

Tax Gap: Causes & Solutions

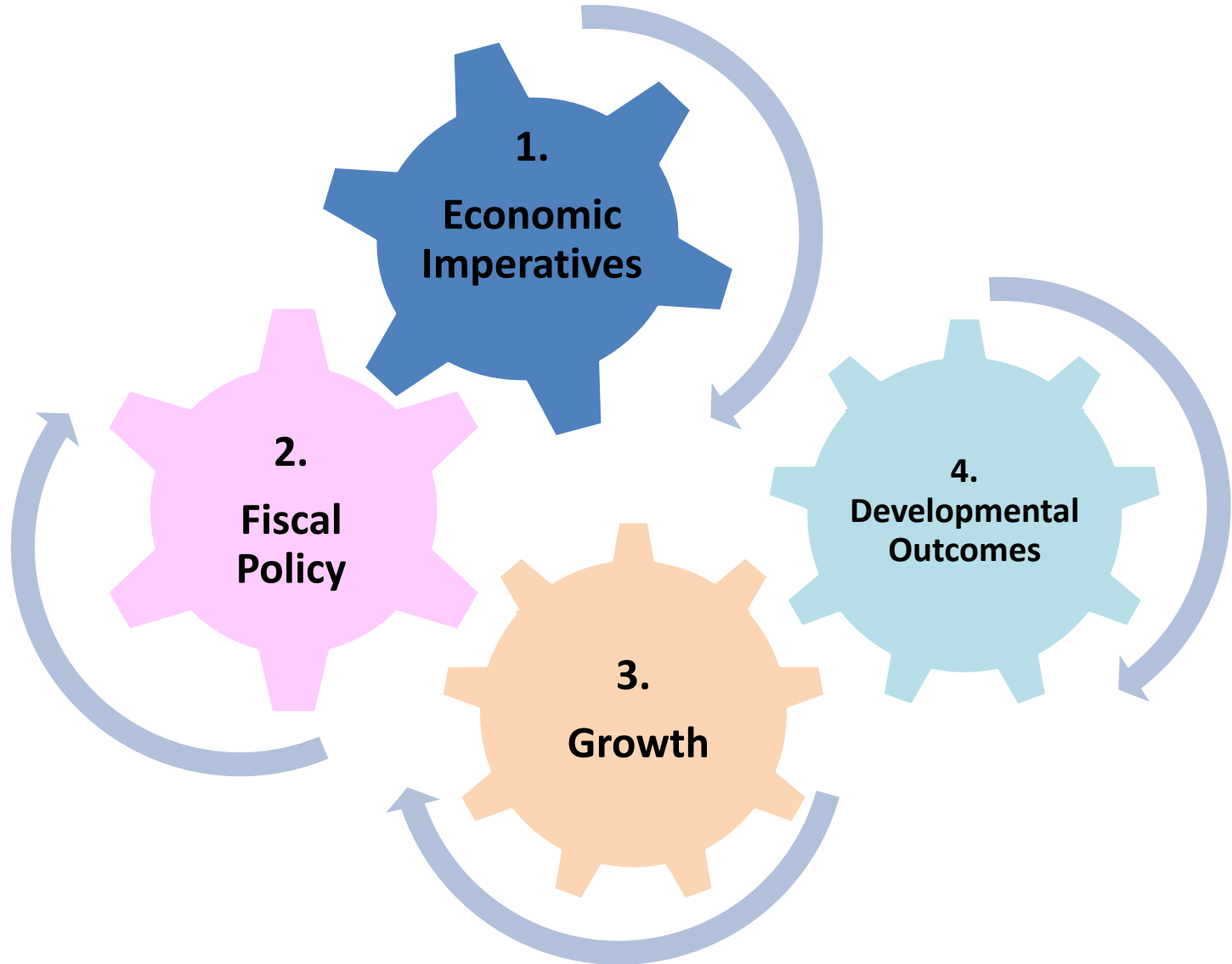
A Differentiated Response

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Developmental Interdependencies



