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BUDGET 2008/2009
Time to rethink some taxes

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THIS is the time of the year when the Minister of Finance prepares the Budget for the next financial year. We ask the minister to consider five suggestions for Budget 2008/2009.

1. Benefits registration

IN RECENT years, the Government has offered a number of benefit schemes, including the Progress Package, and most recently, GST offsets. Under these schemes, citizens must register to obtain the benefits.

However, for unknown reasons, a considerable number of people did not register. At almost the end of last year, 87,000 Singaporeans, or 3.8 per cent of the 2.3 million who qualified for goods and services tax offsets, had not registered. With the minimum credit being $100, the unclaimed funds totalled $8.7 million or more.

Were these 87,000 people deliberately making a gift to the Treasury? Or had they overlooked or not heard about the registration and thus failed to collect their money?

Registration for benefits is an opt-in process. In any opt-in process, some people will fail to participate simply because of inertia, forgetfulness, or poor information. Which is why, of course, organ donations are legally stipulated to be an opt-out process.

To avoid any appearance of conflict in the structuring of the benefit process, we suggest that all unclaimed benefits be assigned to charity. Indeed, this 'default' would simplify the process for those Singaporeans who want to donate their benefits to charity. They simply need not register.

2. Estate duty

AT PRESENT, the estate duty system provides a $9 million exemption for housing and only $600,000 exemption for all other assets, including CPF balances. Many people have observed that the imbalance in the exemptions distorts investment choices towards real estate.

Indeed, in the 2006 Budget debate, Prime Minister Lee Hsien Loong acknowledged: 'This biases investment choices and results in very narrow coverage.' He said that the Government would revise estate duty by the next year.

However, last year, to much public disappointment, then Second Minister of Finance Tharman Shanmugaratnam postponed any action. He said that he would consider the rebalancing together with the decision on whether to have estate duty at all.

The imbalanced exemptions remain. Indeed, with the current real estate inflation, any distortion in favour of real estate investments is a policy error. The Government should not delay any further in correcting this mistake.

3. Taxation of petrol and diesel cars

AT PRESENT, the Government applies a strange mix of policies towards petrol vis-a-vis diesel cars. Its road tax on most diesel cars is six times higher than that on petrol cars.

Meanwhile, it levies a 44 cents-per-litre excise duty on petrol but no duty on diesel.

Very few Singaporeans own diesel-powered cars. In comparison, diesel cars are very common throughout Europe. Last October, one of us drove 300km in a diesel-powered car, using barely two-thirds of the tank of fuel. Against the backdrop of excessive greenhouse gas emissions, why does the Government's policy conflict with fuel-economy?

To better understand the appropriate policy towards petrol vis-a-vis diesel cars, we need to be clear about the public policy issues. One is congestion, which is the same whether the car is powered by petrol or diesel. The other is emissions - diesel-powered cars generally emit more particulate matter, but are more fuel-efficient.

Both congestion and emissions are directly related to usage. Congestion is addressed, in part, by electronic road pricing. To the extent that ERP does not do the job, an excise duty on fuel - petrol as well as diesel - could help.

Emissions definitely should be addressed through excise duty. Accordingly, the appropriate policy would be to levy excise duties on both petrol and diesel, with a higher (not lower) rate on diesel to reflect the higher emissions.

As for the road tax, it is a tax on car ownership rather than a charge for road usage. It would be more accurate to call it a car tax. The proper role for a car tax is to correct any other distortion not addressed by excise duty or ERP.

In this respect, the Government is doing the right thing. Euro IV diesel cars pollute less than older models. Accordingly, they are subject to a lower tax than older diesel cars.

Another factor is the impact of car size on wear and tear of the road surface and congestion. This would indicate a higher rate of car tax on larger vehicles.

4. ARF, COE, excise duty

WE HAVE mentioned the road tax and excise duty on fuel. Private car owners are subject to several other taxes - registration and additional registration fees, excise duties on car purchase, and certificate of entitlement (COE) charges.

Again, we need to be clear about the public policy issues. As already mentioned, the policy issues are congestion, emissions, and wear and tear of the roads. We have suggested earlier how these should be addressed.

There seems to be no policy reason for the panoply of taxes on car owners. If the principle is a tax on car ownership, then that should be made explicit and all these should be consolidated into a single tax.

If the principle is a tax on luxury consumption, then that should be made explicit and extended to all other luxuries, such as private swimming pools, jewellery and shark's fin.

5. Tax expenditure budgeting

EVERY year, the Ministry of Finance announces new tax incentives - for research and development, creative work, wealth management, commodities trading, logistics and so on.

In general, we much prefer a simple tax system with low rates over a more complicated one with higher rates but many exemptions. Tax incentives are intended to stimulate investment and employment. However, the only sure stimulus is to employment for accountants and lawyers.

We suggest that the Government keep track of the total impact of tax incentives by reporting 'tax expenditures' along with its other expenditures. Tax expenditures are the value of taxes forgone from incentives. With such transparency, the Government and Parliament would be much better able to scrutinise the cost-effectiveness of tax incentives as compared with grants and other policy instruments.

The United States and other OECD countries have adopted accounting for tax expenditures. Is this not a best practice that we should follow?

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