TAX REFORM IN SINGAPORE

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ABSTRACT

Globalization has forced many governments to change their economic policies, including tax policies, in the recent years. It has had an even greater impact on Singapore's economy due to the high degree of its openness with respect to trade and investment. In this context, Singapore undertook a major restructuring of its tax system in the early 1990s. The introduction of a modern value added tax system (goods and services tax) was part of the overall tax reform package. This paper examines how Singapore has modified its tax system to be consistent with the changes in the Singaporean economy over time and is to put itself in step with current trends in taxation. It also analyzes in detail the principal measures that the Singapore government and its tax administration took to ensure a smooth implementation of the new goods and services tax.

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Section I: The Fiscal Scene

1.1 The Fiscal System

Using any normal criterion for comparison, Singapore has a sound fiscal system. The government's policy aims (as the finance minister in his 1996 budget statement announced) "to provide a stable and conducive environment for the private sector to thrive. Our target is to contain expenditure within operating revenue and run a modest budget surplus over the long run, so that the public sector does not drain resources from the economy."[1]

1.1.1 Trends and composition of public expenditure

The trend and composition of public expenditure may be seen in Appendix Table 2. The total public expenditure increased from Singapore Dollar (S$) 11.3 billion in 1991 to S$ 15.6 billion in 1995, at an average annual growth rate of 8.4%. The total public expenditure is about 13% of GDP, much lower than in many developed and developing countries.

Public expenditure includes operating and development spending. The operating spending is used for manpower, rental, maintenance of building and equipment, office supplies, etc. This constitutes about 70% of the total public expenditure. Both operating and development expenditures are included in the categories of security, social, community, and economic services. A large part of the budget (about 42%) is spent on social (education, primary health care and public housing) and community services which are followed by national security (about 36%). Economic services (transportation, civil works, research and development etc.) attract about 12% of the total. The remainder is allocated to general services and pensions.

1.1.2 Trends and composition of public revenue

Singapore's revenue system has had an enviable track record. Total revenue increased from S$ 14.9 billion in 1991 to S$ 24.8 billion in 1995, at an average annual growth rate of 13.58% and higher than the corresponding rate of expenditure. Revenue is divided into tax and non-tax revenue. Tax revenue can further be divided into direct and indirect tax revenue. As indicated in Appendix Table 3, direct taxes generate a large part of the total tax revenue. The bulk of the direct tax revenue comes from individual and corporate income taxes. In Singapore, income tax is a broad-based tax covering a large majority of households. Of the indirect taxes, more than half were formerly derived from taxes levied on limited items such as motor vehicles, petroleum, liquor and tobacco. These taxes were levied for reasons other than revenue. This proportion has changed since the introduction of the Goods and Services Tax (GST) in 1994. Non-tax revenue comes in the form of fees and charges and other receipts.

1.1.3 Fiscal surplus

Due to the expenditure controls and a strong revenue performance, Singapore has been experiencing a budget surplus, averaging 6.86% of GDP over the last 5 years.[2] Please see detail below.

Table 1.1: Expenditure, Revenue and Fiscal Surplus in Relation to GDP

Description	*Percentage of GDP*				
	1991	1992	1993	1994	1995
Public Expenditure	15.04	15.16	13.32	13.05	12.89
Public Revenue	19.72	21.26	20.72	21.51	20.54
Fiscal Surplus	4.68	6.10	7.40	8.47	7.65

1.2 The Tax System

Singapore levies several taxes on income, property and commodities.

1.2.1 Income taxes

Income based taxes include the individual income tax and corporate tax. Of these taxes, individual income tax is levied with a progressive rate structure, with 10 brackets, ranging from 2% to 28%. The corporate tax is levied at a flat rate of 26%.

1.2.2 Property taxes

Property-based taxes include both estate duty and property tax. Of these taxes, property tax is levied on houses, buildings, land and tenements at a rate of 12% of the annual rental value of these properties. However, the rate is 4% in the case of owner-occupied houses. As mentioned in the following section, a rebate on tax payable is allowed effective from the date of the introduction of GST.

The estate duty is levied on all immovable property situated in Singapore and on all movable property wherever situated in the case of persons domiciled in Singapore at the time of their death. It is levied only on movable and immovable property located in Singapore in the case of a person who is not domiciled in Singapore at the time of death. The rate of this tax is 5% for the first S$ 12 million and 10% on subsequent amounts. Exemption from the estate duty is granted on dwelling houses to the extent of S$ 9 million and all other property to the extent of S$ 600,000.

1.2.3 Commodity taxes

Commodity-based taxes include GST, excises, customs duties, betting and sweepstakes duties, duties on petrol, entertainment taxes, public utilities taxes and water conservation taxes. GST will be explained in the following sections. Excise duties are levied on specified commodities, manufactured in Singapore or imported from abroad into Singapore. Most of the items are subject to specific rates. However, a few commodities are also subject to ad valorem rates, while a few others are subject to specific or ad valorem rates, or both. Singapore does not levy export duties, while it levies import duties on a limited number of goods such as liquor.

Betting and sweepstakes duties are levied on bets and sweepstakes promoted by any racing club or association. Similarly, a private lottery duty is levied on lotteries promoted by private clubs and societies, restricted to members only, at the rate of 30% of gross proceeds. A public utilities tax is levied on water, gas, electricity, and telephone services. Similarly, a water conservation tax is levied on domestic consumers using more than a specified quantity of water per month.

Section II: Rationale for GST

2.1 Early Thoughts on GST[3]

The idea of introducing a VAT in Singapore arose about the time when Singapore became a republic. A VAT up to the wholesale level was recommended in 1966 in place of the corporate profit tax, payroll tax and employers' provident fund contribution, protective tariffs, and miscellaneous sales taxes.[4] The main objective behind this proposal was to promote exports.[5]

The idea of VAT was put forward again in 1977, when the Prime Minister expressed the idea that the VAT was suitable for Singapore. In that year, a committee was set up by the Ministry of Finance to consider introducing a VAT in Singapore.[6] The committee, in May 1980, reported that "VAT is not feasible at present and recommends instead a selective sales tax on luxury consumption items." [7]

The idea of introducing a consumption-based tax, like VAT, in Singapore became popular again in the mid-1980s in light of tax reform taking place around the world, particularly since 1986 when the US government reduced the number and level of income tax rates drastically. Many other countries followed this move in order to make their economies more competitive. This became a point of concern for Singapore as well, as Singapore relied heavily on income taxes. In this respect, VAT was considered an alternative to make up for the revenue loss from the reduction in income tax revenue. This is reflected in the Report of The Economic Committee of 1986, where the committee recommends that the government shift from direct to indirect taxes as its main source of revenue. [8]

VAT was considered more seriously in the early 1990s. In 1990, the Finance Minister announced in Parliament that a bill on a comprehensive consumption tax would be introduced the same year. The idea was to get the legislation in place, but to defer the implementation of the tax until the real need arose for its introduction. The Ministry of Finance organized a working committee on GST in June 1990. This committee was represented by the Ministry of Finance, the Inland Revenue Department (now IRAS[9]), the Customs and Excise Department, and the Attorney-General's Chambers. This committee in turn set up a working group to design the GST and concentrate on the formulation of draft GST legislation, which was completed in June 1991.[10] During that time, the GST Group also worked on a White Paper on GST, which was refined over the years and issued on February 9, 1993. The White Paper explained the rationale for and structure of the GST in Singapore and stated the following reasons for the introduction of the GST in Singapore.[11]

a) It was necessary to restructure the whole tax system in order to make Singapore's economy internationally competitive. To this end, it was necessary to reduce the rate of income tax and to introduce GST as an alternative source of revenue.

