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SPEECH BY MR GOH CHOK TONG, MINISTER FOR TRADE AND INDUSTRY, AT THE OPENING OF THE 6TH INTERNATIONAL TAX CONFERENCE AT THE SHANGRI-LA HOTEL, ON MONDAY, FEBRUARY 4, 1980, AT 9.15 A.M.

We are indeed honoured that you have chosen to hold your 6th International Tax Conference in Singapore for a second time. Your third conference was held here in 1974 and to those of you who have been here before, I hope you will find the changes and development in Singapore interesting enough to justify your coming back. May I welcome you back as well as all other participants and guests who are here for the first time.

I am, however, constrained by your eminent presence to sally forth on a subject in which you are clearly superior. There is another constraint. With the Singapore Government Budget Statement due to be delivered only a month from now, any provocative statement on taxes will unwisely take the wind out of the Budget sail. Thus, I find it prudent on my part to limit myself this morning to a brief historical description of Singapore's tax system, concluding with some remarks on the lessons that can be abstracted from our experience.

Traditionally, Singapore's economy has been dependent on entrepot trade. Industries were limited to those which could take advantage of Singapore's geographical location, such as processing industries of commodities produced in the region. The dependence on entrepot trade required the pursuit of a free port policy. This greatly narrowed the scope for raising public revenue. Unlike many countries, Singapore could not depend on extensive import and export duties. Income tax was considered undesirable and impractical because of the certainty of evasion, but the Colonial Government probably also had little incentive to tax their own wealthier and more influential expatriate population. Thus, before World War II, the main source of revenue was a tax on the consumption of liquors, pork and fish, gaming tables and pawnbrokers' shop, and a bizarre tax on opium consumption. Opium farms were created and the widespread addiction of the local population to opium provided the British Administration with an easy source of

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revenue. Today, the tax on all these items has been removed except for liquors on which there is a customs revenue duty. Opium consumption, of course, is illegal, and drug addiction is a tax on our resources and not the other way round.

War tax, which was a form of tax on income, was introduced for the first time in 1917 as a temporary expedience to provide funds for the war effort. An attempt was made to make it a permanent tax after the war, but it failed because of strong opposition. During the last year of the operation of the tax in 1922, $3.9 million was collected constituting about 10 per cent of the total government revenue. In 1941, tax on income was reintroduced to meet the war commitments but before much revenue could be collected, Singapore fell to the invading Japanese forces.

After the Second World War, huge sums were required to reconstruct Singapore. The need to explore new sources of revenue became even more acute when the smoking of opium was prohibited following public and social pressures. It was not without vocal resistance that tax on income was legislated in 1947. Since then, income tax has assumed prominence, and today, it is the mainstay of government revenue contributing $1.28 billion, or 35 per cent of government revenue.

Other taxes, although introduced earlier, were not that eventful, or as bizarre as the opium tax. Estate duty was introduced in 1885, and stamp duty, levied on various kinds of commercial and local documents, in 1896. Property tax, which is a tax on the annual value of real property, was levied only in 1960. Prior to that, the City Council and the Rural Board levied local assessments on rates.

During the Sixties, Singapore embarked on planned industrialization to solve the main economic problems of the day - slow economic growth and high unemployment. Industrialization was spearheaded by import-substitution industries, and protective duties were introduced. But it did not take long for Singapore to realise that its future lay in export-oriented industries and not inward-looking domestic industries. Protective duties ceased to be introduced for new industries, and today, the question is when and not whether to remove the vestiges of protective duties introduced in the early days to induce industries to be set up.

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In the Seventies, Singapore strove to be a financial centre. Tax measures were used to facilitate this. In 1969, legislation was passed to exempt from tax interest derived on deposits with banks by non-residents. In 1973, the tax for certain offshore income derived by Asian Currency Units of financial institutions was reduced to 10 per cent. The concession was subsequently extended to cover other offshore income such as income derived from financing or re-financing of offshore trade transactions and foreign exchange transactions in currencies other than Singapore dollars with persons outside Singapore.

