IPTI Xtracts

Property Tax and Assessment News from Around the World

Singapore – January 2022

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WEALTH TAXES IN SINGAPORE – THE PRESENT, AND GLIMMERS OF A POTENTIAL FUTURE

Introduction

Implementing wealth taxes has been a topic of great interest in Singapore in the past year, with the debate on its merits having attained high prominence in local policy discourse. During the Singapore Economic Roundtable (Economic Roundtable) held in October 2021, Minister for Finance Lawrence Wong emphasised the need for Singapore to guard against rising inequality, and highlighted that the Ministry of Finance is presently studying options to expand Singapore's system of wealth tax. The recent raising of Additional Buyer's Stamp Duty Rates (ABSD) with effect from 16 December 2021 for owners of multiple properties is arguably a clear indication of such a focus. This comes as no surprise, as governments worldwide grapple with depleted public finances as well as rampant wealth inequality, both of which are a direct result of the COVID-19 pandemic. To put things into perspective, the aggregate wealth of the super-rich grew nearly four-fold from US$41.5 trillion in 2000 to US$191.6 trillion in 2021, and their share of global wealth rose from 35 per cent to 46 per cent over the same 20-year period.[1]

This article discusses how Singapore's current tax system already encompasses certain features of a wealth tax, as well as how Singapore could explore further potential avenues of taxing wealth moving forward.

Wealth taxes in Singapore: at present

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

Unlike in many other countries, Singapore's tax system at present does not employ any form of inheritance, estate, capital gains or net wealth tax. Instead, it mostly relies on the progressive nature of its existing tax base to ensure that the wealthy pay a greater proportion of tax. For example, the rates for personal income tax and buyer's stamp duty depends on the personal income of the taxpayer and the market value of the property respectively. As a means to tax homeowners (who are generally perceived as being better off), Singapore also levies property tax, which is based on the annual value of the property. Notably, property tax on residential properties is also subject to progressive tax rates, depending on whether the property is owner-occupied or not. As a form of indirect wealth tax, the government levies an additional tax in the form of Additional Buyer's Stamp Duty (ABSD) on homeowners who have the means to purchase multiple properties.

Moving forward: the options Singapore may consider in implementing wealth taxes

A balancing of factors

While few will dispute that in principle, wealth taxes contributes to a fairer and more progressive society, it cannot be over-emphasized that any government would need to have careful regard to the design and implementation of any proposed wealth tax. Particularly, in order for a wealth tax to be meaningful and consistent with Singapore's existing social-economic background and policies, it would have to strike a balance between certain fundamental trade-offs, such as:

1. the imperative to stay competitive and business-friendly given Singapore's regional status as a business and wealth management hub;

2. the ease of administration (in that its implementation and administration should be procedurally straightforward and cost-effective, whilst ensuring compliance with minimal scope for avoidance by taxpayers);

3. the sustainability of such a measure; and

4. the sufficiency of such a measure not just in terms of potential tax collectible, but in addressing the growing income inequality and wealth disparity in Singapore.

Such considerations were similarly echoed by Minister for Finance Lawrence Wong at the Economic Roundtable, where he noted that any expansion of Singapore's system of wealth tax must be carried out in a manner that "add[s] to our revenue resilience without undermining our overall competitiveness".

Crucially, any wealth tax proposal should not tip the scales as regards Singapore being an attractive destination for high net worth individuals and foreign investments. Put simply, it should not cause such parties to divert their capital out of Singapore. As a small and open city-state whose light-touch tax regime has for decades been a key competitive advantage in attracting foreign capital, a substantial capital flight would have clear knock-on effects on the Singapore economy.

The viability of reintroducing estate duty

Although Singapore repealed its estate duty regime in 2008, there has been growing talk in the past year of its reintroduction in order to address the growing wealth discrepancy. As an inheritance tax charged on the total market value of the assets of a deceased person on the date of his or her death, its design was previously intended to rebalance wealth and to prevent wealth from being concentrated within bloodlines across generations.

While conceptually attractive, any reintroduction of estate duty in Singapore would first need to address the design shortcomings of the previous regime, which had resulted in it being largely ineffective in taxing the wealthy.

Firstly, the Estate Duty Act (Chapter 96) had provided that lifetime gifts made more than five years before one's death (provided that the donor was excluded from any benefit under the gift) would not be subject to estate duty. Effectively, a person possessing valuable assets who wanted to escape the imposition of estate duty upon his or her death could simply transfer the assets five or more years before his or her death. As such, the rule had a tendency to benefit those who were financially able to make large gifts early in their lives without reducing their standard of living, which would typically be the case for the wealthiest.

