Publication: The Business Times, p 13
Date: 17 February 2016
Headline: Six tax reforms for 2016

A Special Feature Brought to You By Singapore Management University

Six tax reforms for 2016

SMU Professor of Accounting (Practice) Sum Yee Loong offers some fresh ideas on how to make Singapore more business-friendly and socially aware

Be it scrapping generous tax breaks or re-imposing a form of income tax on the super-wealthy, Singapore Management University's (SMU) Sum Yee Loong does not shy away from suggesting bold reforms to Singapore's tax code.

"My suggestions are business-friendly and socially aware," says Prof Sum, a former tax partner at audit giant Deloitte & Touche from 1986 to 2011 and now a full-time faculty member at SMU's School of Accountancy.

"If they are implemented, we will still be business-friendly and competitive, and yet the lower income group will also feel they are still in an inclusive society," he says.

On the corporate front, Prof Sum suggests scrapping a longstanding tax exemption scheme for start-ups as well as to let the popular Productivity and Innovation Credit (PIC) scheme lapse when it expires in 2018. "Both schemes have been subjected to numerous abuses and the government is better off targeting its aid to companies in specific sectors," he opines.

On the personal front, he recommends reinstating the tax on the net annual value (NAV) of properties as a way to discourage the rich from leaving their large properties vacant. He also thinks that it is better to scrap tax deductions granted to those topping up Central Provident Fund (CPF) accounts, and replace them with an additional credit.

The accounting professor's other ideas include doubling child reliefs to help parents cope with higher costs and removing the time limit to withdraw money from the Supplementary Retirement Scheme (SRS).

"Overall, I think there will be a net revenue gain to the government. The NAV tax on property value as deemed income can bring in a lot, especially from people who own a number of properties," he surmises.

Scrap start-up income tax exemption

Since 2005, 100 per cent of the first S$100,000 of profits made by qualifying new companies has been exempted from tax every year for the first three years. Fifty per cent of the next S$200,000 earned is also exempt from tax. This 100 per cent tax exemption is not necessary, reckons Prof Sum.

"When it was first introduced, they said it will encourage people to be enterprising. But you don't get people excited about starting a business by telling them their first S$100,000 profit is exempt. If you want to start a business, you just get on with it," he remarks.

"The scheme has led to established companies in the service sector incorporating new companies to take advantage of this 100 per cent tax exemption."

Allow PIC to lapse

From 2011 to 2018, the PIC scheme allows businesses to enjoy a 400 per cent tax deduction when they invest in qualifying activities like buying automation equipment, training employees, acquiring intellectual property or pursuing research and development activities. In lieu of tax deductions or capital allowance, cash payouts can also be given for such investments.

"I don't think our productivity has improved, yet this PIC scheme costs the government a lot of money," Prof Sum says.

The scheme should be allowed to lapse when it expires in 2018, and replaced with more targeted assistance for small and medium enterprises (SMEs) in specific industries, he recommends.

"A lot of people bought the equipment, got the cash payout, and one year later they sell the equipment. Many taxpayers claimed PIC for purchases of laptops and iPads."

Besides targeted assistance to SMEs, these savings made can be applied towards closing the income gap and helping the lower-income groups, he suggests.

Reinstate NAV tax

In the aftermath of the global financial crisis, the government scrapped a tax on the net annual value (NAV) of residential properties in 2010. The NAV of a property is the gross amount of rental that the property can fetch if rented out after the deduction of expenses.

The first S$150,000 of NAV for one owner-occupied property is exempted from tax with the balance being deemed as income and taxable.

> **"If you're rich enough to leave your property vacant, you should be taxed on this deemed income. And if people say, if I have to pay tax I might as well let it out, I think this will provide more supply and assist the easing of rentals."**
>
> **SMU Professor of Accounting (Practice) Sum Yee Loong**

The S$150,000 exemption effectively meant that only the largest bungalows and properties were subject to this tax. NAV of properties left vacant and not available for let will also be deemed as income and taxable.

"The tax on NAV should be reinstated," Prof Sum posits.