Singapore's Income Tax Act is basically simple. This simplicity has been maintained over the years despite amendments made from time to time. The amendments were necessitated by economic and social considerations.

Tax concessions, however, are contained in a separate legislation. The Pioneer Industries (Relief from Income Tax) Ordinance was introduced in 1959 to provide tax holidays of up to five years to pioneer enterprises and tax concessions to firms for income attributable to expansion in capital investments. In 1967, the Economic Expansion Incentives (Relief from Income Tax) Act was passed to replace the earlier legislation and to consolidate the laws. The Act will continue to be the framework upon which new tax incentives will be considered.

In the field of property tax, incentive was also employed to stimulate and assist private participation in the re-development of the urban area. There was a multiplicity of property tax rates, but the base rate from which reductions are given was 36 per cent. For approved projects in the urban area, the rate was reduced from 36 per cent to 12 per cent for a period of 20 years. This incentive was also extended to developments in Sentosa Island, our tourist resort island. The present multiplicity of rates, however, will be standardized at a single rate of 23 per cent by 1983. The objective of a lower standard rate is to achieve a steady growth of the property sector and an improvement in the built-up environment, particularly in the urban area.

The development of Singapore's tax system has been closely tied to the economic and social policies of Singapore. In the last two decades especially, the tax system has been used to promote economic

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growth, in particular, the growth of the manufacturing and financial sectors. This, in turn, has led to a larger base for income tax and taxes on property and payroll. Consequently, these taxes registered substantial increases and they have now supplanted import and excise duties as the more important revenue items. This leads us to the first theorem on taxes and that is "Less is More". The mathematical expression of this is that 40 per cent of zero is zero, 40 per cent being the Singapore income tax rate on corporation profits. Thus, conditions must be created for investments to take place, and for these investments to succeed.

As Singapore now enters its second stage of industrial development with emphasis on higher technology industries, tax incentives will play an important role in attracting investment and transfer of technological knowhow. But more important than the tax system is the political and economic climate for investment. There must be political stability to ensure the security of investments. There must be discipline amongst workers and management and affable industrial relations. The private sector must be given maximum leeway to exercise its ingenuity, innovativeness and risk-taking capability. If these basic political and economic parameters are present, less tax in an expanding economy will lead to more revenue.

Work and investments are ingredients vital to Singapore's continued growth and prosperity. The income tax structure must never discourage this.

Thus, taxes must descend to the minimum level of government expenditure consistent with good administration and not expenditure rising to the maximum taxes possible. This, I offer as the second principle of taxation. There must therefore be periodical reviews of the entire gamut of taxes. Taxes which have outlived their original objectives should be scrapped even though they are convenient sources of revenue. Personal income tax rates must be periodically revised to take into account the pernicious effect of inflation. An overtaxed society which consistently yields more revenue than the expenditure required could lead to inefficient uses of public funds.

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Taxes are never popular, particularly, personal income tax. In levying them, it is worth our remembering the third dictum: The more heavily a person is supposed to be taxed, the greater his incentive to escape being taxed. And if he thinks he can cheat safely, he probably will. There must, therefore, be adequate anti-avoidance and anti-evasion provisions in the Tax Act, and an effective machinery to back up these provisions. It is accepted that tax avoidance is within the law. However, artificial ways of transacting business such as the creation of "shell" companies to avoid paying tax altogether must be discouraged. Sometimes such tax avoidance manipulations slip into the area of tax avasion. Thus, the process of preventing serious loss of revenue will continue and be intensified, if necessary. But, of course, we should not tax a person too heavily.

As a government must spread the benefits of its expenditure amongst the population, the tax net must cover as many people as possible, but consistent with their ability to pay. The more taxpayers there are, the lower the tax per capita. Our fourth principle of taxation is: spread benefits and taxes amongst the population. Equity requires taxes to be levied for the benefit of the taxed.

And lastly, let me quote you the eternity law: Nothing is certain except death and taxes.