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

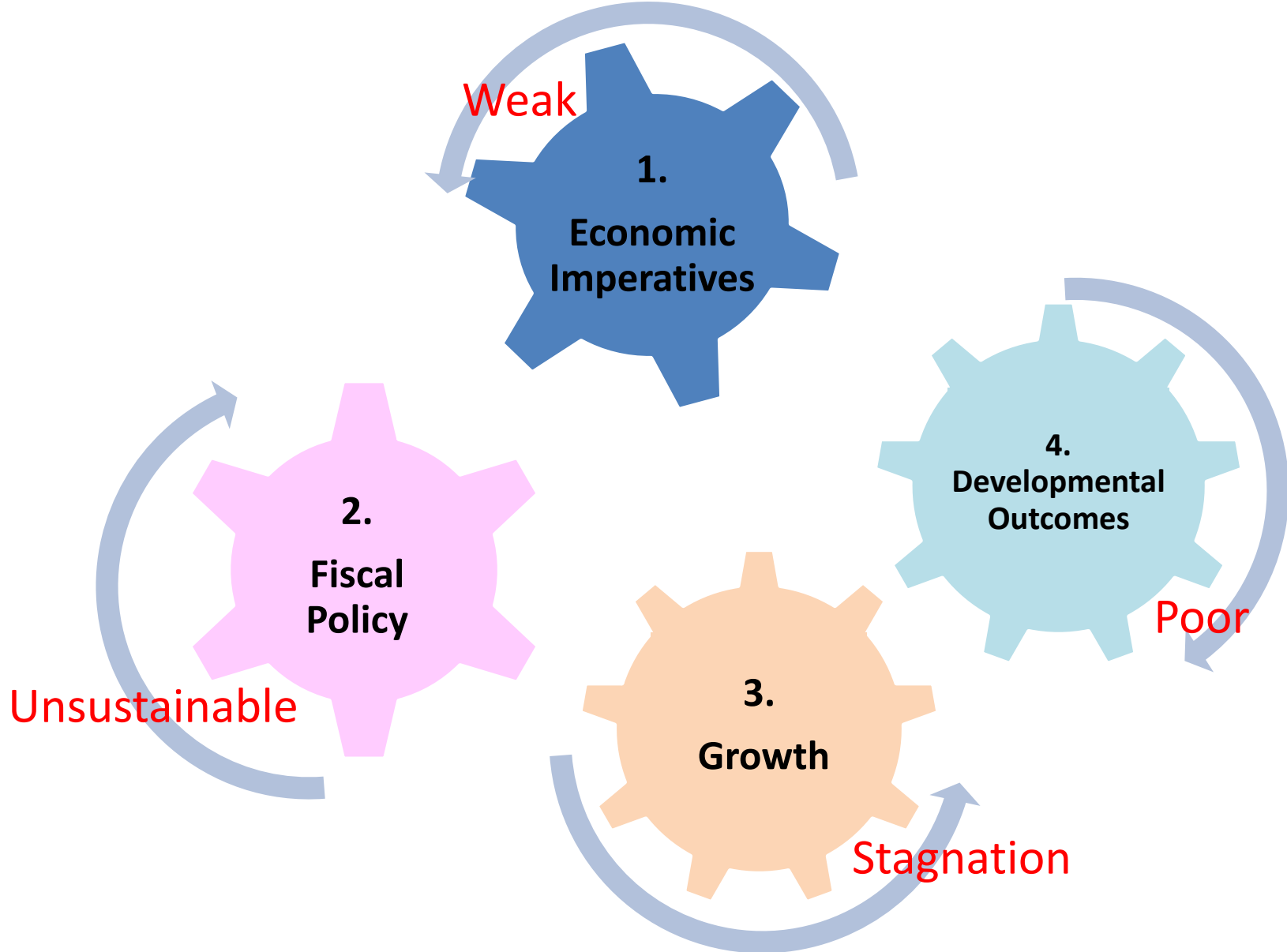
EDUCATION & TRAINING: Improve Labour
Productivity

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

FISCAL: Balanced Budgets; Pick the Winners
Current Spending < Enduring Future Benefits