Further, a tax that was only levied on the assets owned by a person upon his or her death also meant that it was easily avoided through tax planning, a service that the wealthy would typically have greater access to. For example, an individual wishing to avoid estate duty could easily transfer his or her assets to a lifetime trust or to a holding company, thereby ensuring that the assets were no longer held in his or her personal name. As the individual no longer owned the assets upon death, no estate duty would apply.

These drawbacks in the previous estate duty regime resulted in the high costs of administering the tax, as a proportion of tax collected. To put things into perspective, it was noted in the 2008 Budget Statement by the then-Minister for Finance Tharman Shanmugaratnam that the estate duty regime had, prior to its abolishment in 2008, on average collected only S$75 million per year. It is thus understandable that many jurisdictions, including Australia, Hong Kong, Malaysia and New Zealand, have similarly proceeded to abolish estate duty from their respective tax systems.

In any case, we would highlight that even if reintroduction of estate duty is being seriously considered, it would be unlikely that Singapore would reinstate the generous exemptions that applied to the previous regime (specifically, the S$9 million exemption threshold for residential properties), given that Singapore's policy with respect to residential ownership has clearly changed since then. This would mean that any newly introduced estate duty regime would, if at all, likely apply to a wider scope of assets (including not only residential property but extending potentially to digital assets, for example).

With the above in mind, any reintroduction of estate duty would undoubtedly need to take into account the real risk of jeopardizing Singapore's vibrant wealth management and private banking industry, the growth of which has been supported at least in part by the abolishment of estate duty in 2008 in the first place. Implementing an estate duty could disincentivize and even drive away wealthy individuals and families from parking their wealth and assets in Singapore.

Real estate taxes: low hanging fruit

Utilising real estate-related tax (i.e. property tax, stamp duties) as a means to tax the wealthy has historically been very popular in countries worldwide. This is logical, given that a large proportion of the wealthy store their wealth in real estate and that, increasingly, the widening wealth gap worldwide has been driven by property investments. The reality is that those with higher incomes can afford larger investments in real estate, and that the substantial value appreciation they enjoy over time is not available to those with lower incomes and smaller outlays for housing.

Real estate taxes as a form of wealth tax is also highly attractive from the perspective of administrative implementation. Tax on property represents a more stable revenue mobiliser as real property cannot be moved around, its ownership is transparently documented, and its valuation is relatively straightforward. In addition, the fact that real estate is generally a big-ticket purchase means that the revenue collected from such taxes is substantial. It would also be administratively easier for Singapore to leverage on an existing tax regimes such as stamp duty and property tax as a means of implementing a wealth levy, as opposed to creating a new class of tax, which would inevitably create some degree of legal uncertainty as to its application.

Property Tax

Building on its existing progressive nature, there is scope to make property taxes even more progressive. In this regard, an additional surcharge on luxury and larger properties could be explored. Such a surcharge can be further defined based on a threshold assessed value. Further, given the low rate of property tax at present (in relation to the full value of property), there is potential for a significant increase in rates.

Stamp Duty

The approach taken in relation to property tax can similarly be adopted for stamp duty on property transfers, in that higher buyer stamp duty rates could be implemented for larger and more expensive properties. This ensures that such measures are targeted only at wealthier taxpayers. Such a move is not new to Singapore – in 2018, the highest marginal Buyer's Stamp Duty rate was raised from 3 per cent to 4 per cent for residential property valued in excess of S$1 million. The latest hike in ABSD rates are clearly targeted at wealthier homeowners in the private housing market, as it only applies to purchasers who are acquiring additional residential properties (i.e. rates for first property purchases remain unchanged). Even so, notwithstanding that stamp duty remains an easy tax to administer and collect, raising stamp duty rates in itself would unlikely be a sufficient solution to taxing the wealthy. This is because the revenues collected are highly volatile as they depend purely on transaction volume. It is thus no surprise that the decision to increase stamp duty rates is traditionally seen as "part of a package of measures to cool the residential market", rather than an exclusive tool to tax the wealthy.[2]

Alternative taxes: other possible avenues for wealth tax?

Income tax

In line with the current progressive nature of Singapore's income tax regime, a common suggestion to address rising wealth inequality in Singapore is to increase the headline income tax rate for ultra-high income earners. By raising tax rates only for such individuals, this would address the concern that a tax on income would disincentivize hard work for the middle and upper middle income earners. Yet, such a proposal may not be effective in reducing the wealth gap, given that an income tax in itself does not operate as a tax on wealth, but only on accretions to wealth. It remains a truism that in many societies, including Singapore, the ultra-wealthy rely primarily on their capital assets (profits derived from financial proceeds of the sale of securities, properties and dividend income etc.) for wealth appreciation.