b) Singapore will be facing the problem of an aging population. In such a situation income taxes will put a greater burden on a smaller group of younger, working Singaporeans. This might inhibit growth and enterprise. It is, therefore, necessary to introduce a broad-based tax like GST to distribute the burden of taxation among a larger section of the population. As the burden of GST does not increase with an increase in income through hard work, it "preserves the incentive to work and encourages enterprise."

c) GST is a tax on consumption and has several desirable features. It relieves investments and savings from the tax burden, and "rewards enterprise and strengthens economic resilience." GST relieves exports completely from the burden of internal commodity taxes through the zero-rating[12] mechanism. It is a fairer tax and is levied on a large section of the population, including the self-employed.

d) GST has a self-policing mechanism[13] that facilitates administration and makes it difficult to avoid or evade this tax. The catch-up effect[14] further reduces the possibility of revenue loss through the understatement of the taxable value at an earlier stage in the production and distribution chain.

e) Given GST is levied on a wide range of goods and services, and that the total burden of this tax on a particular commodity depends upon its final value (but not on the number of production and distribution channels through which it passes), GST minimizes economic distortions. GST also does not cause cascading/pyramiding.[15]

f) As consumption, the base of GST, is less affected by economic cycles, GST provides a more stable source of revenue than many other taxes.

GST was therefore developed to shift the burden of tax from direct tax to indirect tax, to make Singapore's economy internally competitive and to develop a broad-based and more stable source of tax revenue.

2.2 GST as a Part of a Tax Reform Package

It was decided to introduce GST as a part of an overall tax reform package. As the Finance Minister announced in his 1993 Budget statement: "The GST will be introduced with a generous package of offsets, comprising corporate and personal income tax reductions, rebates and subsidies which, taken together, will exceed the GST collected in the first few years of its implementation. We will ensure that as far as possible, no household should be worse-off when the GST is implemented."[16] To this end, several reforms were brought about in Singapore's tax system, together with the introduction of the GST. These changes are outlined below:

2.2.1 Corporate income tax

It was intended to bring down the rate of corporate tax from 30% to 25% over the medium term. To this end, the corporate income tax rate was reduced from 30% to 27% in 1994.

2.2.2 Individual income tax

In 1994, personal relief for individual income tax was increased from S$ 2000 to S$ 3000, and the top rate of individual income tax was reduced from 33% to 30%, with proportionate reductions in other tax brackets. The reductions ranged from 7.14% for the income bracket between S$ 25,001 and S$ 30,000 to 28.57% for the income bracket ranging between S$ 1 and S$ 5,000.[17] The new and old rate structure of the income tax is given in Appendix Table 4. Further, a rebate on individual income tax was granted in the following manner:

Table 2.1: Income Tax Rebate

Year		*Amount*
First year	(1994)	S$ 700
Second year	(1995)	S$ 650
Third Year	(1996)	S$ 600
Fourth Year	(1997)	S$ 550
Fifth Year	(1998)	S$ 500

This means that for the 1994 assessment year, individuals whose income tax liability was S$ 700 a year or less did not have to pay income tax for that year.

About 90% of Singapore's households used to pay income tax. But after this reform, 75% were not expected to pay income tax (for example, as indicated in Appendix Table 5, the number of individual income taxpayers went down from 1,133,945 for assessment year 1993 to 383,295 for assessment year 1994), and the rest were expected to pay less tax. This means that for lower income individuals, GST in effect replaced the income tax.

2.2.3 Property tax rebate

It was also decided to provide a property tax rebate (effective July 1, 1994) on a sliding scale to all House Development Board (HDB) households, and owner-occupied residential properties with annual values of less than S$ 10,000, in the following manner:

Table 2.2: Property Tax Rebate

Annual value of property	annual rebate*
up to S$ 5000	S$ 150
S$ 5001- 6000	S$ 125
S$ 6001- 7000	S$ 100
S$ 7001- 8000	S$ 75
S$ 8001- 9000	S$ 50
S$ 9001- 9999	S$ 25
S$ 10,000 and above	-

* or the actual amount of the yearly tax, whichever is lower.

2.2.4 Commodity tax relief

Import duties and excise taxes were suspended on several items such as natural gas, propane, lubricating oil, aviation fuel, jet fuel, and white fuel, and import duties and excise taxes on high speed diesel and motor fuel were reduced in order to offset the effect of GST. Similarly, the 5% tax on domestic PUB (public utility tax on electricity, gas, and drinking water) bills of more than S$ 40 was reduced to 2%, and the restaurant and hotel surcharge was reduced from 4% to 1%. The 5% tax on domestic telephone charges and the 5% entertainment duty were suspended. The cinematography film hire duty was also discontinued.

2.2.5 Grants

Public assistance grants for the low-income elderly and medically disabled, widows, deserted wives with dependent children, and orphans were increased by 3% to 5%, in order to help these groups offset the cost of GST. Similarly, higher subsidies were given in order to offset the higher cost of health and education services under GST. The "Edusave" grant was increased from S$. 50 to S$. 100 per child per month. The monthly allowance for pensioners was increased from S$ 100 to S$ 130. Similarly, rebates on service and conservancy charges for one to five rooms HDB and rental for one and two room HDB flats were granted. These allowances were designed especially to help lower income groups.

GST was introduced as part of an overall tax reform package that intended to reduce the reliance on income taxes in order to maintain the competitiveness of Singapore's economy, to attract new business and to encourage savings, investment, and long-term growth. The GST generated goodwill in society by reducing unpopular and inefficient taxes.

2.3 Post-GST Tax Changes

The government continued its tax reform process even after the introduction of GST. Changes intended to further reduce the burden of direct taxes were introduced in order to maintain the competitiveness of Singapore's economy. Important tax changes brought about in the post-GST era included:

2.3.1 Corporate income tax

The rate of corporate income tax was reduced from 27% to 26%, effective from the start of the 1997 Assessment Year.

2.3.2 Individual income tax

The highest rate of individual income tax was reduced from 30% to 28% in 1996. Other rates have been reduced accordingly.

2.3.3 Property tax

The government decided to bring down the rate of property tax from 16% to 12% over a 4 to 5 year period. To this end, the property tax rate was reduced from 16% to 15% (effective July 1, 1994), and from 15% to 13% (effective July 1, 1995). The property tax was reduced further to 12% (effective July 1, 1996).

2.3.4 Estate duty

The estate duty was revised in 1996. The first S$ 3 million of all residential property and the first S$ 500,000 of all other property were exempt from the estate duty in 1995. In 1996, these figures were raised to S$ 9 million and S$ 600,000, respectively. Estate duty was levied with a rate of 5% up to the first S$ 10 million and 10% above S$ 10 million in 1995. In 1996, a 5% duty was levied on property valued up to S$ 12 million, and the duty on all other property was readjusted to 10%.

2.3.5 Commodity taxes

In 1995, the import duty on cigarettes containing tobacco and tobacco substitutes was abolished, and the excise duties on these items were raised.

2.3.6 Other changes

Similarly, a number of other changes have been brought about in the tax system since the tax reform package was developed in 1993. Some of these changes are general, while others are targeted to a particular sector. For example, an across-the-board one-off rebate of 5% on individual income tax was granted in the 1993 Assessment Year. This figure increased to 10% for the 1995 and 1996 Assessment Year. A 25% rebate on property tax was granted for commercial and industrial properties for the year beginning July 1993. The government also has been granting rebates on HDB service and conservancy charges and rentals.