SOCIAL: Increase Infrastructural Investments
Strengthen Income Redistribution

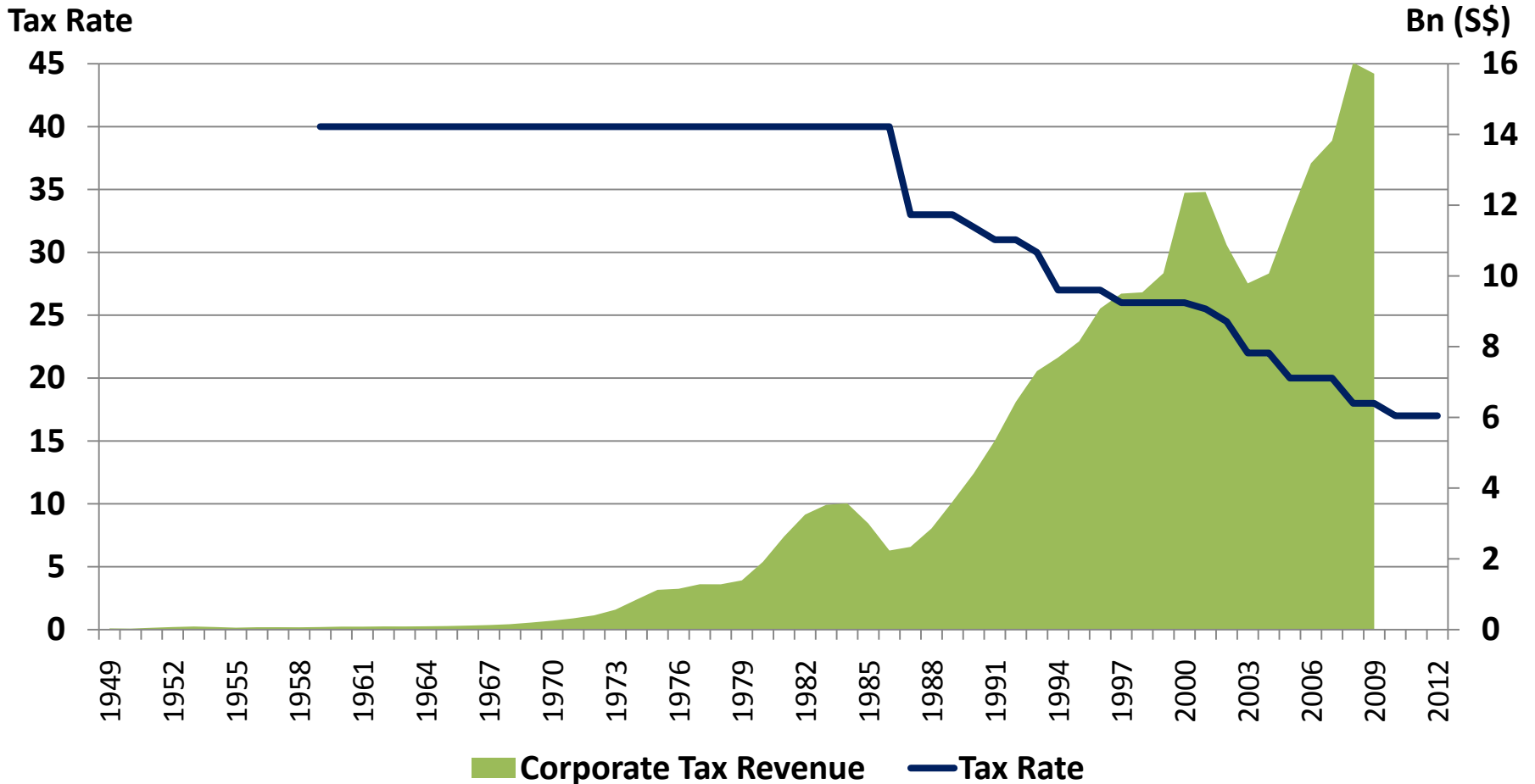
LOGJAM



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

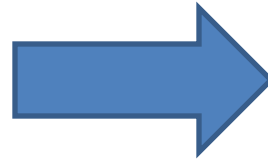
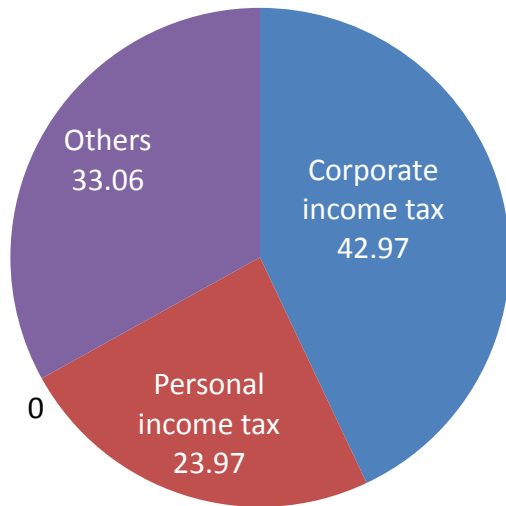
Singapore Corporate Tax Rate & Revenue: 1949 - 2012



