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Making Singapore a regional centre for philanthropy

Enhancing tax savings for doing good is one way, as well as including some foreign charities and looking at the real-world impact

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For The Straits Times

Singapore has strong policies in place to support people who wish to do good. Over the years, the Government has worked with philanthropic organisations, family offices and others in this area to develop a strong ecosystem where charitable initiatives and giving are encouraged and supported.

The chairman of Temasek Trust, Ms Ho Ching, highlighted the importance of partnerships and collective action at the Philanthropy Asia Summit 2022 held here on Sept 30. She also said that over $300 million had been raised by a new alliance set up to drive partnerships in the philanthropic sector while addressing issues related to the planet, peace, people and progress. And Deputy Prime Minister Lawrence Wong, in speeches at the summit and the Global-Asia Family Office Summit's owners' symposium, pointed to more support soon from the Government, with the hope that Singapore will become a regional centre for philanthropy.

Mr Wong, who is also Finance Minister, said that the Government is reviewing its tax incentive schemes to see how it can encourage increased philanthropic giving.

What sort of tax incentives might encourage these big donors to give more, and what other forms of encouragement are there?

CURRENT TAX INCENTIVES

There are already generous tax incentives for charitable giving. Since 2009, the Government has allowed a deduction of 2.5 times the amount of qualifying donations made.

The deductions are not limited to donations of cash – they can include donations of shares, computers, artefacts, and land and buildings.

To benefit from the tax deductions, the donations must be made to the Community Chest or any approved Institution of a Public Character (IPC).

To facilitate philanthropy, the Government instituted a special scheme for grant-makers, which are organisations that give out grants to charitable causes. Grant-makers are an important addition to the local philanthropic scene and can be a significant source of support for smaller charities that may not have the capability to raise their own funds.

There are 32 grant-making organisations in Singapore. Donations made indirectly to IPCs through qualifying grant-making philanthropic organisations also qualify for the tax deduction of 2.5 times the donation amount.

There are also other schemes designed by the Government to promote Singapore as a philanthropy hub, such as an exemption on the income of the foreign account of a philanthropic purpose trust (administered by a trustee company in Singapore) and the not-for-profit organisation tax incentive administered by the Economic Development Board.

Other innovations include donor-advised funds, which offer donors the opportunity to move beyond passively making gifts, to being more active participants in guiding their causes.

Having donor-advised funds enables philanthropists to obtain immediate tax deductions when they give, , while retaining the flexibility to select specific causes later.

They can "give now" without worrying about fixing a particular charitable cause to support before doing so.

ENHANCING TAX DEDUCTIONS

One obvious way to encourage donors to give more is to raise the tax deduction level.

At present, every $1 donated will result in a tax deduction of $2.50.

At the current corporate and personal income tax rates of 17 per cent and 22 per cent respectively, every $1 donated would potentially result in a maximum tax saving of 42.5 cents for companies and 55 cents for individuals. If the tax deduction is increased to three times the amount of the donation, every $1 donated would potentially result in a maximum tax saving of 51 cents for companies and 66 cents for individuals.

If we view philanthropic giving as another way of funding social needs that would have to be provided by the Government in any case, then the reduction in tax collected from donors would be made up for by the savings in public spending because of the donations.

As Mr Wong recently stated, Singapore needs a combination of both models where wealthy individuals give back to society and help is given out by the Government.

However, it is important for the Government to be able to decide on the allocation of funds between the various worthy causes. It may be a good idea for enhanced tax deductions to be provided in a more refined manner.

Instead of deductions at three times the amount of qualifying donations across the board, perhaps this could be offered for donations to causes which need to be supported by a large amount of public funds, such as healthcare or eldercare.

Donations to other worthy causes would still benefit from tax deductions – staying at 2.5 times – but this would allow the Government to have a way to guide the allocation of donations between causes.

Another simple way in which tax incentives could be used to further encourage philanthropy is to allow unutilised tax deductions for donations to be carried forward for a longer period of time.

As well, charitable giving might be incentivised if donors could carry forward unused tax deductions for donations for a longer period – or even indefinitely – up from the current maximum of five years.

This is in contrast to the tax treatment of unutilised trade losses, which may be carried forward indefinitely.

Tax deductions could also be granted for some limited foreign charitable purposes. Now, they are granted only for supporting local causes.

Donations for foreign charitable purposes are not only excluded from the enhanced tax deduction schemes, but are also not tax deductible in Singapore at all.

While it is understandable that tax deductions should largely be reserved for charitable causes which benefit the community, if Singapore wishes to be a regional centre for philanthropy, IPCs could be given flexibility to channel a small amount of their donations to suitable foreign charitable purposes subject to pre-approval by the Commissioner of Charities, using a set of guidelines.

GOING BEYOND TAX SAVINGS

However, tax is only one of the factors which may affect charitable giving. There is already a strong ecosystem of governmental and non-governmental organisations supporting philanthropy in Singapore in a whole range of ways such as providing technical expertise, networks and thought leadership.

It is likely that there will be an increased emphasis on monitoring the impact of giving, something mentioned by Mr Wong. Donors are more likely to be driven by a desire to make a difference in the world rather than to maximise tax savings.

Creating a strong framework for reporting and monitoring the real-world impact of donations is likely to further encourage philanthropy.

Mr Wong's recent speeches have given much cause to be optimistic about governmental support to make Singapore a regional centre for philanthropy, a goal definitely within reach given the strong foundations which Singapore has built over the years.

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Temasek Trust chairman Ho Ching speaking at the Philanthropy Asia Summit held at Shangri-La Singapore on Sept 30. In her speech, she highlighted the importance of partnerships and collective action, and also said that over $300 million had been raised by a new alliance set up to drive partnerships in the philanthropic sector while addressing issues related to the planet, peace, people and progress. ST FILE PHOTO