Section III: GST System

3.1 Introduction

Although the idea of introducing a GST in Singapore originated in the mid-1960s, it was considered seriously only in the early 1990s. At that time, the idea was to phase in GST gradually. Unlike many other countries, Singapore did not have any experience with a general sales tax, and it was thought to be more pragmatic to introduce GST in three phases over a period of five years.

It was finally decided, instead, in early 1993 to introduce a broad-based GST beginning on April 1, 1994, because the transition to a phased-in GST could take a long time and might invite lobbying for special treatment of various groups. A phased implementation would also be more costly.

It was deliberately decided to introduce GST at a time when the economy was strong, the budgetary position was favorable, and the government did not need additional money. This allowed government to introduce GST at a very low rate and develop a GST offset package to minimize the political impact of GST.

3.2 GST System

On February 9, 1993, the White Paper on GST was issued jointly by the Ministry of Finance and the Ministry of Trade and Industry. It was intended to provide information on the nature, rationale, impact, structure and operation of GST. In this paper, the government indicated its intention to pass the GST Act before the introduction of GST on April 1, 1994.

The GST Bill was presented to Parliament on February 26, 1993 and read a second time on March 19, 1993. It was then referred to the Select Committee of Parliament for recommendations. The Finance Minister was also a member of this committee, which invited representations from the public with the intention of developing a tax system best suited to the needs and circumstances of Singapore. The closing date for submission was May 20, 1993. During this time, the committee received 70 recommendations from different groups.[18] These suggestions were related to group registrations, reverse charges, the major export scheme, the bonded warehouse scheme, tourist refunds and the Asian currency unit. Between June 18 and June 29, 1993, 17 interest groups were called on to clarify their submissions.[19]

The Select Committee considered these submissions and incorporated many into the GST bill. "The Bill was amended to provide for group registration, remove the tax on rezoning of land, nullify the reverse charge on imported services, extend the scope of zero-rating for international services, allow input tax attributable to overseas supplies to be claimed, and extend the bonded warehouse scheme to all imported goods. In addition, it also recommended that the requirements for claiming bad debt relief be relaxed, cash accounting be allowed for small businesses and the conditions to qualify for the major exporter's scheme be clarified. The financial sector received an unexpected bonus in the form of a special formula which allowed input tax for financial services provided to other taxable persons to be claimed."[20]

Singapore developed GST subsidiary legislation in the form of regulations and orders. The GST Regulations included general regulations, regulations relating to transitional provisions, board of review and composition of offenses. Similarly, various orders including the international services order, the import relief order, and the application of legislation relating to customs and excise duties order were developed.

The GST law outlines a broad-based consumption type VAT, using the tax credit method extending through the retail level. The tax is based on the destination principle (i.e., imports are taxed, and exports are relieved from tax through the zero-rating mechanism). The coverage of GST is very wide, exempting only a few goods and services, such as the sale and lease of residential land and building and certain financial services. The broad base of the GST simplifies the tax system.

Singapore did not intend to generate large amounts of revenue from GST immediately, but to instead develop GST as a future source of revenue. The major focus, in the first few years, was to give people time to get adjusted to the tax. GST was levied at a low rate of 3% (one of the lowest GST rates in the world[21]) and the government gave assurance that it would not raise the rate for 5 years. The broad base made it possible to generate an acceptable amount of revenue, despite the low rate.

In order to avoid putting undue compliance costs on small vendors, (with S$ 1 million turnover or less) who generally do not maintain good records, a decision was made to keep them out of the GST net.

3.3 Special Schemes

While Singapore has adopted a conventional VAT similar to that implemented in about 110 countries around the world, it has injected some special features into the GST system to make it uniquely Singaporean.

Although Singapore does not have any natural resources, its strategic location positions it well as a major center for business. The country has the second largest cargo-handling port in the world and is on one of the world's busiest commercial routes. The re-exporting of goods plays an important role in Singapore's economy. Traders use the country as a regional distribution hub. Singapore has become a major tourist destination.

Singapore is a major financial center as well. It has more than 100 commercial banks, most of which are foreign. The headquarters of the Asian Dollar Market is in Singapore. Financial services have become very important for Singapore's economy.

As discussed in the following section, the major export scheme (MES) and bonded warehouse scheme (BWS) were designed to relieve the imports of the qualifying exporters from GST. A tourist refund scheme was adopted so tourist sales would not be adversely affected. Since Singapore is a leading financial center, a lenient approach was taken towards the financial sector.

3.3.1 Special schemes relating to exports

Re-exporting plays an important role in Singapore's economy. Imported goods are re-exported after manufacturing, processing or packaging. Singapore has taken care to relieve the exports from the burden of taxation.

The method of removing the burden of VAT from exports used most often worldwide is to apply a zero rate to exports. However, traders still face cash flow problems under this system, as they have to pay tax first on inputs they can claim as a refund later when they export. Since exporters cannot charge GST on exports like they can on domestic sales, they cannot take advantage of the input tax credit (which reduces the cost of financing the input tax). The zero-rating also increases compliance costs of the traders, as they have to pay an input tax first and reclaim it later, maintaining books and records. Singapore has adopted a different approach from most countries to deal with this problem by implementing the MES and BWS under the GST system.

a) Major exporter scheme

MES is designed to relieve the imports of the qualifying exporters from GST. Under this scheme, registered qualifying exporters can import goods without paying GST at the customs point. This relieves exporters from the requirement of paying tax at import and claiming it back at export. In the absence of such a mechanism, major exporters would have to suffer a cash flow disadvantage, paying the input tax on imports and then claiming them in their GST returns. The government does not lose any revenue under the MES, since the tax paid on the inputs of the exports is going to be refunded to the exporters anyway. The tax is levied only on the domestic supply of the MES traders, so that the payment of GST is deferred until the submission of return by the registered exporters in the case of domestic supply.

A trader must meet the following requirements in order to avail himself of this option:

- must be a GST registered trader;
- the value of export must be substantial, or constitute 51% or more of the total value of his supplies during the last financial year or any 12 continuous calendar months, otherwise the exporter must provide the comptroller of GST with a banker's guarantee for the amount of GST to be deferred in an accounting period;
- a satisfactory accounting and internal control system is required; and
- a good track record as a taxpayer in relation to GST, income tax, property tax and other taxes is also necessary.

The MES is designed mainly for the manufacturers who export more than half of their total supplies. A trader wishing to operate an MES should apply to the Comptroller of GST in the prescribed manner, providing a copy of the latest annual audited financial statement and a statement from the auditor. The IRAS will inform the trader of the outcome of his application within two months of the date of receipt of application. Upon the approval of application, a trader will be granted MES status, which will remain valid for three years or until it is canceled by the Comptroller of GST. An MES status trader will have to keep records and accounts similar to those kept by other GST-registered traders. In 1994/95, a total of 3,214 traders operated MES. This figure increased to 3,397 in 1995/96.

b) Bonded warehouse scheme

Some imported goods change hands several times before they are re-exported. They are moved from one warehouse to another for the purpose of re-packing, including mixing, sorting, and grading before they are re-exported. Such activities take place especially in the case of such goods as coffee, pepper, rubber, crude oil, petroleum products and base metals such as copper, nickel, aluminum, lead, zinc and tin. Importers of these goods can use BWS. Non-resident traders who use Singapore as a distribution hub can also use this scheme.

Under the BWS scheme, GST is suspended on imported goods that enter Singapore and are stored in the bonded warehouses. The tax is not levied on goods that are removed from the bonded warehouses for re-export or transferred from one bonded warehouse to another. In-bond sale is not considered for GST, which is levied on goods only when they leave a bonded warehouse for the domestic market.