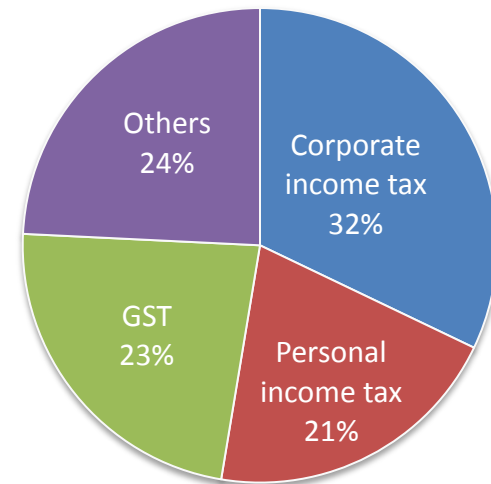
Sources: IRD and IRAS Annual Reports

Change in Tax Revenue Profile

FY1993/4 Tax Revenue



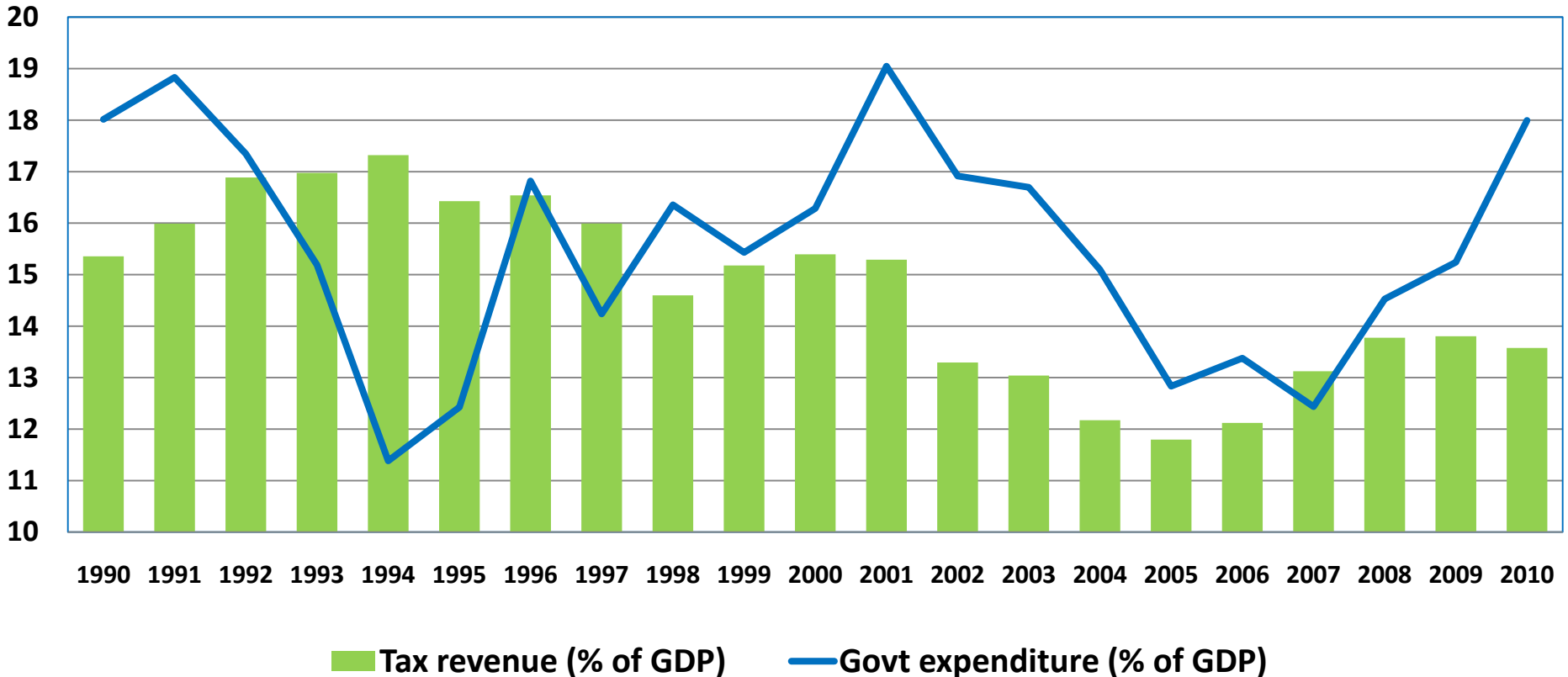
