions in property. Many look towards stamp duties as one of the main ways in which a wealth tax could be implemented on property. It has already been suggested that the government is keeping an eye on property prices which have continued to rise, despite the pandemic. But stamp duties are a property cooling measure by design and there are other ways to implement property cooling measures such as tightening the total debt servicing ratio (not a wealth tax).

Stamp duty is one of the only areas that the government can impose a peripheral type of wealth tax. However, it is not a consistent revenue stream as it is only payable when there is a transaction. While stamp duties may not be the best way forward, looking in the direction of real estate they would be very sensible. The biggest draw of real estate is that it is not going anywhere and so, in the event of default by the owner, the government has the keys, legally speaking.

Singapore real estate provides a safe haven for foreign wealth as properties can be perpetually left empty. Real estate does not contribute to the economy per se unless it is being used productively for industry.

There are two ways in which additional tax revenues could be raised from this under-utilised asset. The first would be to impose an additional tier of property tax, specifically on or to introduce a higher rate on unoccupied property. The second would be to encourage property owners to make use of or to rent out their properties. This could be achieved by applying a deemed rent to properties left vacant and then to impose income tax on deemed rental income. Or a blend of the two.

It could also have wider positive implications such as increasing supply of rental properties and bringing rental prices down thereby making it more affordable. This might, in turn, reduce the demand from investors who want to make a rental return on their properties, as well as having a cooling effect on property prices.

Conclusion

Whether tax rates go up or new taxes are introduced, a tax on wealth is a delicate balance and must be approached cautiously. Any step that Singapore takes should not tip the scales from attracting HNWIs to causing them to give the city-state a wide berth. All wealth taxes go against the aim of attracting wealth to Singapore.

As discussed in this article, real estate tax is the most feasible 'wealth tax' that Singapore should be considering as it could strike a balance between attracting wealth to Singapore and raising revenues.

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Singapore Home Price Growth Quickens, Stoking Worries of Curbs

Singapore home prices grew at a faster pace last quarter, stoking concerns that the government could join other nations that are introducing measures to calm the property market.

Private property values increased 2.9% in the three months ended March 31, preliminary figures from the Urban Redevelopment Authority showed Thursday. That's the biggest gain since the second quarter of 2018.

Singapore's property prices have recovered rapidly from a lockdown that lifted last June as low interest rates prompt buyers to look past a deep recession. In the past few months, the pace of gains -- from private apartments to public housing flats to luxury penthouses and bungalows -- has soared.

The frenzy is fueling concerns that Singapore may add new curbs, joining the likes of New Zealand, which last month removed tax incentives for property investors. In Canada, where the average price of a home in Toronto breached C$1 million ($795,000) for the first time in February, there have been growing calls to rein in the market.

For Singapore, speculation of another round of cooling measures -- last imposed in July 2018 -- has been building in the past few months. Authorities have warned that low rates can lead to distortions in asset prices and the property market shouldn't run ahead of economic fundamentals.

There's a higher risk now that the Singapore government is eyeing property curbs, said Christine Sun, senior vice president of research and analytics at OrangeTee & Tie.

"But the authorities are probably tracking closely other market indicators as well such as how the first-quarter GDP growth pans out, whether prices of properties are indeed outpacing economic recovery," Sun said. "They may also track the volume of sales as a high volume coupled with high prices may alleviate the risk of a property bubble forming."

Singapore home prices rose 2.1% in the previous quarter, while for the whole of 2020, values jumped by 2.2%. Back in 2018, the government tightened loan limits as well as increased tax duties for foreigners and owners purchasing second homes.

Officials may take similar steps this time around, said Ong Teck Hui, Jones Lang LaSalle Inc.'s senior director of research and consultancy based in Singapore. As price momentum picks up, there's a higher risk of cooling measures, he said.

THAILAND

COVID19 Relief: Thai Government Announces Substantial Tax Cuts for Property Owners

For the second consecutive year, the Thai Government has announced substantial tax relief measures for property owners in an effort to soften the economic impact of the COVID19 pandemic.

The Royal Decree Reducing Tax for Certain Types of Land and Buildings B.E. 2563 (2020) was published in the Government Gazette on 31 January 2021, coming into effect on the following day (“Royal Decree”).

The Royal Decree, which mirrors a similar tax relief measure enacted in 2020, will result in a 90% reduction in the amount of 2021 land and building tax payable by property owners under the Land and Building Tax Act, B.E. 2562 (2019) (“Land Tax Act”).

As a consequence of the Royal Decree, property owners will only be required to pay 10% of the 2021 land and building tax assessed by the local authorities under the Land Tax Act.

As of the time of publication, the deadline for payment of 2021 land and building taxes is 30 June 2021.

The tax reduction will apply to the following types of land and buildings:
1. Land and buildings used for agricultural purposes;
2. Land and buildings used for residential purposes;
3. Land and buildings used for purposes other than agricultural or residential purposes; or
4. Land and buildings that are vacant or unused.

In addition to the relief measure specified in the Royal Decree, property owners will continue to be entitled to receive other tax reductions or exemptions as may be specified under the Land Tax Act.