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Headline: Experts give their views on possible increase in taxes

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By Wong Siew Ying | Posted: 27 August 2012 2340 hrs

Singapore skyline (Photo by: Hester Tan, channelnewsasia.com)

SINGAPORE : Prime Minister Lee Hsien Loong said during his National Day Rally speech on Sunday that taxes are likely to go up within the next 20 years, to fund increasing social spending.

Experts said any likely changes to the tax regime may not come so soon as the external economic environment remains uncertain.

But they added that there is scope to raise the goods and services tax in the future, or even introduce new taxes.

Seeing to the diverse needs of a rapidly greying population and less privileged citizens is among the key challenges for Singapore.

Prime Minister Lee said the government has already tapped on the national reserves to fund rising social spending. And taxes will have to go up eventually in the next 20 years.

The government has pledged to keep the goods and services tax unchanged for five years, but experts said there is room for GST to climb after that.

Kang Choon Pin, partner (Financial Services Tax) at Ernst & Young, said: "Despite political opposition, Japan has increased their consumption tax rate from 5 per cent, they are going to propose an increase to 8 per cent and subsequently to 10 per cent, so by then, our 7 per cent rate would probably be the lowest in the world...the equivalent GST rates in Europe are in the high 20s so there is a lot of scope to increase GST."

Mr Kang added that the government could introduce new tax items as well - for instance, a carbon tax on industries to curb emissions.

In addition, he said that the government may also look at stepping up efforts to ensure Singapore gets its fair share of tax from international transactions.

"There could also be greater resources directed to tax audits to ensure tax compliance and to ensure revenue from those who are not compliant," Mr Kang added.

As Singapore's population continues to age, experts said the burden of caring for the elderly cannot be shouldered by the government alone. It may require some form of co-payment, where employers and family members chip in to pay for rising healthcare and nursing expenditure.

Annie Koh, associate professor of finance at Singapore Management University, said: "One big thing that we might have to look at the national level, a pension fund - is that sufficient? And maybe the active employee may look towards the employer for some kind of a scheme...maybe a private pension fund scheme to go with it.

"We need some kind of a co-payment scheme too for healthcare. Do not wait till you are sick, maybe you should do something about maintaining (your) health and there should be incentives for employers who will invest in healthy individuals."

Observers said any changes to the tax system will have to take into account the impact on the country's competitiveness.

- CNA/ms