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THE BOTTOM LINE

Moving the discussion away from a personal wealth tax

While wealth taxes may be a means to diversify Singapore's sources of income and facilitate intra-societal and inter-generational money transfers, they are a blunt tool and may have unintended effects.

By Danny Quah and Valerie Ng

IN *Views from the Top* last week (*"Wealth tax – use 'shock therapy' cautiously"*, Aug 2), BT featured the opinions of business leaders on the thorny issue of whether Singapore should enhance its wealth taxes to narrow the wealth gap here. The general sentiment of the business leaders was one of caution.

This is unsurprising. While wealth taxes may be a means to diversify Singapore's sources of income and facilitate intra-societal and inter-generational money transfers, they are a blunt tool and may have unintended effects.

For example, the introduction of a wealth tax may send a negative normative signal to Singapore's wealth and asset management industry, which the country has so assiduously built up and grown over the past decade since estate duty was abolished in 2008. Wealthy individuals and families that have established family offices or made investments via Singapore vehicles or funds may re-consider their decisions given the real impact on them.

Given this, Singapore's policymakers may wish to consider the suggestion of introducing a corporate wealth tax. In an July 8, 2021 *Straits Times* article *"The wealth windfall after Covid-19"*, associate editor Vikram Khanna cited a proposal by two economists from the University of California, Berkeley, who suggested that the G-20 countries impose a 0.2 per cent corporate wealth tax on the market capitalisation of listed companies, and an equivalent tax on the distributed shares of large private companies.

There are benefits to this.

First, it may provide a platform for a more gradual increase of the Goods and Services Tax (GST) rate. In financial year (FY) 2019/2020, the Inland Revenue Authority of Singapore (IRAS) collected S$11.2 billion in GST. The expected additional tax revenue from a two-percentage point increase in the GST rate is between S$3 billion and S$3.6 billion annually. Imposing a 0.2 per cent corporate wealth tax on Singapore Exchange's (SGX) 12-month average total market capitalisation figure of S$863.5 billion would yield around S$1.7 billion of additional tax revenue. This roughly translates to the additional tax revenue for a one-point hike in the GST rate.

Second, while it may raise the cost of doing business in Singapore, a 0.2 per cent corporate wealth tax may be digestible for Singapore's listed companies. We have reviewed the SGX's June 2021 disclosure of its top 15 companies by capitalisation and note that the overall tax liability for the first, 8th and 15th company on the list would only increase by between 6.31 per cent and 27.33 per cent.

That said, there are countervailing factors to the introduction of a corporate wealth tax in Singapore.

SINGAPORE CONTEXT

For example, a corporate wealth tax may not be as progressive in Singapore compared to the US. The Berkeley study highlighted that a corporate wealth tax was progressive because stock holdings were highly concentrated among the rich, and listed equities account for about 30 per cent of the wealth of US households in FY 2020.

However, in Singapore, listed equities account for only 3.4 per cent of the wealth of Singapore households, with private housing coming in on top at 23.6 per cent in FY 2020. This means that even if stock holdings are similarly highly concentrated among the rich in Singapore, the bulk of their wealth is still in private housing. As such, the intended progressive effect will be significantly diluted in the Singapore context.

With Singapore households' wealth concentrated in private housing, it may therefore make more sense to impose property-related taxes instead. This has also been alluded to of late by Singapore's policymakers.

Anecdotally, we read of an increase in ultra-high net worth individuals buying investment homes in prime districts because of Singapore's relative success in managing the Covid-19 pandemic.

For example, 546 luxury homes in prime districts were sold in March this year, more than a 10-fold increase compared to March 2020. Unlike personal wealth taxes, property-related taxes are easier to administer since it is harder to hide or relocate a house, valuations are generally straightforward, ownership is transparently documented, and properties are big-ticket purchases so the tax extracted is high.

In conclusion, we would urge our policymakers to consider shifting the balance in the country's tax structure away from taxing income towards taxing wealth via a corporate wealth tax and property-related taxes.

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