



Singapore's moves to hike the buyer's stamp duty for high-end properties and increase the rates of property taxes, especially for those in the good class bungalow range, remain the best way to increase wealth taxes, the writer argues. They also benefit Singapore in two ways. First, they come with little administrative burden because property purchases are established commercial transactions with an official paper. Second, progressive property taxes in a country with a brimming property market like Singapore generate a continuous and predictable government revenue stream. ST FILE PHOTO

# Most wealth taxes are irrational ideas

The rich can avoid tax by moving money, making many tax-the-rich schemes a fool's errand

**Ben Chester Cheong**

Each time Singapore's spending needs come up, somebody is bound to raise the idea of net wealth taxes to enrich public coffers.

Imposing a general wealth tax and extracting value from the assets owned by wealthy individuals may sound attractive in theory. Proponents argue it makes the rich pay more for necessary public services and narrows the inequality gap, tapping a sentiment popularised by French economist Thomas Piketty's book *Capital In The Twenty-First Century*, which shone the international spotlight on the shocking disparity of wealth in advanced economies.

But if wealth taxes are such a great idea, why did most of Europe ditch theirs over the past decade?

Twelve European countries had a wealth tax in 1900, yet Norway, Spain and Switzerland were the only remaining Organisation for Economic Cooperation and Development (OECD) countries with individual net wealth taxes as at 2020. Germany, Sweden, France and Denmark had previously implemented a wealth tax but have since abolished it given the high administrative costs and compliance burden on enterprises.

In slashing a three-decade wealth levy on everything but property assets in 2017, France sought to stem the exodus of bankers to London, after an estimated outflow of 60,000 millionaires since 2000, according to research group New World Wealth. Economist Eric Pichet estimated the outward flow of wealth cost the French government twice as much revenue as the total ultimately yielded by the tax.

The wealth tax had promoted capital flight, worsened tax avoidance and dimmed investments – all in return for less than 2 per cent of France's total receipts.

Wealth taxes have hence accounted for only a very small share of tax revenues in Europe, according to the OECD, ranging from 0.5 per cent in Spain to 3.9 per cent in Switzerland.

## THE PERSISTENT DEBATE OVER WEALTH TAXES

Yet, the wealth tax monster continues to rear its head during the Budget 2023 debates, given the growing demands on the Singapore Budget and the need

for more sources of revenues. Between financial year 2019 and financial year 2023, the Government spent approximately 18 per cent of gross domestic product, a figure that will rise to about 20 per cent by 2030, given our ageing population and rising healthcare costs.

But is a wealth tax the answer? Deputy Prime Minister and Finance Minister Lawrence Wong chose instead to levy higher taxes on property and luxury cars in Budget 2023. And in response to the Workers' Party's suggestion, DPM Wong took pains in his Budget round-up speech to explain the implementation challenges making a general wealth tax not only counter-productive, but also impossible to execute.

This nuance has long been recognised by researchers. For this reason, Lee Kuan Yew School of Public Policy academics, Professor Ramkishan S. Rajan and Ms Bhavya Gupta, who had suggested the idea of a wealth tax in a 2021 opinion piece for *The Straits Times*, had zoomed in on taxing immovable objects like luxury properties.

## CHALLENGES OF IDENTIFICATION AND ENFORCEMENT

The European experience should be a reminder that while making the rich pay for everything can sound politically popular, imposing an annual wealth tax on the rich will be near-impossible to execute fairly for two reasons.

First, for a net wealth tax to be enforced, wealth must be easily attributed to a physical taxpayer in an objective manner rather than rely on an honour-based self-declaration.

Publicly listed companies are required by the Singapore Exchange to declare the ownership of shares, making ownership of stock identifiable, measurable and verifiable. But many high-net-worth individuals hold their wealth in assets outside of publicly listed companies and through complex structures, complicating wealth assessment.

Research published by the *American Economic Review* in 2019 suggests the probability of concealing assets through the use of offshore shell companies rises sharply, continuously and significantly with wealth, with the top 0.01 per cent evading about a quarter of their tax liabilities through such means.

Ownership of financial instruments, such as currency notes, is also based on voluntary declarations and can be easily concealed from the tax authorities.

Offshore bank accounts, art and jewellery can be used to conceal wealth, an exercise made more complex by the rise in decentralised digital assets, such

as Bitcoin and non-fungible tokens. Valuing such assets without an active market will create greater administrative burden for tax authorities in determining the assets owned and their tax incidence.

Best efforts to tackle illicit tax evasion have been under way, with the Monetary Authority of Singapore imposing additional customer due diligence procedures on financial institutions, including the identification of ownership and control of complex structures in wealth management accounts. But these cannot fully eliminate new and creative strategies employed by private tax accountants to hide their clients' wealth.

A second problem is that wealth can be parked elsewhere and held indirectly through the establishment of family trusts and foundations.

