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An understanding of moral philosophy arguments can help drive good tax policy to alleviate inequality

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In light of the recent debate on whether Singapore should consider imposing wealth and inheritance taxes on ultra-high net worth individuals, this article seeks to address two key questions: whether wealth should be taxed and how it should be taxed. The first question is one of moral philosophy while the second is one of tax policy.

The question of whether wealth should be taxed can be viewed as part of the broader question of whether there should be redistributive taxation. The idea behind redistributive taxation is to achieve a net redistribution of wealth from those better off to those worse off by ensuring that the former pay more in taxes than they receive in benefits from the state, and vice versa.

The traditional debate on redistributive taxation has been between the followers of John Rawls and Robert Nozick. Both American philosophers in the libertarian tradition, Rawls' and Nozick's work on the moral basis of taxation has been highly influential.

Rawlsians argue for fair equality of opportunity: the idea that all members of society must have a fair chance of attaining positions which confer unequal benefits on them. This is an idea bearing some resemblance to the familiar concept of meritocracy. Rawlsians also argue for the difference principle: the idea that any socio-economic inequalities are to be of the greatest benefit of the least-advantaged members of society.

In contrast, Nozickians subscribe to the "Entitlement Theory" which states that if the way in which property is acquired is just, then members of society are entitled to their existing holdings. For the Nozickians, taxation is permissible to the extent that it supports the institutions which are necessary to protect the property rights of individuals. However, to the Nozickians, taxation must go no further than this bare minimum.

Most societies accept some form of redistributive taxation as being crucial to justice and fairness. In this respect, two arguments from Rawls may be particularly pertinent: one, that excessive inequality threatens the dignity of the worst off, even if it does not directly cause extreme material hardship; and two, that fair equality of opportunity is put in jeopardy when inequalities of wealth exceed a certain limit.

It is worth mentioning that while it is a natural feeling to want to give one's descendants the maximum advantages possible, the argument that there is an absolute right to pass on wealth to one's descendants has a very weak foundation.

The right to enjoy the fruits of one's own labour does not inevitably bring with it a right for one's descendants to enjoy the same, for the descendants may not have worked for it and may have inherited it merely due to an accident of birth. In practice, a balance is typically struck where we respect the property rights of the donor, such that the beneficiary is allowed to enjoy some proportion of the donor's gifts, subject of course to the broader needs of society.

WEALTH TAXATION AND TAX POLICY

Taxing wealthy individuals is generally a difficult task, for they are often well equipped and motivated to avoid such taxation. But while tax policy has to face the practical difficulties of taxing wealth, it should always be grounded in the principle that excessive inequality is not a good thing for society and reasonable redistributive taxation should be a desirable goal.

Here, it may be useful to clarify some of the technical terms being used in the tax policy debate.

A wealth tax is typically understood as a tax on one's net assets, calculated and levied periodically. This may be contrasted with a capital gains tax, which is a tax on the appreciation of the value of an asset, usually payable on the occurrence of a certain event (for example, the realisation or sale of the asset). An inheritance tax is a tax on the beneficiaries of an estate based on the value of what they have inherited. This may be contrasted with an estate duty, which is a tax borne by the estate of a deceased person based on the value of the assets to be distributed.

Strictly speaking, the "inheritance tax" which was abolished in Singapore in 2008 was an estate duty, since it was calculated by reference to the value of the estate of the deceased and not by reference to the beneficiaries' inheritance.

While these taxes are traditionally known as "capital taxes" collectively, there are other forms of taxes which also have the effect of "taxing wealth".

Examples include property taxes, which are levied on the owners of real property, and stamp duties, which are levied on the transfer of real property (and shares and certain other instruments). These taxes, collectively known as "wealth taxes", are ways to achieve redistributive taxation, though not the only way. Other ways include adjusting income taxes and targeted public spending.

THE PRACTICAL CONTEXT

Singapore is in a difficult position when it comes to the taxation of wealth. The country is a global wealth management hub and constantly has to ensure that its tax policies are attractive to highly mobile investors. The problem of inequality of wealth cannot be easily resolved by a mere adjustment of the headline tax rates on income or the introduction of new taxes. Nor would it be politically tenable to overtly tax foreigners at a lower rate than Singapore residents.

Implementing a blanket capital gains tax would likely have considerable consequences for Singapore's fund management and financial services industries.

Reintroducing a blunt inheritance tax would likely drive away private wealth and the highly skilled individuals which Singapore needs. Nor is it clear that Singapore has a clear right to tax the wealth of foreign individuals, earned overseas and only so happened to be parked in Singapore at the time of the owner's demise.

A NUANCED APPROACH

Wealth inequality is a problem which society should acknowledge sooner rather than later. It has the potential to hamper efforts to build a strong sense of national identity. But even as we go about attempting to have more redistributive taxation, such policy changes have to be made carefully.

Certain taxes have already been put in place to prevent rent-seeking behaviour, such as property taxes and stamp duties. Rent-seeking behaviour involves seeking to increase one's wealth without actually creating wealth.

In practice, allowing individuals to hold more than one piece of real property does very little to help the economy or society. The common Singaporean aspiration of owning valuable and multiple properties ultimately has to give way to a commitment to a more equal society.

An increase in property taxes and stamp duties may be a good starting point for redistributive taxation. However, once again, a nuanced approach is essential here. Excessively high property taxes hurt the poor and adding to our already high stamp duty rate simply decreases liquidity in the property market.

There should be generous exemptions for property taxes on properties worth less than a certain amount and individuals should not have to pay stamp duties on their first piece of real property. Beyond that, however, individuals owning more than one property or holding onto a property worth many millions should not complain if they are asked to contribute more to society.

While more can and certainly should be done to reduce inequality of wealth, Singapore's overall approach to redistributive taxation has been moving in the right direction in recent years. Since 2010, property tax rates have become more progressive. Additional Buyer's Stamp Duty, Seller's Stamp Duty and Additional Conveyance Duties, coupled with various upward revisions of the relevant stamp duty rates, also represent increases in wealth taxation. In 2016, the top marginal personal income tax rate was raised from 20 per cent to 22 per cent.

The constraints of tax policy are real ones and there is a need to ensure redistribution of wealth in society without excessively affecting Singapore's economy or making those worse off suffer an excessive burden. Overall taxes have to be kept in check but certain other taxes, which allow for better targeting of the well-off, can continue to serve as a good means for the redistribution of wealth.

Tax policy requires trade-offs and a good understanding of the moral philosophy underpinning arguments about inequality can help drive decisions.

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