BWS is suitable for the overseas principals who import goods to Singapore for re-export (80% or more) and who do not have local distributors or agents, and for certain other importers. A commodity trader or service warehouse operator may apply to the Comptroller of Customs to operate a BWS. He has to submit a site plan and lay-out of the proposed designated areas. Upon approval of his application, he will be given a unique license number that must be quoted on all official warehousing documents and correspondence to IRAS in relation to this business. A BWS operator must furnish a banker's guarantee of between S$ 1,000 and S$ 1,000,000 to cover GST payable on his import held at any point of time. He has to take permits electronically through Trade Net[22] for the import, re-export, removal from one bonded warehouse to another bonded warehouse and removal of goods for the local market. In the case of the release of goods for the local market, he must pay GST by GIRO through Trade Net. He has to maintain the records of lot numbers provided to each consignment. He has to submit monthly returns on the movement of goods, a discrepancy report, an audit report and certified annual financial statements.

The number of BWS operators was 82 in 1994/95 and 1995/96. In 1995, a total of 2,395,449 permits was issued through Trade Net. The bonded warehouse is required to maintain tight inventory control.[23]

c) Tourist refund scheme

Initially, it was thought that a tourist refund system would be unnecessary in view of the very low GST rate of 3%. A tourist refund scheme, however, was developed after hearing feedback from the Singapore Tourist Promotion Board and the Singapore Retailers' Association. Under this scheme, tourists who spend S$ 500 or more in one shop or within a retail chain could claim a GST refund.

GST registered retailers can operate the tourist refund scheme. They must display their Tax Refund Logo in order to enable a tourist to apply for a refund. They have to maintain separate accounts of sales made under the tourist refund scheme, and they must keep copies of invoices or receipts issued in connection with such sales. It is necessary to complete the refund claim form in triplicate, and it must be signed by the seller and by the customers. The seller must keep one copy and return the other two copies together with the original invoices or receipts and a self-addressed envelope with postage prepaid to the customers.

Tourists who wish to claim a GST Refund have to present the items at the GST Refund Counter located outside the baggage check-in at the airport for verification before checking-in. With respect to high-value, small items which can be hand-carried, Customs may require the tourist to present these items for verification and endorsement at the GST Refund Counter located beyond the immigration checkpoint. Otherwise, the tourist can easily pass on these small high-value items to another person for local consumption free of GST. The practice of endorsing high-value small items at the counter beyond immigration checkpoint is therefore to minimize possible revenue leakage.

Goods must be brought out of Singapore through Changi International Airport within two months of the date of purchase. The customer must bring the completed claims form with the goods to the GST Tourist Refund Inspection Office. After checking, the customs officer will endorse the claims form and return both copies to the customer. The customer has to seal a certified copy in the envelope given by the seller and drop it in the mailbox next to the Inspection Office. The customer may keep the other copy.

On receipt of the certified claims form, the seller must refund to the customer the amount mentioned in the form via a check in the mail or through his credit card account. The seller must keep the claim forms certified by the customs office as proof that the goods have been brought out of Singapore. The seller may then offset the GST refunded to the customers (together with the input tax) against the output tax. If the total of GST refunded to the customers and input tax is more than the amount of GST collected in that accounting period, the seller can claim a refund for the difference from the Comptroller of GST.

To date, the tourist refund scheme has been implemented by retailers. They can deduct a part of the GST levied on tourist sales as administrative expenses, but they have to explain everything to their customers at the time of sale and in the refund claims form. As it is a service charge related to exports, GST is not levied on these charges.

The Asia Tax Free Shopping (ATFS) has been operating a tourist refund scheme since April 28, 1997. Under the new system, the minimum amount spent to qualify for

GST refunds is S$ 300 rather then S$ 500. Under this system, tourists pay tax on their purchases and claim it back from the ATFS at the airport in the case of purchases made from an ATFS-registered shop. Under the new system, tourists can get their money returned immediately at the airport, without needing to wait up to three months as they did under the retailer-operated tourist refund scheme.[24] ATFS then claims a refund from the IRAS. ATFS charges a fee of 15% of the GST amount paid by the tourists.

3.3.2 Banking and financial services

a) Banks and finance companies

Singapore levies GST on fee-based services for safe deposit boxes, bank advice, subscriptions for credit cards, and the premium against general insurance. It is easy to find out the charge for services provided by banks and other financial institutions. The operation of any current deposit or savings account, foreign exchange, or transaction, the provision of any loan, advance, or credit, the issuance and sale of shares and life insurance, are exempted from the GST. This is because it is not easy to identify the charge for services by financial institutions in the case of such activities. For example, interest "includes elements which reflect the risk of the loan, the real cost of capital, the inflation rate, and a charge for the service rendered. In principle, only the last should be taxed, but in practice it is impossible to separate out this taxable component of interest from the rest."[25]

Under the conventional VAT system, taxpayers are not allowed to take an input tax credit in the case of tax exempt supplies. For example, banks are not allowed to take an input tax credit in the case of purchases made in relation to the provision of a loan, which is an exempt supply. Such a provision may lead to an increase in the rate of interest charged by a bank on its lending and lead to tax cascading, since the tax paid by the bank on its purchases (including rent, office equipment, furniture, construction, stationery, electricity, lawyers' services and so on) is likely to be passed on to the customers in the form of higher interest rates. This increases the cost of production.

Since Singapore has a well developed financial market, and since it does not want to have taxation negatively affect its banking and financial activities, banks and finance companies are allowed to claim a credit on input tax for exempt supplies made to GST-registered businesses. If implemented, however, it would invite administrative complications, since it would be necessary for banks and finance companies to keep records of GST-registered customers and GST non-registered customers, as well as overseas customers, since they can lend money to overseas as well as domestic customers and the domestic customers can be GST- registered or unregistered (small vendors or individuals). As lending to international customers is considered an export of services, it is zero-rated, hence it is treated as a taxable service. As a rule, banks or finance companies are allowed to take an input tax credit in these cases. Banks and finance companies are also allowed to take an input tax credit for loans (exempt supplies) made to domestic customers who are registered for GST. It would, however, be very difficult for the individual financial institution to keep track of the supplies made to GST-registered customers without a major revamping of its computer system.

To avoid this problem, pre-determined input tax recovery rates have been fixed, so that bank and finance companies have a method to allow them to claim an input tax credit. These rates are fixed on the basis of the industry's statistics. Banks and finance companies are required to submit their financial statements to the Monetary Authority of Singapore. This organization publishes annual statistics relating to deposits, lending to various types of customers, etc. On the basis of these statistics, input tax recovery rates are determined. These rates are fixed for banks and finance companies for one year as follows:

Table 3.1: Fixed input tax recovery rates for banks and finance companies

Type of Bank	*input tax recovery rates (Percentage of total input tax paid)*			
	1994	1995	1996	1997
Full Banks	80	79	75	74
Merchant Banks	90	94	94	94
Restricted Banks	90	94	94	94
Offshore Banks	95	98	98	98
Finance Companies	60	61	59	58

Source: IRAS

This means that full banks were allowed in 1994 to take 80% of the total tax paid on their purchase/imports in the form of an input tax credit. Such a system of fixed input tax recovery rates has been easy from an administrative point of view, since the banks and finance companies do not have to distinguish between domestic and foreign customers and those who are and are not registered for the GST. Taxpayers generally approve of this system. It avoids disputes between the banks/finance companies and IRAS regarding the input tax credit. IRAS does not have to examine the books and accounts of the taxpayers in detail, reducing the time and money to be expended by both parties and avoiding tax cascading.

