ESS Post Budget Panel Remarks

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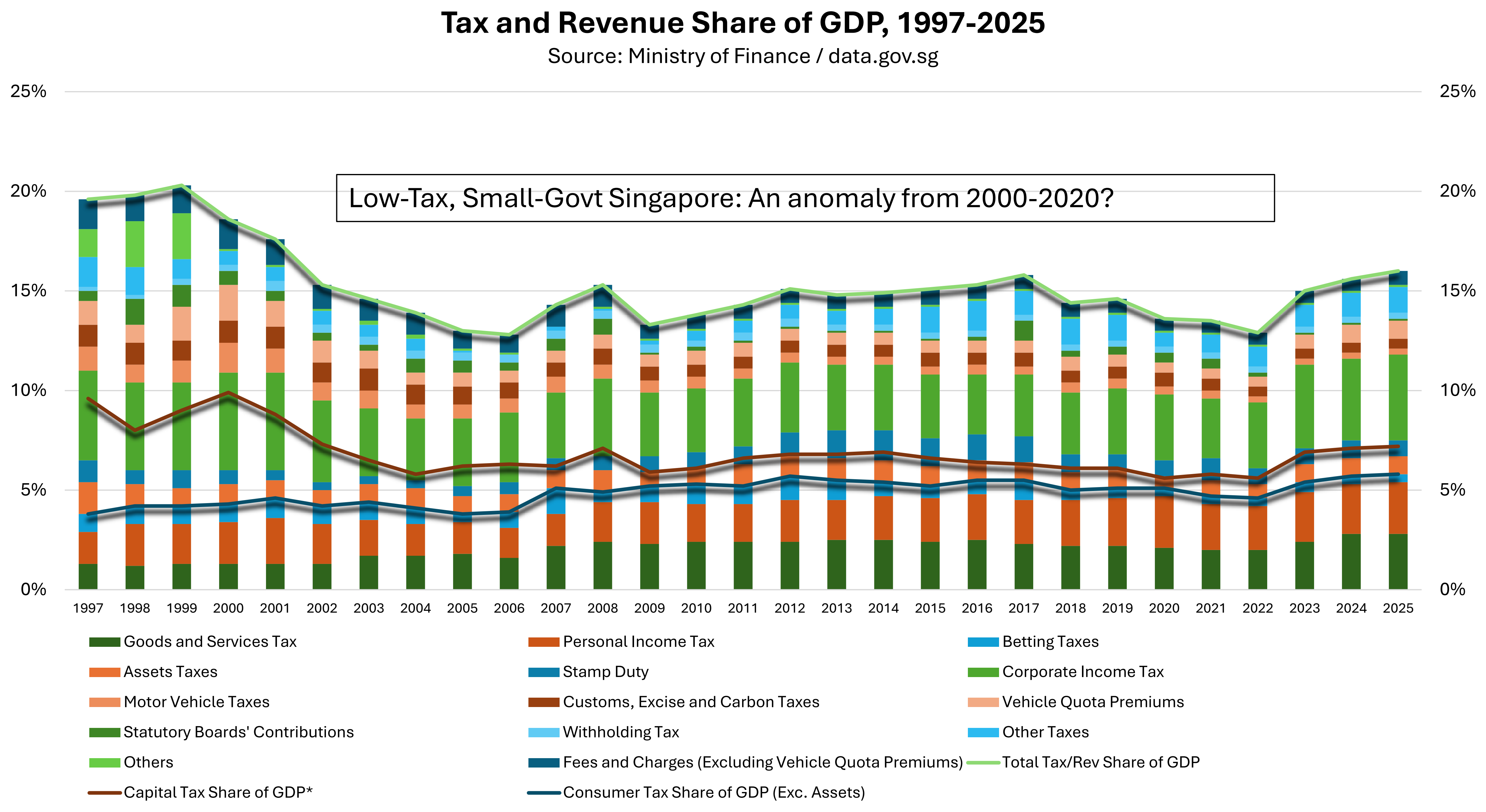
Outline

- I: Fiscal Headroom: Are we really small-tax, small-govt?
- II: Family Expenditures: Is going ‘free’ such a bad thing?
- III: Vouchers: For whom and why?

Uncertainty on Revenues, but Certainty on Expenditures?