FY2009/10 Tax Revenue



Source: Annual Reports, IRAS

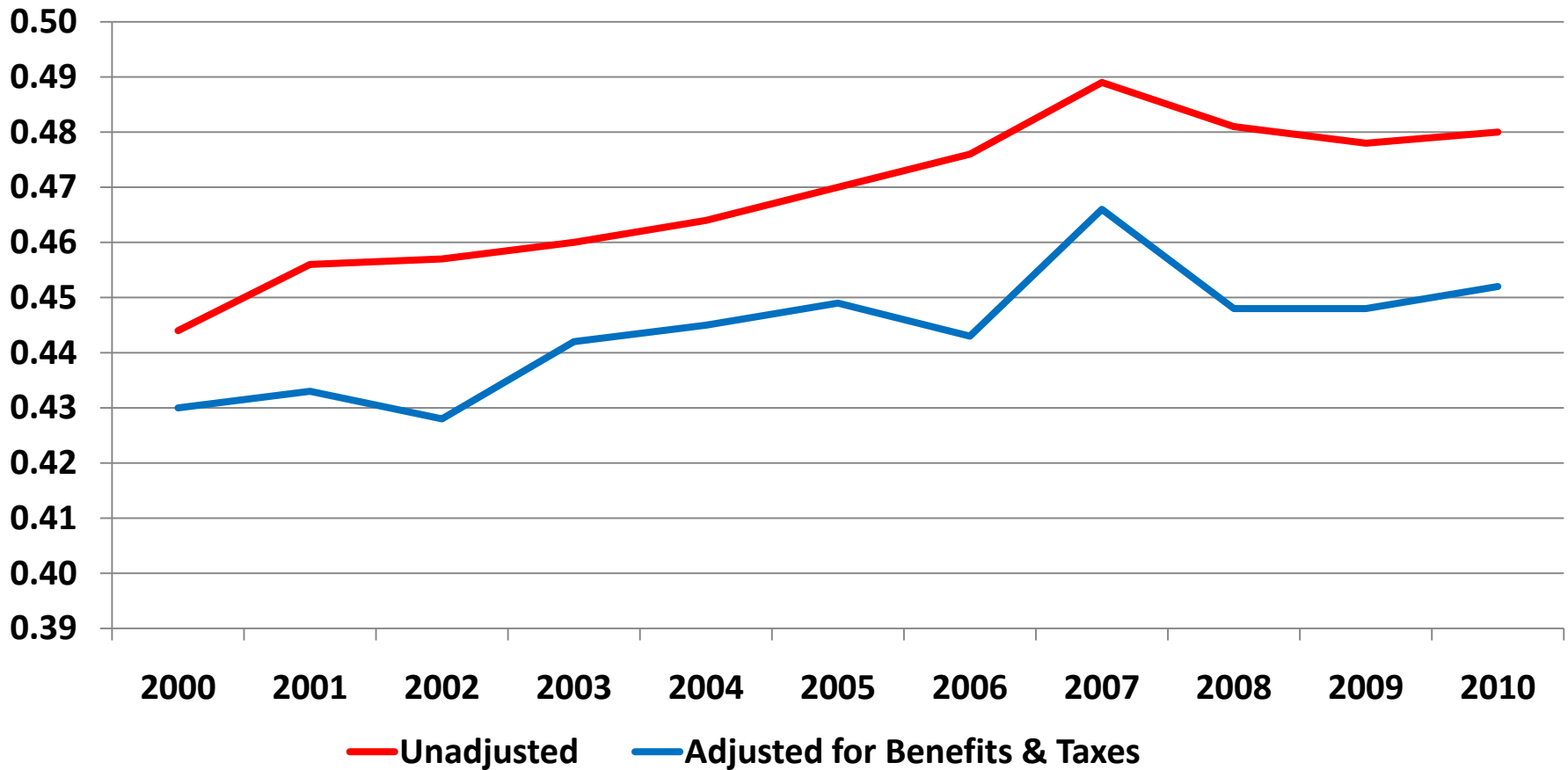
Funding Gap

Tax Revenue & Govt Expenditure as % of GDP