Banks and finance companies collect output tax on their taxable supplies. As their taxable supply is generally a small part of their total supply, they collect much less tax on their output than they pay on their inputs. Therefore, they are generally in a position to claim a refund.

b) Insurance companies

Of all the insurance services, only life insurance is exempt and does not invite the tax cascading problem. General insurance (such as fire, theft, property, cargo, marine etc.) is taxable. General insurance companies are required to register for GST and collect 3% GST on the amount of premium they charge. Insurance companies usually enter into re-insurance in order to minimize their risk. For example, they may bear 60% of the risk and pass on the other 40% of the risk to reinsurance companies. As re-insurance is conducted between companies only (not directly with the consumer), re-insurance services are exempt from GST. This avoids administrative complications without revenue loss. For example, the government will get a revenue of S$ 3 on an insurance premium of S$ 100 from an insurance company in a situation in which the insurance company passes its 40% risk to a GST exempt-reinsurance company. But if the re-insurance company is taxed, the re-insurance company will charge S$ 40 as a premium and S$ 1.20 as GST from the insurance company, remitting S$ 1.20 to the treasury. The insurance company will charge S$ 100 as a premium and S$ 3 as GST to its customer. It will deduct its input tax of S$ 1.20 from the output tax of S$ 3 and deposit the balance of S$ 1.80 to the treasury. Thus the government will get a revenue of S$ 3 in either case. However, exemption of reinsurance relieves re-insurance companies from the requirements of collecting tax from the insurance companies and remitting it to the treasury. Reinsurance companies, however, are still required to register for GST in order to get input tax credit they can claim on the basis of the fixed input tax recovery rates.

Some insurance companies may deal with both direct insurance and re-insurance. Since they maintain separate records for direct insurance and re-insurance, they collect GST on the premium of direct insurance, as in the case of other direct insurance companies.

General re-insurance companies and life re-insurance companies are allowed to take input tax credits at the following rates:

Table 3.2: Fixed input tax recovery rates for insurance companies

	Input Tax Recovery Rates (Percentage of total input tax paid)	
Types of companies	*1994*	*1995*
Life-reinsurance	40	40
General-reinsurance companies	75	75

c) Credit card companies

A credit card company is required to charge GST on subscription fees charged to the credit card holders but not on the commission charged from the business. This is because the commission (merchant discount, as it is usually called) is regarded as a payment for a financial service and is specifically listed as an exempt supply in the GST legislation. For example, if a credit card company charges S$ 50 a year as the subscription fee from the credit card holder, it has to collect a GST of S$ 1.50 (3% of the subscription fee) from the credit card holder. Let us assume that a person goes to a shop to buy articles worth S$ 100. The shop issues a receipt of S$ 103 (S$ 100 for the price of the goods and S$ 3 for GST) to the credit card holder. The person uses a credit card to pay the bill. The shop gets money from the credit card company, and the credit card company gets money from the credit card holder. The credit card company gets S$ 103 from the credit card holder. It, however, does not pay the full amount to the shop. It pays only S$ 98 (S$ 95 +S$ 3) to the shop and retains, for example, S$ 5 as its commission. GST is not levied on the S$ 5, the merchant discount, which is classified as an exempt financial service under the Fourth Schedule of the GST Act.

d) Leasing companies

When a lessee and a lessor enter into a contract for renting capital goods, the lessee gets the right of using the capital goods, which is a supply of services, but not the supply of goods (as the ownership of the goods does not change). The tax is levied only on the rent.

However, according to the Second Schedule of the GST Act, eventual transfer of the possession of goods, either through a "rent to own" plan or through a third party financial agency, is a supply of goods. The tax treatment in such a situation is different from a situation in which the goods are only rented. For example, suppose Mr. A wants to buy a machine worth S$ 10,000 from company B. Since Mr. A does not have the money to buy the machine, he goes to leasing company C to make the necessary financial arrangements. Mr. A and C will enter into a financial lease arrangement. Under the financial lease, the machine will belong to C. C will not give money to Mr. A, but rather to B. For GST purposes, B sells to C and C sells to Mr. A. B charges S$ 10,000 plus S$ 300 from C, and C charges S$ 10,000 plus S$ 300 from A. B remits S$ 300 to the Treasury. Since C has paid S$ 300 as an input tax and collected S$ 300 as an output tax, his GST liability is unaffected. If Mr. A is also a GST registered vendor, he can claim S$ 300 as an input tax credit.

In the financing aspect of the lease, Mr. A has to pay interest to C. This interest is exempt from GST.

e) Stock Broking companies

Stock Broking companies are members of the Stock Exchange of Singapore, which is a government regulated body. Public companies are listed with the Stock Exchange of Singapore, and the buying and selling of their shares is done through stock broking companies. These companies record their customers' buying and selling of shares in their computers, which are in turn linked with those of the Stock Exchange of Singapore. For this service the stock brokers normally levy a service charge of 1% of the value of the sale. GST is levied on these service charges. The stock brokerage companies may have standard-rated supply (i.e. service charges), zero-rated supply (such as the sale of shares to an international buyer), and exempt supply (such as the sale of shares to local buyers). These companies are allowed to take a full input tax credit in the case of standard-rated supply and zero-rated supply and 50% in the case of exempt supply. The rationale behind the 50% input tax credit in the case of exempt supply is that the seller does not know to whom he is selling if the sale of the shares is done through a stock broking company. His buyer may be a GST-registered vendor, a non-GST registered vendor, or an overseas buyer. So 50% is considered a sale to the GST-registered vendor and/or an overseas buyer. The percent of total input tax allowed as a credit is calculated on the basis of the following formula:

$$\frac{\text{SRS} + \text{ZRS} + \text{half of the ES through sale of shares}}{\text{Total supply}} = \text{itc percentage}$$

Note: SRS = Standard Rated Supply
ZRS= Zero Rated Supply
ES= Exempt Supply
itc percentage = percent of total input tax allowed as a credit.

Let us suppose that the standard-rated supply is S$ 80, the zero-rated supply is S$ 50 and the exempt supply is S$ 70. In such a situation, on the basis of the above-mentioned formula, the stock broking company can claim 82.50% of its total input tax. If its total input tax is S$ 10, it will receive an input tax credit of S$ 8.25.

3.4 Transitional Measures

It is necessary to develop several transitional provisions when a GST replaces other commodity taxes, including a general sales tax. For example, it becomes necessary to have transitional provisions relating to sales tax paid on stock at the time of the introduction of GST in order to avoid and/or minimize double taxation. Since GST did not replace a general sales tax in Singapore, there was not much need to think of transitional provisions. It was, however, still necessary to make transitional provisions in a few areas, such as in the supply of goods and services made under a long term contract completed before the introduction of GST. Under the transitional provisions, the supply of goods and services under non-reviewable contracts entered into on or before April 7, 1993 was zero-rated for a maximum period of five years from April 1, 1994. The supply was zero-rated until the first review date under a reviewable contract entered into on or before April 7, 1993. In the case of a contract entered into between April 8, 1993 and March 31, 1994, suppliers can add the GST amount to the agreed upon price.

Section IV: GST Preparation and Implementation

4.1 Administration

Although the idea of a GST originated in Singapore in the mid-1960s, it was decided only in early 1993 to introduce GST beginning April 1, 1994. There were barely 15 months to prepare for the introduction of a full-fledged GST. To this end, a GST Steering Committee was formed in March 1993 under the chairmanship of the Commissioner of IRAS, with representatives from the Ministry of Finance, the Ministry of Information and the Arts, the Ministry of Trade and Industry, IRAS, the Customs and Excise Department, and the Attorney General's Chamber.

The terms of reference for the GST Steering Committee were as follows:

- to identify and resolve operational problems
- to highlight the Ministry of Finance's major concerns regarding the business community
- to prepare the business community for compliance
- to oversee the public education program.

