Taxing the wealthy

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ONE way to tackle inequality in Singapore is to target the truly wealthy in taxation.

The latest Budget took a step in this direction by raising taxes on the top earners.

Tax rates for the top 5 per cent of income earners - those pulling in at least $160,000 a year - will go up by 2 percentage points to 22 per cent of income in 2017.

However, some experts argue that this does not go far enough to tax the truly wealthy.

Former Nominated Member of Parliament and political watcher Calvin Cheng argued in a commentary in The Straits Times that the wealthy make their money not from earned income, but through investments, including capital gains or dividends. "Many of these individuals paying higher income taxes are not the truly wealthy," he wrote.

He and others propose wealth taxes - for one thing, introducing a tax on the sale of assets such as property. Such capital gains are currently not taxable in Singapore.

Another suggestion is to reintroduce taxes collected on wealth left behind after an individual's death - that is, an estate or inheritance tax. The opposition Singapore Democratic Party has made this call and wants it to apply to those with assets worth more than $20 million.

Singapore had an estate duty but it was scrapped in 2008. Then, the Government said that more middle and upper-middle income earners were caught by it but, unlike the super-rich, did not have the resources to set up trusts and other legal arrangements that let them sidestep death duty.

Revenue from these taxes can fund social schemes, and this redistributive effect can mitigate inequality, the argument goes.

But therein lies a reason why such taxes may not take off, says senior research fellow Gillian Koh at the Institute of Policy Studies: People may not be willing to pay more out of their own pocket to support the needy.

"The Government is not an entity unto itself," she argues. "It is responsive, but also held back by the willingness of people to stump up for taxes to benefit the lower-income."

It may be a real political challenge to convince the general public to agree to this, she says.

The Economist Intelligence Unit's (EIU) Asia economist Narvnita Sarma says that Singapore's taxes are currently low enough to raise them marginally.

But in the long run, raising them substantially higher than those of nearby cities like Hong Kong will hurt the Republic's competitiveness as a business destination.

"One of the main lures of Singapore is that taxes are low," she notes. Singapore is currently judged the world's best place to do business by the EIU in its annual ranking.

As only the top third of income-earners in Singapore pay income tax, she says that a way to raise additional revenue without hurting Singapore's competitiveness would be to broaden the tax base and have a larger proportion of the population pay some income tax.

Or, the Goods and Services Tax could be increased, she says.

"But either would be a politically difficult move," she notes.