Measures to Reduce Income Inequality

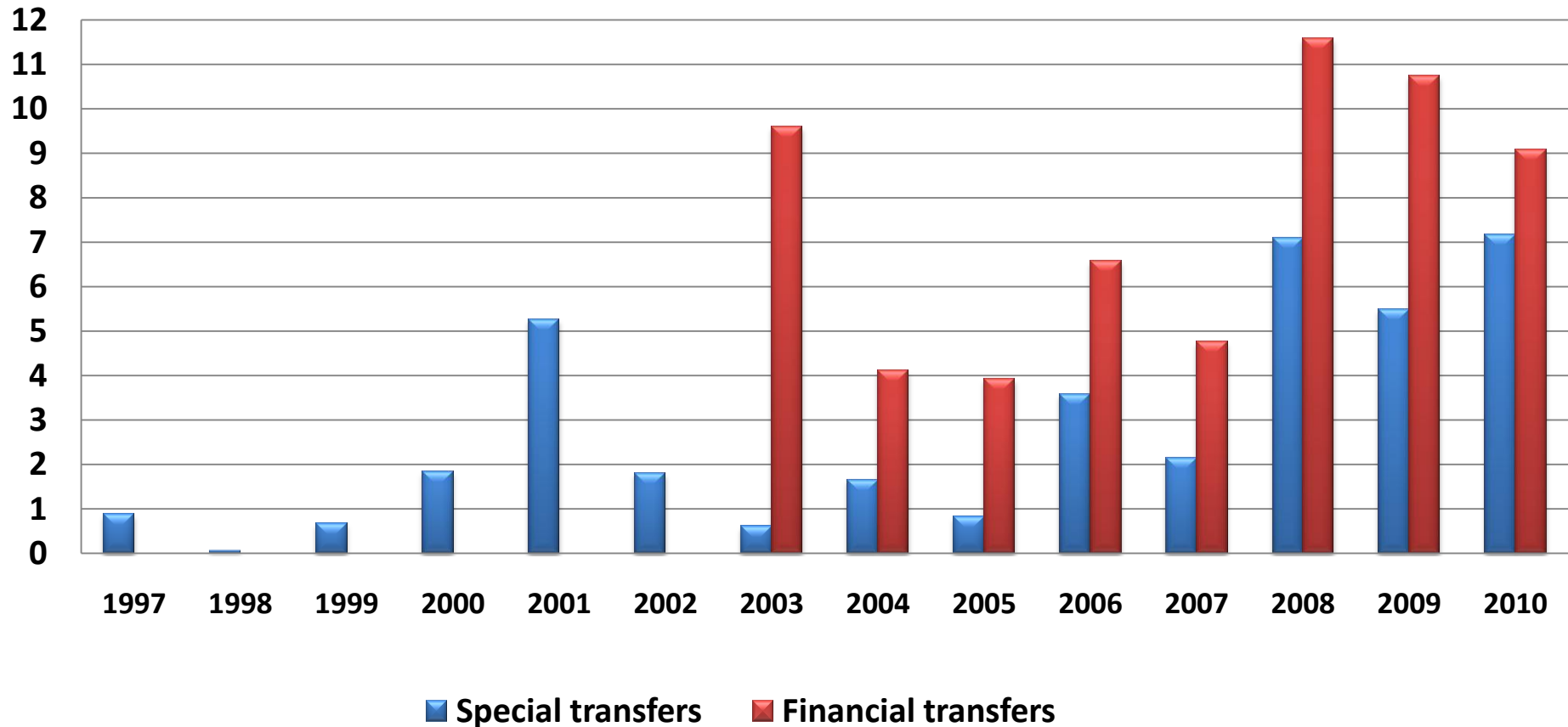
Gini coefficient



Increasing Redistributive Demands

Special Transfers and Financial Transfers