A GST Division was created in the IRAS, and about 25 experienced people were transferred from other units of IRAS to the GST division. They were given two weeks of training. It was, however, not possible to manage GST with this limited number of people. So IRAS decided to recruit new officials. A further 170 officials were recruited for GST in 1993/94. They were trained on different aspects of GST. As customs officials have to collect GST on imports, they were also trained on GST. Some officials visited Taiwan, Korea, New Zealand, the Netherlands and the United Kingdom to study the VAT systems that were being implemented in these countries.

The Commissioner for Inland Revenue was appointed on October 29, 1994 as the first Comptroller of GST. A number of people in the Inland Revenue and the Customs and Excise

Department were appointed Deputy Comptrollers, Assistant Comptrollers and GST officers. The GST Board of Review was established on January 1, 1995.

Although the IRAS had developed a computer system for income tax and other tax purposes, it had to design and develop a new computer system for the GST in a short amount of time. The agency first developed critical modules for registration, return generation and processing, receipting, and tax accounting. The same taxpayer identification numbering system was used for the GST as for payers of income tax. It also designed a simple enforcement system. Other modules, such as one for auditing, were developed after the introduction of GST.

4.2 Taxpayers Education Program

Singapore launched an extensive taxpayer education program about the GST. IRAS' task was to prepare the business sector for the tax and to explain the rationale and effect of GST to the general public.

4.2.1 Getting business ready

IRAS made a great effort to get the GST message out to the businesses who were required to collect this tax for the government. IRAS organized numerous dialogue sessions, seminars, and classes on the GST and made several field visits to explain the working of GST to potential taxpayers. It prepared different types of brochures and pamphlets and distributed them on a wide scale. The intention of such a serious public discussion program was also to get feedback from the business sector in order to fine tune the GST regulations. IRAS wanted to be sure that the GST did not cause cash flow problems for businesses or increase their compliance costs unnecessarily.

a) Dialogue sessions

IRAS organized at least 598 dialogue sessions with industries and with almost all the existing trade associations. IRAS communicated to each trade organization the GST formalities required by each particular line of business. These dialogue sessions also aimed to get input from the businesses regarding how the GST would fit into the actual operations of particular lines of business. This was done in order to prevent the GST system from becoming unnecessarily complicated and affecting business adversely. A lot of feedback came from the business community, which helped to fine-tune the GST system to meet the local conditions.

b) Seminars

GST seminars were organized jointly by the trade associations and the IRAS. Trade associations provided all the logistic support, such as the preparation of lists of participants, invitations, and venues, while the IRAS provided technical assistance. The first seminar was held on April 19, 1993 and the last seminar (of the pre-GST period) on March 28, 1994. During this period, about 382 seminars were held for more than 45,000 participants.

The IRAS organized about 40 seminars for the evenings, Saturday afternoons, and Sundays for people who could not attend the other meetings being held during normal office hours.

c) Classes

As not all businesses are members of trade associations, it was not possible to pass on the GST message through the seminars organized by the trade associations alone. IRAS organized 101 classes for those businesses (about 3,700 traders) that were not members of trade associations.

d) Field visits

IRAS staff also contacted retailers directly to explain the workings of GST, visiting 4,544 retailers.

e) Toll-free help-line

IRAS managed a toll-free help-line to supply information by telephone. It received about 1170 calls per day during peak time (i.e. April 1994) and about 669 calls per day during other periods. In this way, the IRAS staff provided advice to thousands of businesses.

f) Advice Center

IRAS also set up an advice center to assist people who visited the IRAS office.

g) Direct mailers and registration packages

IRAS sent GST materials to potential taxpayers together with income tax return forms and income tax assessment notices.

h) Brochures

The GST Division was organized in special teams to examine different aspects of specific industries and to fine-tune the GST bill and regulations. These special groups prepared 36 industry-specific brochures and pamphlets and distributed them widely.

i) Media

IRAS developed a video, which was broadcast on television. GST was widely covered by television, radio and newspapers.

4.2.2 Educating the public

IRAS launched an extensive publicity program for the general public. This program was aimed at explaining the rationale for introducing GST and raising the public awareness of the new tax. The agency organized talk programs with community centers, the Ministry of Community Development, the police, and the schools that, in turn, could talk to the public at large. The Ministry of Community Development worked at the grassroots level. Given local people might ask all kinds of questions of the police, IRAS officials gave talks on GST to the local police. IRAS taught police training officers, who in turn trained other policemen. As the police were located throughout the island, they could educate local people on GST and could help particularly if there were to be a dispute in the initial period of GST implementation between taxpayers and consumers. IRAS also educated teenage students attending junior colleges, who could convey this information to their parents.

An advertising company and consultancy firm were hired to assist the publicity committee. This company was awarded a contract of S$ 1.5 million to develop a program to clarify issues and answer questions, targeting businesses and consumers.

4.3 Registration Began

IRAS prepared a list of potential GST-payers from the income tax data base. In 1992/93, the number of income tax returns was 1,157,030.[26] Out of this, IRAS identified about 26,000 businesses whose annual turnover would be above S$ 1 million, meaning that about one-fifth of businesses would have to register for GST. IRAS also estimated that it would cover more than 90% of the total value added with this number of taxpayers.

Registration for GST began on November 12, 1993. IRAS advertised in most of the major newspapers and sent letters to potential taxpayers informing them of registration. On November 15, 1993, they issued registration forms together with the following:

- GST General Guide for Traders
- Do I Need to Register?
- How Do I Keep Records and Accounts?
- How Do I Prepare My GST Return?

IRAS sent its first direct reminders on December 18, 1994 to those who did not register. They also issued reminders in the press on January 10, 17 and 20, 1994. They sent a second direct reminder on January 28, 1994, and a third on March 3, 1994.

At first, very few businesses registered. IRAS took a telephone survey of 316 businesses on February 24 and 25, 1994. The responses of this survey were as follows:

Table 4.1: Responses of Telephone Survey on GST Registration

Response	*No.*	*Percent of total*
Will register by April 1, 1994	188	60%
Not liable	82	26%
Not aware	23	7%
Unsuccessful calls	23	7%
Total number of calls	**316**	**100%**

Source: IRAS

It was not that the traders were not aware of registration. They were taking it lightly, thinking that they had plenty of time to register before March 31, 1994.

Eventually about 32,799 business registered by March 31, 1994. More than 2,700 businesses who were not required to register, registered voluntarily.[27] More businesses came to register than had been originally estimated, and in subsequent years the number grew.

GST-registrants had to display a registration certificate at their places of business. In addition, they were given GST logos. This logo was intended to assure consumers that only GST-registrants would collect GST.

4.4 GST Went Live

The infrastructure to collect GST was put in place by the end of March 1994.[28] GST personnel had been recruited and trained, the computer system was set up, and potential taxpayers educated. Some businesses were prepared to collect GST, while others were still confused about how the tax was to operate. In the early stages, the IRAS hot line was busy answering queries[29] and registering taxpayers. A GST Refund Booth was set up at the Changi Airport on April 1, 1994 to facilitate the tourist refund.

GST went live on April 1, 1994. IRAS made special preparations, setting up an operational command center at the International Plaza tax office. A number of experienced officers stationed at this center could go anywhere on immediate notice. The center's role was to monitor the events of the day and respond to any problems that arose. Similarly, 30 mobile teams were set up to handle problems that they encountered and report complicated cases to the command center. More than 1,300 telephone calls about GST were handled by specially trained officials on that day.[30]

Customs collected more than S$ 2 million in GST on the first day alone.[31] Import declarations were made electronically.[32] The first day was a success at the customs points as well.