"In 2023, the Ministry of Finance released an Occasional Paper showing that we expect to keep our fiscal position roughly balanced until 2030… There is still considerable uncertainty about how Government revenues will unfold over the coming years…

Meanwhile, we are certain that expenditure will continue to increase. Government spending has been rising steadily over the years from about 15% of GDP to about 18%. Based on historical trends, we can expect our spending to go up to 20% of GDP by around 2030. With growing global uncertainties, and the need to invest more in our workers, and better support our rapidly ageing population, there will be added pressure to raise spending – possibly at a pace that exceeds previous increases."


Tax and Revenue Share of GDP, 1997-2025
Source: Ministry of Finance / data.gov.sg
Low-Tax, Small-Govt Singapore: An anomaly from 2000-2020?
25%
20%
15%
10%
5%
0%
1997
1998
1999
2000
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2022
2023
2024
2025
Goods and Services Tax
Personal Income Tax
Betting Taxes
Assets Taxes
Stamp Duty
Corporate Income Tax
Motor Vehicle Taxes
Customs, Excise and Carbon Taxes
Vehicle Quota Premiums
Statutory Boards' Contributions
Withholding Tax
Other Taxes
Others
Fees and Charges (Excluding Vehicle Quota Premiums)
Total Tax/Rev Share of GDP
Capital Tax Share of GDP*
Consumer Tax Share of GDP (Exc. Assets)

I: Fiscal Headroom

- The narrative is Government spending is rising as a % of GDP to approach 20% by 2030+, and this may require substantive tax changes. Is this novel?
- In the late 1990s, Government revenue as a % of GDP hovered around 20% (albeit, with a high budget surplus).
- The Capital-related Tax share of GDP fell starting during the 2000s and has only recovered recently (perhaps not by design).
- The Consumer-related Tax share of GDP has risen slowly over time, largely caused by GST increases, but also by tax bracket creep in recent years (‘inflation dividend’).
- A broader perspective suggests that ‘low-tax/low-expenditure’ Singapore is actually anomalous and not a permanent feature of our system, and coincides with the opening up of the Singapore economy from the late 1990s onward to encourage high flows of skilled immigration and investment. Demographic trends also facilitated lower expenditures during this period (the 1960s – 1970s baby boom generation was prime working age).

I: Fiscal Headroom – Tax Rebalancing

- Going forward, there may be room to rebalance taxes further on the higher end of assets (as a proxy for wealth) and incomes in Singapore.
- The Capital-related share at present has high contributions from potentially volatile sources (Vehicle Quota Premiums; Stamp Duty, Corporate Income Tax); should this be rebalanced more towards ongoing asset taxes? (Govt. retreated, however, from residential property tax hikes when valuations spiked)
  - Would this also help rebalance household assets away from residential property?
- Consumer-related Taxes will likely continue to rise due to tax bracket creep, although the ‘inflation dividend’ may subside. Consumption taxes are still fairly low by OECD standards, but there is considerable political cost (on the other hand, nobody seems to have noticed the ‘inflation dividend’ from personal income tax!).
- When combined with the NIR contribution of 3-4% of GDP, returning to the era of “Medium Tax, Medium Government” may be quite manageable.

II: Family Expenditures

- Budget 2025 lowered fee caps for Anchor / Partner Operator Preschools, increased benefits for families with 3 or more children.
- But should we consider provision of basic childcare, preschool, and student care, an entitlement and public investment the same way that primary and secondary public education is?
- To be sure, out of pocket costs are already minimal for lower-income households. However, middle-income households often report feeling squeezed (although this may be due to their own decisions to purchase high-end preschool costing beyond subsidy limits).
- A large part of Govt. expenditures on families are also concentrated today on subsidising parental leave, which is regressive. Would middle income-households benefit more from eliminating pre-school education and childcare costs?
- I think policy has been heading in this direction. But could accelerating this shift help improve fertility in Singapore?

III: Vouchers: For Whom and Why?

- $600-$800 in SG60 vouchers and $500+$300 in CDC Vouchers announced, on top of ongoing (targeted) GST Vouchers.
- Broad-based redistribution! Everyone likes to get vouchers, but could the benefits be better targeted?
- The use of CDC vouchers (as opposed to cash) lies in their supposed multiplier effect on local business.
  - While MTI research has established that most CDC vouchers are spent locally, it is unclear to what extent this crowds out existing spending.
  - The effect of CDC vouchers on consumption, to my knowledge, has not been examined.
- Could this term's budget surplus (and monies spent on vouchers for higher income households) have been spent to instead create an endowment fund for permanent CDC vouchers to support lower income households?
- Targeting, say, the bottom 10% of households with a guaranteed $100 per month in CDC vouchers might cost $180M a year, which is fundable from a $6B endowment (at 3%).