Bn S\$



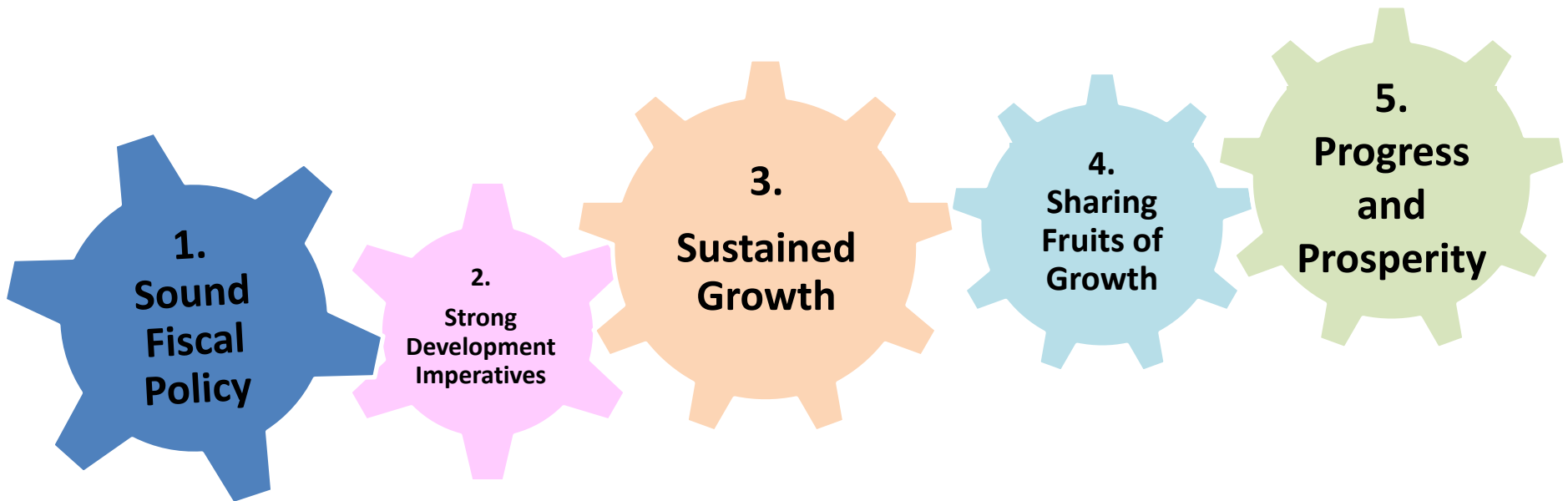
Sustainable Growth, Smart Growth and Inclusive Growth

- 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



Thank You