IRAS paid attention to every issue in order to make the implementation of GST smoother. April 1, 1994 was a public holiday in Singapore, on which banks were closed. Traders might have found a shortage of small coins and could have charged a higher price on that day. To avoid this, IRAS officials kept sufficient 1-cent coins on hand to supply the traders. Japan faced the problem of an insufficient number of small currency denominations in 1989, when it introduced a 3% consumption tax.

The issue of GST-inclusive price tags could have been problematic also. It would have been very difficult for retailers to change all the price tags in just one night before the introduction of GST. So the IRAS suggested that two tags be used, one for pre-GST and other for post-GST. Also, the IRAS made it clear to the retailers that they should display the GST inclusive price in the price tags. The intention was to show clearly the total price to consumers.

4.5 Monitoring Continued

IRAS extended its office hours during the period from March 28 to April 8, 1994. It continued its effort to make GST implementation easy. In order to monitor the price situation, IRAS opened a joint operations unit with the Ministry of Trade and Industry and the Consumer Association of Singapore.[33] This unit was intended to ensure a quick and coordinated response to the queries/feedback government might receive on a range of issues pertaining to GST. The government had announced that it would act quickly in response to complaints about unjustified price increases.

IRAS officials were deployed to different parts of the island to observe the workings of the new tax at retail shops. To test whether the new tax system was working properly, they made purchases at the shops.

Due to the GST, the government did not expect a price rise of more than 3%. The rise in the consumer price index in 1994 was expected to be about 5.5%.[34] The business community became very co-operative on this matter by absorbing GST, partially or fully. Just before the introduction of GST, most big retailers announced that they would absorb GST. "Departmental store operators like Metro, C.K. Tang and Isetan announced that they will not charge the GST on goods sold under their own house brands, which make up between 30% and 60% of their merchandise." [35] McDonald's restaurant announced that it would absorb GST, at an amount of S$ 6 million a year.[36] Similarly, NTUC[37] Fair-Price and Cold Storage announced that they would absorb GST for at least the month of April. The Smart Chain of supermarkets decided to absorb GST for at least three months.[38] In a similar manner, many businesses announced that they would absorb a part or all of GST. Even smaller shops, exempted from the GST, had decided to initially absorb GST paid on their purchases.[39] "One reason could be the prospect of losing business if their prices go up by too much in a competitive retail market. Hence it might well be good marketing strategy to hang on to their customers. Whatever the reasons for their generosity, their decision helped the public to adjust to a new tax regime. If enough of them do so, the prospect of a significant impact on inflation as a result of the GST would diminish."[40]

The Sunday Times conducted a poll at the end of February 1993 regarding the price rise with the introduction of GST. Many sellers felt they would not risk losing customers by raising prices, but many admitted they might reduce the size of the packages they sold.[41] The Department of Statistics survey also presented similar results.[42]

In 1994, the inflation rate was 3.6%. It was higher than the 2.4% rate for 1993 but lower than the estimated inflation rate of 5.5% expected in 1994.[43]

4.6 Audit and Investigation Enhanced

IRAS has been carrying out audit and investigating activities in order to encourage compliance with the tax law. As GST is a new tax, the audit program is intended to educate the taxpayers on various aspects of GST, rather than to penalize them. The IRAS has adopted both the industry-based approach and issue-based approach. The industry-based audit is more general and attempts to audit all activities of an industry or trade, where there are more chances of revenue leakage. Under the issue-based audit, IRAS staff examine only those areas where there might be a lack of understanding about specific issues or tax treatment.

During the course of audits, IRAS staff has found common mistakes, such as incorrect computations, a failure to account for GST on the sale of non-residential properties, failure to account for GST on all supplies, failure to account for GST on local supplies, and wrongful claims of input tax. IRAS sent circulars to all GST-registrants, pointing out these common errors and providing advice on how to avoid them. On July 17, 1996, IRAS also released a press statement and cautioned traders to avoid these mistakes.

In 1995/96, IRAS discovered errors in more than 900 cases. The first to be prosecuted was a local trading company on June 7, 1996. The company was fined S$ 12,500 for failing to charge and account for GST on its taxable sales.[44] IRAS prosecuted a mold, tool and die-making company that collected a GST of S$ 39,600 but failed to remit it to the IRAS. This company had to pay a penalty of S$ 79,200 (double the amount of evaded tax) and a fine of S$ 1,000.[45] Through taxpayer audits, IRAS recovered revenue of S$ 14 million for 1995/96, and S$ 3 million for 1994/95.

4.7 GST Concerns and Performance

Although the opposition to GST was not as great in Singapore as it was in many other countries, IRAS still had to face some resistance from the general public, the business community and politicians during the preparatory period. The general public was concerned about the inflationary effect of GST. Consumers had to pay a new 3% tax, which was a concern, though they thought that the GST would raise prices by more than 3%. The government revived the Committee on Profiteering and Inflation to monitor prices and ensure that they remain stable.

Retirees and fixed-income groups were concerned that their dollar would buy less.[46] In order to offset the impact of GST, the government introduced some measures, such as an increase in public assistance grants.

The business community was uncomfortable about GST-registered businesses having to ensure that their books and records were maintained to enable proper accounting of the GST. They worried about the potential for high compliance costs. Businesses also worried about the cash flow problem, given they would have to pay tax first on imported inputs and claim it back later at the time of exports. The government introduced the major exporter scheme to avoid this problem, however not all businesses qualified for this scheme. Hence, some people still had a problem with the GST's impact on the cash flow of the business.

Some voices were raised from opposition political party leaders who demanded a referendum on this issue. They also criticized GST as a regressive tax and said there was no need to introduce such a tax.[47] The opposition, however, did not threaten the preparation of GST. As the ruling People's Action Party continued to hold an absolute majority in Parliament, the government was comfortable politically. An extensive taxpayer education program helped to erase the doubts and fears of many groups. The low rate, high threshold, and generous offset packages helped a majority of Singaporeans accept GST easily.

It is not unusual to have some adjustment problems during the implementation of a new tax such as GST. Businesses have to maintain books and records, establish formal procedures, and occasionally encounter new situations. IRAS provides hot-line services for such inquiries, but the hot-line was often busy and difficult to contact. Some retailers announced that they would absorb GST in the initial stage of GST introduction. Even if they did not charge GST from consumers, they had to show it in their receipts for GST purposes. When consumers saw GST mentioned in the receipt, they would argue with the retailers saying that the retailers had not absorbed the GST as they had earlier announced. Retailers had to explain the reasons why they had to itemize GST in their receipts, even if they had not charged it. Similarly, retailers had to keep separate records for the supply of goods and services under contracts that were completed on or before April 7, 1993 which were zero rated. This complicated their accounting procedures. So some retailers entered into new contracts instead, within the terms and conditions fixed earlier, and charged GST.

Despite these issues, GST implementation has been, on the whole, very smooth. IRAS continued its preparatory work, such as taxpayer education, fine-tuning of the legislation, etc., even after the implementation of GST. GST has become a reasonably established tax in a short time, accepted by the majority of Singaporeans.

Since its implementation, the number of GST-payers has been increasing. When GST was introduced, the number of GST-payers was 32,799. It increased to 40,367 by March 31, 1995 and 43,470 by March 31, 1996. The composition and trends of GST-registrants by industry and organization may be seen from Appendix Tables 8 and 9, respectively.

The compliance level is fairly high. For example, IRAS received almost 94% of the returns due in 1994/95.[48] As indicated in the following section, revenue collection is also strong.