Goods & services tax (GST)

Given that Singapore has successfully designed its goods and services tax (GST) regime to align with its overall progressive tax system, another option for Singapore would be to leverage on GST as a means of taxing the wealthy. Under the current regime, lower and middle income households are able to rely on the permanent GST voucher scheme for cash support and utility rebates, effectively allowing these households to pay less GST as compared to higher income households. As a result, foreigners residing in Singapore, tourists and the top 20 per cent of resident households are estimated to bear more than 60 per cent of the net GST on households and individuals.[3]

In addition to raising the GST rate, another possibility could be to further subject certain types of goods (i.e. luxury, high value goods etc.) to a higher rate of GST. Taxes based on consumption have been historically easy to administer and collect, and would provide a steady stream of revenue to the government coffers, to fund more social programs to tackle inequality.

Motor vehicle taxes

It may be worth exploring the possibility that wealth tax in Singapore could also take the form of a tax on vehicle ownership. This is especially since motor vehicles have traditionally been seen, particularly in Singapore, as a second big-ticket physical asset class owned by individuals. At present, Singapore does not distinguish between households based on the number of vehicles they own. A possible method may be to tweak the Certificate of Entitlement regime so as to impose a tax on households with multiple vehicles. Another possible approach could be to levy higher tax rates on more expensive luxury cars above a certain purchase threshold, reflecting a degree of progressivity in motor vehicle taxes.

Difficulties with a net wealth tax

At the international level, the concept of a net wealth tax is not new, with countries increasingly exploring the viability of taxing an individual based on a percentage of his or her taxable assets (i.e. the value of his or her assets minus any related liabilities). In Argentina, a one-off levy at rates up to 5.25 per cent was passed into law on 4 December 2020. At the same time, the UK Wealth Tax Commission published its Final Report proposing an annual one-off wealth tax applicable to UK residents with personal wealth above a set threshold.[4] Member of Parliament Jamus Lim also recently proposed in his parliamentary speech that

Singapore should impose a wealth tax of 0.5 per cent to 2 per cent on the most wealthy, as it could "help diversify Singapore's revenue sources and also reduce income and wealth inequality".[5]

While a net wealth tax may be conceptually attractive in ensuring progressiveness by applying only to the very rich, it has equally been observed that such a tax is administratively inefficient and cumbersome to implement.

The first limitation relates to the issue of disclosure and the inherent mobility of assets. It is easy to "hide" wealth in assets that can be effortlessly moved from one location to another (such as having offshore bank accounts, art, jewelry etc.), which complicates the determination of the net wealth tax base. This difficulty has become increasingly severe given the rise of digital assets, such as bitcoin and non-fungible tokens, as a popular store of wealth. While digital assets are increasingly subject to regulation by governments worldwide, current laws on the transparency and beneficial ownership of such assets remain fledgling and undeveloped.

The next major concern relates to the difficulty in valuing a taxpayer's assets for the purposes of administering the net wealth tax. This is especially the case if the value of the asset in question cannot be easily assessed due to the lack of an active market, such as assets including works of art, antiques and jewelry, or when the value of the asset has a tendency to fluctuate over time. Without an objective method to compute asset value, it is foreseeable that the application of such a tax would produce significant inefficiencies given the high likelihood of challenges by taxpayers as to the valuation of such assets.

It is thus of no surprise that Singapore has been very cautious in considering the introduction of such a tax, with Prime Minister Lee Hsien Loong acknowledging at the November 2021 Bloomberg New Economy Forum that a net wealth tax is "not so easy to implement". In a similar vein, Minister for Finance Lawrence Wong recently noted that the Singapore government "will not focus on taxing individuals based on their net wealth, but will look at the entire system of taxes here and identify areas which can be strengthened instead".[6]

Conclusion: a cautious stance warranted

Given the soaring wealth inequality and the depletion of government reserves as a result of the COVID-19 pandemic, the case for a wealth tax in Singapore has never been more compelling. Even assuming a conclusion is reached that non-fiscal initiatives are insufficient to address the inequality issue—an analysis of which in itself, is highly complex and not the subject of this article—the question that has stumped policymakers is the form in which the wealth tax should take, and what lessons can be learnt from the experiences of other jurisdictions worldwide, so that Singapore's tax system can be designed to ensure that the twin goals of fairness and fiscal sustainability are met without compromising economic dynamism and investor confidence. Although it is unclear at this point which direction the government will take in relation to this issue, it is certain that utmost caution should be exercised in designing a wealth tax system, as wealth levies may ultimately end up as a blunt instrument, which yielded carelessly, could inflict long-term collateral damage on Singapore's economy and its allure for investment and asset management.

