

**HELPING SINGAPOREANS COPE WITH THE GST**

**Questions & Answers**

**Q1 Why is there a need to increase the GST rate?**

A1 We have to reduce our corporate and personal income tax rates to attract new investments and help businesses do well. There will then be more jobs and good jobs for Singaporeans. The cut in income taxes means less money for spending on schools, hospitals, public housing, and so on, unless the government can raise revenue in some other way. This is why we need to raise the GST rate from 3% to 5%.

**Q2 Why can't the government accept the loss in revenue from the cuts in direct taxes and not raise the GST rate?**

A2 If we only cut direct taxes without raising GST, the budget will be in deficit all the time. This will be dangerous for Singapore. The Singapore dollar will go down, inflation will go up, things will be more expensive and the value of your savings (including CPF savings) will drop.

**Q3 Why can't the government use reserves to fund the cuts in direct taxes instead of raising the GST rates?**

A3 The government is prepared to use the reserves in special situations. For example, the two off-budget packages last year resulted in a budget deficit which has to be paid for with reserves earned in the good years. This year the government also expects a budget deficit. But we must not keep having a budget deficit every year. We have to live within our means. Singapore has no resources like oil, timber or gold. The reserves are our lifeline. We cannot keep using it up.

**Q4 What will be the gain in revenue to government from the increase in the GST rate?**

A4 The increase is estimated at \$1.3 billion per year.

## MINISTRY OF FINANCE

**Q5 Will the increase in GST lead to increase in prices? Will this drive people to shop in Johor Baru?**

A5 When the 3% GST was introduced in 1994, inflation was hardly noticeable. This time the increase is only 2%. So we expect an even smaller effect on prices overall.

**Q6 Will the increase in GST rate lead to reduced consumption and domestic demand, and hence, slow down the recovery of the economy? How will this affect businesses?**

A6 The government is giving a generous offset package to help Singaporeans adjust to the new tax rates. For all lower income households and most other families, the package will give them more than 5 years' worth of the additional tax they have to pay. People will not have to spend less because of the increase in GST.

The income tax cuts will lead to more economic growth and jobs. As people earn more, they will have more money to spend in the coming years.

**Q7 Won't the GST hurt small firms compared to the large ones?**

A7 GST is a tax paid by the buyers. Both large firms and small firms pass on the GST to their customers through their prices. Small firms with turnover less than \$1 million need not register for GST. Like large firms, they have to pay GST on their supplies. But the small firms do not have to charge their customers GST on their own costs. This means that small firms can charge a lower price than large firms, or they can charge the same price but make a larger profit.

**Q8 Will companies or retailers make use of the GST increase to raise prices and increase profits? / How is the government guarding against profiteering and inflation arising from the increase in GST?**

A8 The government is setting up a Committee on Profiteering and Inflation. It will be chaired by Mr Chan Soo Sen, Minister of State in the Prime Minister's Office. The Committee will look into any complaints of profiteering or unjustified price increases.

## MINISTRY OF FINANCE

### **Q9 Why can't we exempt essential products from GST, like other countries which have VAT?**

**A9** Exempting essential items from GST is not the best way to help the poorer Singaporeans.

There can be a lot of argument on what items are essential and what are not. For example, some people may say that rice is essential. Others may say that only the cheapest rice is essential. They will say fragrant rice, which is more expensive, is not essential. Another example: Many people will say fish is essential. But some will say raw fish in Japanese food is definitely not essential. It will all be very complicated. This has been the experience of many countries which exempt essential products.

Exempting essential items is not a good idea overall. Higher-income households spend more on essential items than lower-income households. Exempting essential items means the higher-income households will benefit more. Because the total GST collection will be lower, the overall GST rate will have to be higher.

It is much better to make very few exceptions for GST, and then specially help the lower-income groups. This was done when GST began in 1994. It was very successful.

The government is giving a generous offset package to all Singaporeans. For all lower income households and most other families, the package will give them more than 5 years' worth of the additional tax they have to pay.

### **Q10 Won't the cut in income taxes and increase in GST benefit the rich at the expense of the poor? / The GST is a regressive tax. Won't increasing the rate worsen this problem?**

**A10** We must cut the corporate and personal income tax rates to grow the economy and create jobs. Everyone will benefit with more and better jobs. This is the best way to help lower-income Singaporeans improve their lives.

The cut in income taxes means less money for spending on schools, hospitals, public housing, and so on, unless the government can raise revenue in some other way. This is why we need to raise the GST rate from 3% to 5%. At the same time the government has worked out an offset package to help Singaporeans adjust to the tax changes.

## **MINISTRY OF FINANCE**

In working out the amounts, the government is making sure that for all lower income households and most other families, the package will give them more than 5 years' worth of the additional tax they have to pay.

### **Q11 What are the items in the offset package?**

A11 The offset package includes the following:

- (a) Economic Restructuring Shares for all adult Singaporeans;
- (b) Rental rebates for HDB flats;
- (c) Rebates for HDB Service and Conservancy Charges (S&CC);
- (d) Additional subsidy to Town Councils to offset GST payable on S&CC;
- (e) Additional Subsidy to cover all the GST payable on subsidised healthcare services in the restructured hospitals and polyclinics;
- (f) Additional Subsidy for public education to cover all the GST payable;
- (g) Increase in Public Assistance for the destitute;
- (h) Increase in Singapore Allowance for pensioners; and
- (i) Citizens' Consultative Committee (CCC) Assistance Scheme to help households with monthly income less than \$3,600.

### **Q12 How is the Government assisting the poor and pensioners?**

A12 The Public Assistance Allowance and the Singapore Allowance will be revised. This will help the destitute and pensioners.

### **Q13 What about others who need extra help? What is the Citizens' Consultative Committee (CCC) Assistance Scheme?**

A13 The government is giving the CCCs \$3m per year for five years to run the CCC Assistance Scheme. The scheme is to help lower-income families. Any household with a monthly income less than \$3,600 can apply to their CCC for assistance, if their package of S&CC rebates, rental rebates, and ERS shares is less than the extra tax they have to pay for 5 years. If the CCC confirms that the household's total offset package is less than their extra tax burden, the CCC will top up the difference.