COLUMN-Singapore tax myths: David Cay Johnston

Fri, Aug 5 2011

The author is a Reuters columnist. The opinions expressed are his own.

By David Cay Johnston

SINGAPORE, Aug 5 (Reuters) - This tropical city-state of 5 million people stands out as a model of low taxes, economic freedom and private property rights, or so say such U.S. organizations as the libertarian Cato Institute and the Heritage Foundation, which want to cut American tax rates and public benefits.

The reality is quite different, for beyond the posted official tax rates lies a much less visible array of what economists call implicit taxes. Singapore does not have the kind of government openness that many Americans take for granted. Add the obvious taxes to the implicit ones and you get a high tax society, especially for affluent wage-earners with no capital income.

On the surface Singapore is a beautiful and well-run city with clean and smooth streets. Public toilets are as spotless as automated subway cars. Beggars are as hard to find as uniformed police, who rely on cameras to survey the streets. But even though Singapore is widely perceived as moving toward a more open society, old ways persist and many people still look around and then speak sotto voce about economic, legal and business matters.

"There are many things here that are known, but not spoken of" is a phrase, with variations, spoken often here to those who ask probing questions about the public purse.

IMPLICIT TAXES

The implicit taxes are the result of an advanced and sophisticated form of corporate socialism. In the United States public access to how tax dollars are spent declines with each new official function outsourced to contractors. In Singapore, there are disclosures, but the details of public finance remain mostly hidden behind official walls because under Singaporean law the public has no rights to such information.

Singapore's published tax rates are low, to be sure. Singapore's top personal income tax rate is just 20 percent, with the first S$20,000 exempt from tax and the next S$10,000 taxed at 2 percent. Little or no tax applies to capital incomes and earnings abroad.

Buy a car, though, and you will see your tax bill soar. A Toyota Camry runs more than S$100,000, equal to US$81,500, because the government taxes cars directly and imposes a second levy, a certificate of entitlement to own a vehicle. Drive during commute hours and automated tolls are imposed under the Electronic Road Pricing system, or ERP, which cynics say is an acronym for "everyday rob people."

As one tax lawyer explained: "The statutory tax is very low so if you make a typical income, say $60,000, you will pay less than $2,000 in income tax, less than 3 percent, but then you buy a car that you can keep for maybe 10 years and you pay $70,000 to the government and now your real tax over the 10 years is $9,000 each year, which is 15 percent of your income."

Modest apartments sell for S$400,000 to S$500,000 (US$325,000 to US$406,000), while nice ones sell for three or more times as much. Buy a second unit and sell within a year and the government imposes a 16 percent stamp duty on the entire transaction, not just any gain. The charge is intended to tamp down real estate speculation, but is tantamount to a real estate wealth tax.

LEAST CORRUPT

The government builds 85 percent of the housing here, giving it vast influence over housing prices. People who live in their apartments, or hold second ones for more than four years, enjoy tax-free gains when they sell.

The government provides a vast array of tax incentives, one-time tax rebates and other programs for local residents, promoting itself as working to increase incomes by 30 percent in the next 10 years, a sharp contrast to the United States where average income in 2009 fell to the 1997 level.

In the annual budget address, parliament was told the government's tax-and-spend policies were designed to "enable Singapore to be a first-rate developed society a decade from now."

The country is perceived as one of the least corrupt in the world, ranking in 2010 at the top with Denmark and New Zealand and just ahead of Finland and Sweden, according to Transparency International. That officials are not on the take goes partly to draconian criminal laws and partly to salaries. The president is paid a multimillion dollar salary and even bus drivers and customs officers make a comfortable wage.

One indicator of the size of government is the small share of the economy attributable to consumption. In America it is around 70 percent and in much of Asia 60 percent. In Singapore it is around 40 percent with government finance explaining much of the difference.

With a central bank and a tax regime accommodating to international business, Singapore has attracted enough financial companies and regional corporate offices to build a rapidly expanding forest of modern skyscrapers in the financial district. When the markets close in the afternoon, the streets and the underground walkways become a frothy torrent of white-collar workers rushing to their apartments, many financed by a government authority.

The office towers, their air-conditioned interiors as cool as San Francisco in September, loom beside a gigantic casino-hotel-shopping complex on the waterfront. Three wavy hotel towers rise from it, supporting an entertainment complex the size and shape of an ocean liner that seems to ride on waves of steel.

PROFITABLE MONOPOLIES

Equities analysts expect gamblers to lose more money in the two casinos here in 2012 than in all of Las Vegas, even though local residents must pay S$100 just to get in, a fee that supposedly discourages those who live on the margins.

Most of the money the casinos win is imported, especially from mainland Chinese players, a net flow of money into Singapore. The Singapore government promotes this as a benefit that also holds down taxes, but it also is a detriment to countries whose players leave their money in Singapore.

The state licenses the casinos, but it owns many other enterprises. Through its Temasek Holdings [TEM.UL] investment fund, the government owns Singapore Power [SINTT.UL], which distributes natural gas and electricity.

Temasek also owns MediaCorp Pte Ltd, which in turn owns Singapore broadcast, print and online outlets galore. Temasek also owns 54 percent of SingTel, as the Singapore Telecommunications Limited (STEL.SI: Quote, Profile, Research, Stock Buzz) phone company is known. It owns 55 percent of Singapore Airlines (SIAL.SI: Quote, Profile, Research, Stock Buzz). It owns large parts of the subway, plus taxi companies, as well as banks, financial services companies, engineering firms and other enterprises.

The trade-off is that many of these firms are profitable local monopolies whose profits help hold down income tax rates. But would competitive, independent companies charge less and deliver more?

COMPULSORY SAVINGS

The government also runs a compulsory savings system. Workers must set aside up to 20 percent of their pay with employers adding up to 16 percent, which is just additional wages put into the plan. However, people do not get a high degree of clarity in disclosure statements because the mandatory savings scheme is not just for retirement, but also for medical care and for the most part housing.

One academic economic analysis of the S$185.8 billion Central Provident Fund calculated that over 21 years workers got a real annual return of just 1.2 percent on their mandatory savings, lagging both growth in wages and the overall economy. Over a similar period, returns were estimated around 5.3 percent annually. When the fund earns more than it credits to worker accounts the net difference, the economists wrote, "is a recurrent annual tax on CPF wealth. It is both large and regressive."

Visit such public buildings as schools, and you'll find government enterprises listed as donors, though it is really the taxpayers' money funding these seemingly philanthropic contributions. So while individual accounts grow slowly, at least the extra earnings go to public benefits.

The government publishes annual reports with limited information about its investments. Two local intellectuals who have tried for years to fathom the finances said asking the government for details is a waste of time. "They simply won't tell you," said one, pleading not to be identified.

So the next time you hear Capitol Hill regulars telling you that Singapore is the way to go, ask yourself if you like the idea of government as omnipresent investor. Ask yourself about how much you like the idea of implicit taxes like those that feed the Singapore government. (Editing by Howard Goller) ($1 = S$1.23) (david.cay.johnston@thomsonreuters.com)