"The S$150,000 exemption can remain as the purpose of the reinstatement is to impose some income tax on such properties owned by the ultra-rich," he adds.

"If you're rich enough to leave your property vacant, you should be taxed on this deemed income. And if people say, if I have to pay tax I might as well let it out, I think this will provide more supply and assist the easing of rentals."

He asserts, "This will address the situation where we have a lot of vacant units, completed but not tenanted. Just look at my area in River Valley, there are a lot of completed units but probably less than half are occupied as they do not have lights switched on at night."

On the flip side, Prof Sum suggests that tax authorities be quick to lower their calculated annual value of properties when the rental market comes down to ensure people are taxed fairly.

Double child reliefs

Currently, S$4,000 of tax relief is granted per child every year. This can be doubled for children aged six and below due to higher expenses, Prof Sum proposes.

"This will make the relief more meaningful."

Lift 10-year SRS withdrawal time limit

The SRS is a retirement savings scheme that provides tax deductions to those who contribute to their SRS savings account. Upon reaching the retirement age stipulated at the time of the first contribution – as the retirement age may be raised progressively – half of what is withdrawn is tax-free.

The 10-year limit for citizens and permanent residents should be scrapped, Prof Sum says.

"The SRS is supposed to supplement one's retirement. If I have a sufficient amount in my SRS Account, and I'm prudent and only withdraw what I need every year from age 65 such that I still have balances at age 75, why do you want to force me to withdraw more? After all, life expectancies are currently around 82."

"In addition, high net worth taxpayers are still likely to pay substantial amounts of tax despite being able to spread their SRS withdrawals out over many years, as they will have other investment income," he argues.

Replace CPF top-up tax deduction with tax credit

Currently, people topping up their CPF Special or Retirement Accounts get tax deductions for contributions of up to S$7,000 if they top up their own account, and up to another S$7,000 for family members' accounts.

Prof Sum explains his proposition. "The higher income taxpayers are taking full advantage of this and save tax at their top marginal tax rate, and voluntary CPF topping up for the top taxpayers will result in tax savings of S$2,800."

"It is clear that the lower income group does not top up their CPF account as they are not tax paying. This is the group that the government should be targeting to top up their CPF account. It's not the higher income group that does not save enough for retirement, it's the lower income group," he affirms.

He suggests scrapping the deduction and replacing it with a 10 per cent top-up credit instead. So if someone tops up S$5,000 to his CPF account, the government contributes another S$500 to the CPF.

"The Special and Retirement Accounts pay higher interest of at least 4 per cent. We can encourage the lower income group to top up, and this goes a long way towards meeting their minimum sum," he comments.

This is a monthly series brought to you by the Singapore Management University. Next month's feature will discuss the newly launched ASEAN Economic Community and its implications in ASEAN and beyond.

SMU MASTER OF PROFESSIONAL ACCOUNTING

Opens Up a World of Opportunity

Accounting is the language of business. Anyone seeking career advancement and professional growth will benefit from the SMU Master of Professional Accounting (MPA). Designed to develop your technical accounting competencies and business skills, the programme provides a technical grounding with industry perspectives, and is accredited by many professional and regulatory bodies. Our graduates are internationally mobile, in higher demand and have access to a wider array of career opportunities. Combined with SMU's world-class faculty, hallmark pedagogy and convenient city campus, it's easy to see why SMU MPA gives you the recognition you need to get ahead.

- Singapore's most established and accredited graduate qualification in professional accounting
- An accelerated pathway to enter global professional bodies and to commence qualifying for their Chartered Accountant or CPA designations
- Equip yourself with critical business fundamentals, technical skills and insights into professional accounting services

Register for our information session on 16 April at http://smu.sg/mpainfosession to find out more.

School of Accountancy

Ethan Lim, Vice President, Internal Audit, Sumitomo Mitsui Banking Corporation

Owen Hawkes, Partner, Forensic, KPMG in Singapore

www.smu.edu.sg/mpa Email mpa@smu.edu.sg Call +(65) 6828 0604 Scan to find out more

SMU MASTERS

Source: The Business Times © Singapore Press Holdings Limited. Permission required for reproduction.