[1] https://www.businesstimes.com.sg/opinion/the-taxing-problem-of-implementing-wealth-tax-in-singapore

[2] https://www.iras.gov.sg/taxes/stamp-duty/for-property/buying-or-acquiring-property/additional-buyer's-stamp-duty-(absd)

[3] https://www.straitstimes.com/politics/budget-debate-heng-swee-keat-on-why-the-gst-hike-cannot-be-scrapped

[4] https://www.wealthandpolicy.com/wp/WealthTaxFinalReport.pdf

[5] https://www.straitstimes.com/singapore/politics/parliament-wp-mp-jamus-lim-proposes-wealth-tax-of-05-to-2-per-cent-on-the-richest

[6] https://www.businesstimes.com.sg/government-economy/government-will-not-focus-on-taxing-individuals-based-on-their-net-wealth

SINGAPORE'S HIGHER PROPERTY TAX TO HAVE SHORT-TERM IMPACT ON HOME SALES AS BUYERS RECONSIDER OPTIONS, ANALYSTS SAY

Sales of private residential units fell 58.4 per cent in December from a month earlier as the higher levy dampened demand

The stamp duty on foreign buyers was raised in December from 20 per cent to 30 per cent and on companies from 25 per cent to 35 per cent

In December, the government increased the additional buyer's stamp duty imposed on foreigners from 20 per cent to 30 per cent. Entities, meanwhile, have to pay 35 per cent, up from 25 per cent.

The latest curbs immediately dampened demand for property, with developers last month selling 643 private residential units, 58.4 per cent lower than the 1,547 units in November and 47.2 per cent lower than the 1,217 new homes sold in December 2020, according to PropertyGuru, an online property portal with a presence in 14 markets in Asia.

"With the new curbs announced, property buyers are pausing to reconsider options and await further market reactions from sellers and developers," said Hari Krishnan, CEO and managing director of PropertyGuru.

In increasing the levy imposed on foreign homebuyers, the Singaporean government cited the 9 per cent increase in the prices of private housing since the first quarter of 2020. The resale market for public housing rose about 15 per cent over the same period. The city state's gross domestic product shrank by 5.4 per cent in 2020 because of the impact of Covid-19 before expanding 7.2 per cent last year, the fastest in over a decade.

In 2018, Singapore government imposed cooling measures to tackle rising property prices. The additional buyer's stamp duty on first time foreign buyers was raised by 5 per cent to 20 per cent and for non-individuals by 10 per cent to 25 per cent. Besides this, a non-remittable levy of 5 per cent was imposed on residential developers.

Apart from the setback in December, overall new home sales in Singapore rose last year. An estimated 12,734 units were sold, 27.5 per cent more than the 9,982 units sold in 2020, according to property consultancy Knight Frank. Foreigners bought 1,498 units in 2020 and 2,163 units last year, or between 15 per cent and 17 per cent of the total new sales.

Buyers from Hong Kong accounted for between 0.1 per cent and 0.3 per cent of private home sales from 2018 to 2021, according to PropNex Realty, a listed property agency in Singapore.

Although the latest measures are likely to stifle demand, prices are still forecast to rise at a slower pace, according to analysts.

"Overall private residential prices are projected to increase around 1 per cent to 3 per cent in 2022 considering the cooling measures and probable interest rate hikes," said Leonard Tay, head of research at Knight Frank Singapore.

New home sales in Singapore could reach between 8,000 and 9,000 units, with developers likely to launch fewer projects, Tay said.

PropNex expects demand to hold steady as the Southeast Asian financial hub signalled its willingness to ease more pandemic restrictions even as it battles the more transmissible Omicron coronavirus variant. The agency expects private home prices to grow at a slower pace of 3 per cent to 5 per cent, in line with Singapore's GDP forecast for 2022.

"Barring the worsening of the pandemic leading to stringent restrictions, we are cautiously optimistic about the residential property market in Singapore in 2022," said Ismail Gafoor, CEO of PropNex. "We project that 15,000 to 16,000 private homes could be transacted in the resale market, and 9,000 to 10,000 new private homes could be sold this year."