

Budget 2020 announcements on impending GST hike will take some heat off the issue at next GE: Analysts

Janice Lim and Justin Ong

TODAY, 18 February 2020

The Government's decision to not raise the Goods and Services Tax (GST) in 2021, and the provision of a S\$6 billion offset package when the hike takes effect by 2025, will take some heat out of this political hot potato at the coming General Election (GE) which could be just months away, analysts told TODAY.

Dr Gillian Koh, deputy director of research at the Institute of Policy Studies, said: "This, in a way, changes the tune of the political debate when the GE is held... It addresses anxieties about it, and certainly questions of the impact on low-income households around the issue of the GST rise."

"It was a political hot potato when Mr Heng announced (in 2018) that the GST would be raised but what he has done... is mitigate the political effects of that by assuring Singaporeans."

Deputy Prime Minister and Finance Minister Heng Swee Keat announced in his Budget speech on Tuesday (Feb 18) that the GST hike will not take effect next year given the fragile economic conditions and further impact from the Covid-19 virus outbreak.

Analysts interviewed by TODAY agreed that it would have been insensitive to raise GST as early as next year.

The GE must be held by April next year and observers believe that the ongoing Covid-19 outbreak would push back any plans to hold the elections in the first half of this year.

The analysts said that whatever the circumstance, the GST hike will inevitably be debated by the political parties, even though the latest Budget announcements, taken together, would remove some of the heat during the hustings.

Mr Heng first announced in the 2018 Budget that GST would be increased from 7 per cent to 9 per cent sometime between 2021 and 2025. A few days after, he said that despite the political costs of announcing an impending GST hike before the next GE, the ruling People's Action Party must have the courage to do "the right thing" and "not make narrow personal calculations".

On Tuesday, he revealed that the Government had decided not to raise GST in 2021 after it relooked its revenue and expenditure projections and considered the present state of the economy.

He added that the Government will not be able to postpone the increase indefinitely and that a hike "will still be needed by 2025". He also said that the Government will provide Singaporeans with enough lead time before the increase comes into effect.

Mr Heng then talked about an offset package, known as the Assurance Package, to help Singaporeans when the GST is eventually raised. Every adult Singaporean will receive a cash

payout of between S\$700 and S\$1,600 over five years, depending on factors such as the type of public housing they live in.

This does not include offsets in the form of non-cash payouts, which have not yet been finalised.

Associate Professor Tan Ern Ser, a sociologist at the National University of Singapore, said that it would not look good under the current circumstances for the Government to announce that the GST would go up next year.

Singapore's economy just registered its worst performance since the 2009 global financial crisis, with gross domestic product growing 0.7 per cent last year. And the impact from the Covid-19 outbreak is expected to further batter the economy, even while it is still reeling from the effects of a trade war between the United States and China.

Calling the decision to not push up the tax next year "timely and compassionate", Professor Paulin Straughan, a sociologist with the Singapore Management University (SMU), said that this would have a "positive effect" for the Government in the coming GE.

"It demonstrates what the Government can do. If this is a criterion for good governance, then I think Singaporeans will respond accordingly when it's time to vote," she added.

Law professor Eugene Tan of SMU also agreed that the package would help to "reduce the sting" of an impending GST hike in the next GE. The Government would find it harder to persuade voters if it did not have a clear plan on how it would help Singaporeans.

However, he is sure that the issue will still be raised during the election campaign because it is something that affects everyone.

WHAT TAX EXPERTS SAY

Tax experts told TODAY that the shortened window in which GST can be increased will not affect the way the Government plans to increase the tax.

They believe that a phased increase — where the GST rate is increased 1 percentage point at a time — will unlikely be on the cards, which means a straight 2 percentage point jump from 7 per cent to 9 per cent is to be expected.

A one-time tax hike would be welcomed by businesses, because it would mean that they would bear lower compliance costs — the costs borne by companies in meeting new regulations or other changes.

Mr Kor Bing Keong, GST Leader at consultancy PwC Singapore, said that in the case of a GST hike, compliance costs come from making adjustments to systems and processes and complying with the transitional rules of the GST rate increase.

Mr Kor also said that a staggered increase would not be feasible, because businesses have to bear the extra cost of a second increase. "Increasing the GST rate in one step (instead of two) will reduce the GST compliance costs associated with a GST rate hike," he said.

"It will also reduce the opportunities for profiteering by businesses who use the GST rate hike as an excuse to increase their prices," he added.

Mr Yeo Kai Eng, partner of indirect tax services at consultancy EY, noted that the man-in-the-street would prefer a phased increase, although Mr Kor believes that the effect on consumers will be small.

"For consumers, whether it's 1 or 2 percentage points, whether it is over one year or two years, I don't think it makes a significant difference," Mr Kor said.

Referring to the offset package, he added: "The package is really targeted at the middle- to lower-income group and the retirees, and will significantly address their concerns arising (from) the increase in the cost of living."

WHEN TO EXPECT THE GST HIKE

As for when the GST hike is expected to be implemented, the analysts said that it would probably be during an economic upswing. "The jump should rightfully come in a year when the economic situation is good so that the pain to the consumer is significantly lower," Mr Kor said.

It is hard to tell which year this might be, because Singapore's economy is small and fluctuates according to the global environment, he added. "We usually assess on a yearly basis, looking at the economic outlook for the coming year."

Mr Yeo believes, however, that the hike will likely come sooner rather than later, and predicts that 2022 will be the year it would happen.

"If they didn't have (the situation with Covid-19), I thought that they would announce the increase in 2021," Mr Yeo said, noting that the planned GST hike stems from the Government's needs to fund ever-increasing recurring expenses.

"Now that it has been deferred, it is most likely 2022."

Assoc Prof Tan of SMU expects the hike to take effect fairly soon after the next GE. "It probably might shift to the midpoint of the next term of Government to reduce any political sensitivities that could arise," he said.