

STUDENTS' COPY

Data Response Question on PUBLIC FINANCE

TYS J1997 Question 1 – Singapore Taxation

SINGAPORE TAXES

The following are extracts from newspaper articles about taxation in Singapore.

Extract 1 © The Independent (London) 10th February 1993

The Singapore government yesterday announced plans to introduce an across-the-board 3% good and services tax from April 1 next year but said it did not need the money. It will be accompanied by a significant fall in corporate and personal income taxes.

Extract 2 © The Straits Times (Singapore) 28th May 1994

Prices rose moderately last month - up by only 0.5 of a percentage point over the previous month - contrary to general expectations that the introduction of the Goods and Services Tax (GST) would push them up by more than 3 per cent. Briefing the press on the figures, chief statistician Dr Paul Cheung said "People expected the April CPI to be March CPI plus 3 per cent. This is not true. The GST increase had very little impact on prices.

*CPI = Consumer Price Index

Extract 3 © The Straits Times 4th March 1995

Approximate Income Tax Payable by Personal Earning ... S\$						Max. Marginal Income Tax Rate (%)
	25 000	50 000	100 000	150 000	200 000	
Australia	2 800 (11%)	12 800 (26%)	36 800 (37%)	61 000 (41%)	85 200 (43%)	47
Indonesia	2 400 (10%)	7 800 (16%)	22 800 (23%)	37 800 (25%)	52 800 (26%)	30
Japan	Nil (0%)	950 (2%)	8 400 (8%)	22 400 (15%)	46 000 (23%)	50
Malaysia	1 200 (5%)	5 600 (11%)	18 900 (19%)	33 300 (22%)	47 600 (24%)	32
Singapore	Nil (0%)	1 600 (3%)	8 700 (9%)	19 000 (13%)	30 100 (15%)	30
Taiwan	250 (1%)	2 500 (5%)	11 200 (11%)	24 100 (16%)	39 100 (20%)	40
Thailand	1 300 (5%)	4 800 (10%)	17 800 (18%)	32 800 (22%)	47 800 (24%)	37

Source: Ernst and Young

ai) Using the data explain the view that Singapore has the least progressive income tax system between incomes of S\$25 000 and S\$200 00. [2]

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Data Response Question on PUBLIC FINANCE (with ans)

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ai) Using the data explain the view that Singapore has the least progressive income tax system between incomes of S\$25 000 and S\$200 00. [2]

Progressive income tax system is one which charges the higher income earners a higher tax as a percentage of their income.

The difference between the tax rates paid by taxpayers in the S\$200 000 category and the S\$25 000 category is the smallest at (15%). Also, the maximum MRT is one of the lowest.

(ii) Compare for Indonesia and Japan the marginal rate of taxation between incomes of S\$150 000 and S\$200 000. [3]

Indonesia : $(52800-37800)/50\ 000 = 30\%$

Japan: $(46\ 000-22400)/50\ 000 = 47.2\%$

Japan has a higher MRT than Indonesia.

b

(i) With the aid of a diagram, show the effect of the imposition of the Goods and Services Tax on the market for a particular product. [4]

SS curve shifts leftwards (pivotal shift since it is an ad valorem tax) leading to higher price and lower level of output. Price does not go up by the full amount of the tax unless demand is perfectly price inelastic or supply is perfectly price elastic.

(ii) Explain two possible reasons why the introduction of GST was not followed by an equivalent rise in the Consumer Price Index. [4]

The producers could have bore some part of the tax as demand is not perfectly price inelastic or supply is not perfectly price elastic. Show using diagram or refer to b(i).

The fall in corporate taxes could have cause an increase in SS and hence allowing the firms to be more willing to absorb some of the GST.

c

(i) How has the balance between direct and indirect taxes in Singapore been altered between 1993 and 1994? [1]

It has shifted from direct (personal income and corporate taxes) to indirect (GST).

(ii) Consider the effects, other than on the general price level, of Singapore's changing tax structure. [6]

A shift from direct to indirect may lead to the following:

- Less disincentive effects towards work
- More savings due to less disincentive to work and more disincentive to consume
- Economic growth as savings and investment are encouraged
- Greater income inequality as indirect tax system is regressive while direct tax system is progressive.
- Loss of consumer welfare as some tax burden is passed on to consumers
- Balance of payment disequilibrium (if resulting inflation is more serious than other countries and country's import expenditure rise while export revenue falls)