Tax Gap: Causes & Solutions

A Differentiated Response

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Developmental Interdependencies

1. Economic Imperatives
2. Fiscal Policy
3. Growth
4. Developmental Outcomes
Key Drivers of Economic Imperatives

**POLITICAL**: Political Will & Stability

**LEGAL**: Strengthen Rule of Law; Weed out Corruption

**ECONOMIC**: Income Stagnation; Reliance on MNC & External Aid; Trade & Investment Competition

**FISCAL**: Replace Distortive Taxes; Administrative Capacity & Governance; Enforcement; Tax Gaps: TP & Evasion
Fiscal Sustainability

**FISCAL POLICY:** Persistent Budget Deficits; High Net Public Debts

**CHALLENGES:** Fiscal Hostage; Reliance on Small Tax Base
High Tax Expenditures
Costly to Collect; Easy to Evade
Vast Size of Informal Sector
Economic Structure impedes Tax Type Substitution

Spending Leakage and Wastage
Ecology of Growth

**NO KILLER FORMULA!**

**CAPITAL FORMATION**: Both FDI & Domestic Resources

Host Country Determinants

Preconditions for Exploitation of FDI

Skilled Labour, Strong IPR,

Reduce Cost: Red Tape and Deadweight Loss

Tax Incentives – Design & Minimise Externalities

**BENEFITS**: Technology Transfer

Upgrade of skills

Innovation
Strong Developmental Imperatives

**EDUCATION & TRAINING**: Improve Labour Productivity

**ECONOMICS**: Leverage Comparative Advantage; Support Sectors with High Competitive Edge; Boost Value of Output; New Sources of Growth

**FISCAL**: Balanced Budgets; Pick the Winners

**SOCIAL**: Increase Infrastructural Investments

Strengthen Income Redistribution
LOGJAM

1. Economic Imperatives
   - Weak

2. Fiscal Policy
   - Unsustainable

3. Growth
   - Stagnation

4. Developmental Outcomes
   - Poor
A Case for Domestic Resource Mobilization

• Boost DRM to reduce External Dependencies
• **Mischief:**
  • Significant “Hard-to-tax” informal sectors
  • Weak tax administration and governance
  • Lack International Competitiveness
• **Remedy:**
  • IMF, OECD and experts: No one-size solution
  • Some Prescriptions are Validated: Frankel, Chile Sg
Singapore Corporate Tax Rate & Revenue: 1949 - 2012

Sources: IRD and IRAS Annual Reports
Change in Tax Revenue Profile

FY1993/4 Tax Revenue
- Corporate income tax: 42.97
- Personal income tax: 23.97
- Others: 33.06

FY2009/10 Tax Revenue
- Corporate income tax: 32%
- Personal income tax: 21%
- GST: 23%
- Others: 24%

Source: Annual Reports, IRAS
Measures to Reduce Income Inequality

Gini coefficient

Source: Department of Statistics, Singapore
Increasing Redistributive Demands

Special Transfers and Financial Transfers

Source: Annual Budgets, Ministry of Finance
Sustainable Growth, Smart Growth and Inclusive Growth

- Europe 2020
- **Sustainable Growth**: Singapore 3rd in WCY 2011. Competition, not protection
- **Smart Growth** – Innovation
- 400% deduction for R & D, HR training, Automation, IP creation, Design Projects
- **Inclusive Growth**: Tertiary Education (30% in 2015)
- Important young talents
Restore Fiscal Vitality to Foster Growth

- Unprecedented fiscal imprudence & financial imbalances limit policy options on divergent ills
- **GOAL**: Low hanging fruit: Tax Gap Reduction
- Rational Behaviour: Maximise Utility
- **STRATEGY**: Differentiated Response to Correct Informational Asymmetry
- **ACTION**: Rectify, Resolve and Compromise
- Taxpayer, Third Party, Insider, International Cooperation
Locomotive of an Ascendant State

1. **Sound Fiscal Policy**
2. **Strong Development Imperatives**
3. **Sustained Growth**
4. **Sharing Fruits of Growth**
5. **Progress and Prosperity**

Thank You