Many caught offguard by move to up GST

BY ERIKA TAY & AARON LOW

YESTERDAY’S announce-ment of a goods and serv-ices tax (GST) hike to 7 per cent came as a surprise to most economists, MPs and political watchers, with some predicting that the public will not take kindly to the move.

While noting that this is a necessary move to raise revenue to pay for increasing social needs, they point-ed out that the lower-income group is likely to feel its impact the most.

The move came as a surprise to some predicting that the GST increase, since the full details of the offset package have not yet been revealed.

Tax expert Lam Kok Sheng, a director with KPMG, said the gradual move to cut direct taxes such as income and corporate taxes, and raise indirect taxes such as GST, is a glo-bal trend and an inevitable one.

“Once one major industrialized country cuts its rate, others seem compelled to do the same, in a process of inter-national tax competition that continues and intensifies over time,” said a recent KPMG report that studied 86 countries.

“Compensate for this loss of tax revenue, governments of developed countries have to rely more on indirect taxes,” explained Mr Lam.

Still, at 7 per cent, Singa-pore’s consumption tax rate is among the lowest in the world, he noted.

“At 5 per cent, it is on par with Japan’s rate. Seven per cent will bring it to the level of Thailand’s consumption tax,” said Mr Lam.

Despite global trends that favour a GST hike, MPs like Mr Ng Chee Meng (Hong Kah North GRC) were “caught offguard” by the move.

Mr Ng hopes the move will help to reduce the tax burden on Singaporeans, particularly the lower-income group.

Despite the move, Mr Ng said: “I urge that the Government will offer to the lower-income to offset the GST increase.

Mr Lam also noted that the move to up GST from 5 per cent to 7 per cent would be a necessary move to raise revenue to pay for increasing social needs, and that it is far too early to eval-u-ate the impact of the GST increase, since the full details of the offset package have not yet been revealed.

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MR EUGENE TAN, Singapore Management University’s law lecturer and political watcher