Such trusts to manage wealth separate ownership interests in property into a legal title held by both trustees and beneficiaries, allowing the wealthy to distribute assets to family members. Trust income received by beneficiaries in a lower income tax bracket enjoys a lower tax liability.

Singapore had previously imposed surcharges for tax avoidance arrangements in the country and amended the Trustees Act in 2017 to enhance transparency of beneficial ownership and control of express trusts, but our laws do not have extra-judicial rights to regulate offshore trusts.

High-net-worth individuals do not need to remain in Singapore and can choose to move or emigrate to another place without a wealth tax.

Offshore tax abuses are so commonplace globally, they are estimated to cost the United States government over US\$100 billion (S\$135 billion) a year despite extensive rules and regulations to stem the bleed,

**Offshore bank accounts, art and jewellery can be used to conceal wealth, an exercise made more complex by the rise in decentralised digital assets, such as Bitcoin and non-fungible tokens. Valuing such assets without an active market will create greater administrative burden for tax authorities in determining the assets owned and their tax incidence.**

according to 2022 US congressional research.

## OTHER ASPECTS OF WEALTH TAXES – ESTATE, INHERITANCE AND CAPITAL GAINS TAXES

Given multiple difficulties with imposing a net wealth tax, many countries have raised revenue through transfer taxes, but even these can be easily circumvented. Singapore's previous estate duty regime, repealed in 2008, was largely ineffective in taxing the wealthy and the trusts held under their name, partially because lifetime gifts made more than five years before one's death were not subject to estate duty, which aggressive tax planning by the very wealthy can easily take advantage of.

An inheritance tax imposed only on death meets this same challenge. Assets can be transferred to a holding company or a lifetime trust prior to a person passing on. The rise of digital assets like cryptocurrency and the ability to share private keys with heirs also make chasing the money a fool's errand.

The money also seemed minuscule. During the 2008 Budget debates, then Finance Minister Tharman Shanmugaratnam explained that the estate duty regime, before its repeal, collected only \$75 million per year on average.

Still, steps taken by Singapore to establish our credentials as a reliable and credible wealth management hub should bolster our attractiveness to such funds, without needing to compete on the basis of low or no estate duty taxes.

With 700 family offices established here in 2021, a sevenfold jump from 2017, and a projected 54 per cent growth in asset allocations of such funds in Asia-Pacific over the next five years, the key lies in timing any introduction of such estate duties and pairing it with incentives for them to stay.

For example, these incentives can take the form of an entrepreneurship grant of a percentage of the estate duties paid, should these family offices then set up companies to do business in Singapore. Those who pay estate duty taxes can also be recognised in a government annual list. However, these measures alone may not incentivise people to pay estate taxes.

## REAL ESTATE TAXES

This discussion does not negate the lessons from the experiences of most countries, which demonstrate that wealth taxes on immovable assets remain the most effective and least administratively costly form of wealth taxes.

Recurrent taxes on real estate are the most common form of property taxation and the largest source of property tax revenues across the OECD countries, according to a 2021 OECD study.

Singapore's moves over these last two Budgets – to hike the buyer's stamp duty for high-end properties and increase the rates of property taxes, especially for those in the good class bungalow range – remain the best way to increase wealth taxes.

They also benefit Singapore in two ways. First, they come with little administrative burden because property purchases are established commercial transactions with an official paper. Second, progressive property taxes in a country with a brimming property market like Singapore generate a continuous and predictable government revenue stream.

## A LAST WORD OF CAUTION

Singapore should remain cautious regarding suggestions to implement a general wealth tax. The failures of other countries offer cautionary tales about a popular but unworkable proposal.

Even in the US, where a Billionaire Minimum Income Tax Act has been proposed by President Joe Biden to slap households with a total net wealth of over US\$100 million with a minimum effective tax rate of 20 per cent on owned stocks, bonds and real estate, tax experts have pointed to the enormity of this complex and administratively costly task to ensure multi-millionaires declare it all.

If someone should raise wealth taxes again, it's worth keeping in mind that Singapore's current tax system already includes features of a wealth tax on forms of wealth without facing the same enforcement challenges of identification, outflow and tax avoidance that plague most wealth taxes.

Progressive increases in property taxes and stamp duties, and higher taxes on luxury cars announced in Budgets 2022 and 2023, also mean that the affluent will contribute more in property and motor vehicle taxes.

Inheritance and estate duties could be options to further tax the rich in moving towards having those with more pay their fair share. But some careful calculations must be done, including whether these could adversely impact Singapore's ability to attract capital inflow vis-a-vis other countries without such taxes.

• Ben Chester Cheong is a lecturer of law at the School of Law at the Singapore University of Social Sciences and an of counsel in financial services (regulatory) practice at RHTLaw Asia LLP.