Section V: An Assessment of GST

5.1 Transitional Costs

Introduction of any new tax incurs transitional costs in many ways. The government has to develop an administrative system and strategy to implement the new tax and must also educate the public on the rationale and operation of the new system. The business sector has to prepare itself to comply with the new tax, and the public has to be prepared to pay the new tax. Different groups may have doubts and fears about the impact of the new tax. Misunderstanding of the new system could lead to confrontation between the government and the public, which might prove to be very costly to the nation. This does not mean, however, that these transitional costs are completely unavoidable. Most of these costs can be minimized considerably with a proper preparation and implementation strategy.

Singapore is an example of a country that minimized the transitional costs of introducing its GST. The country made detailed preparations for the introduction of GST. Proposals for improvements and refinements to the GST legislation were solicited from the public. Wide discussions were held on the structure and operation of the proposed GST in order to fine-tune the system to local conditions in Singapore. The public was given about 15 months to prepare for GST implementation. During this period, an extensive taxpayer education program was launched to educate businesses and the public on the working of the GST. This proved very important to ensure the smooth implementation of GST and minimize transitional costs. The introduction of GST turned out to be uneventful. The day GST was introduced, April 1, 1994, turned out to be just like any other day for IRAS, as the Finance Minister publicly reported.

5.2 Compliance Costs

As in the case of other taxes, businesses have to bear some compliance costs under GST. Though most businesses keep books and records for income tax purposes, they must do some additional work for GST. A few businesses, such as the NTUC Fair Price Cooperative, do not have to maintain records for income tax purposes since they are exempt from income tax.

Compliance costs associated with the GST consist of start-up costs and running costs. Businesses in Singapore did not have any prior experience with a general sales tax system, so it was hard for them in the beginning to learn about the system and how to apply it daily. They had to align their accounting and bookkeeping systems with GST requirements by, for example, changing their invoices and upgrading their computer systems.[49] The cost of implementing the

GST was relatively higher for the small traders compared to the bigger ones, as the former usually do not have their own information technology departments to adjust their computer systems to GST requirements. This means that they had to purchase new software, which is often quite costly.[50] Both large and small traders had to train their employees on GST matters, increasing their start-up costs.

Businesses also incur operating costs. For example, they have to maintain records, submit returns, and pay tax. Also, as the personnel working on GST change jobs, they have to train new staff. Further, since taxpayers are required to submit audited reports under the Bonded Warehouse System (BWS) and Major Exported Scheme (MES), they have to pay fees to the auditors. These are a few examples of costs that businesses incur as a result of the GST.

IRAS commissioned a study on the compliance costs of GST one year after its implementation. According to this study, the average compliance cost of GST was S$ 4,339 in the first year of its implementation.[51] Most of the costs may be attributed to the start-up costs. The average operating cost was found to be very low, at about S$ 996. The average compliance cost as a percentage of turnover was 0.3018% in the case of businesses with turnover of less than S$ 1 million (those who registered voluntarily) and 0.0086% in the case of businesses with a turnover of more than S$ 50 million. Both cost ranges are expected to decline, as businesses become more familiar with the GST system.

The reasons for the low costs include:

- simplified structure of the GST
- returns due only at the end of each quarter
- quarterly accounting period provides a cash flow advantage to businesses
- high threshold keeps small businesses, which would have found compliance difficult, out of the tax net
- an extensive taxpayer education program to prepare citizens in advance.

5.3 Administrative Costs

The tax administration has to bear some costs in administering GST. To staff the GST administration, some officials were transferred from other divisions of IRAS, while others were newly recruited.[52] IRAS had to pay the new GST staff and finance an extensive taxpayer education program. As indicated in Appendix Table 7, the overall costs of IRAS increased from S$ 75 million in 1992/93 to S$ 96 million in 1993/94, an increase of about 22% over the previous year. Part of the increase was due to the conversion of the Inland Revenue Department into IRAS in September 1992, and part was due to the GST preparation.[53] The cost of collection as a percentage of total revenue collection increased from 0.80% of revenues in 1992/93 to 0.88% of revenues in 1993/94, but fell to 0.81% of revenues in 1994/95.

5.4 Price Level

A common concern of different groups before the introduction of GST was the potential inflationary effect of GST. The government expected prices to rise by about 5.5% in 1994, but assured the public that it would act promptly to prevent profiteering and price increases. To this end, the Committee on Profiteering and Inflation was revived to ensure that prices would remain stable.[54]

In practice, things turned out differently. Just before the introduction of GST, most big retailers announced that they would temporarily absorb GST. The small retailers also had to follow suit, so as not to risk losing market share.[55] As a result, prices did not rise as was estimated before the implementation of GST. The Singaporean Government's tight control over monetary policy ensured that inflation could not increase by the full amount of the GST.

A study was carried out by the Department of Statistics to monitor "hawker" food prices. The study, which surveyed 1,650 hawker stalls, reported that only one in five hawkers had raised prices.[56] The Consumer Price Index rose by only 0.5% from March to April 1994 and 1.5% between April and June 1994. The rate of inflation for fiscal year 1994/95 was 3.6%, much lower than the inflation rate expected by the government. Consequently, consumers were not greatly affected by the implementation of GST.

5.5 Revenue Collection

GST was not intended to increase total tax revenue. It was introduced as part of an overall tax reform package. The tax reform package was expected to cost the government S$ 1.2 billion, while the GST was expected to generate revenue of S$ 960 million in the first year, causing a net loss in revenue of S$ 240 million. However, due to the better than expected performance of the economy, GST generated revenue of S$ 1.5 billion in 1994/95, or 36% more than expected. The revenue offset figure increased from S$ 1.2 billion to S$ 1.7 billion, resulting in a net loss of S$ 0.2 billion in 1994/95. GST is expected to generate no revenue in the short run. In 1995/96, GST generated revenue of S$ 1.6 billion while the offset package cost S$ 1.8 billion, leaving a net loss of S$ 0.2 billion.

5.6 Export

GST is based on the destination principle, i.e. that imports are taxed, while exports are free of taxation. The common worldwide method to relieve exports from the burden of GST is to apply a zero rate to them. Singapore has also zero-rated the export of goods and services. The country has adopted the BWS and MES systems, which allow traders to import goods without paying GST at the import point. This provides a cash flow advantage to the traders. Exporters, however, have to pay auditors' fees, as they are required to submit an auditor's report in connection with the MES and BWS and must also complete some GST formalities. A tourist refund scheme has been adopted in order to mitigate any adverse effect of GST on tourist sales. Operators of the tourist scheme, however, have to employ one or two employees to facilitate this program. On the other hand, they deduct a part of GST paid by tourists as a service charge. The Asia Tax Refund company started refunding tax at the Changi airport on April 26, 1997 for those retailers who did not want to handle the tourist refund scheme themselves. The company is expecting to handle about 15,000 refund cases and to return S$ 20 to 30 million per year.

As indicated in Appendix Table 10, total exports increased from S$ 119,473 million in 1993/94 to S$ 147,327 million in 1994/95, reflecting a growth rate of 18.91%. This is compared to a growth rate of exports in 1993/94 of 13.49%. Re-exports grew by 25% in 1994/95, up from a growth rate of 16% in 1993/94.

Section VI: Concluding Observations

6.1 Concluding Observations

Singapore is one of only a few countries that did not have any experience with a general type of consumption tax before the introduction of GST. Nevertheless, the implementation of GST in Singapore has proven to be very smooth and can be cited as a success story. This is due to the following reasons:

6.1.1 Political Commitment

There was a strong political commitment to introduce GST in Singapore. The intention behind the introduction of GST was to restructure the overall tax system in order to make Singapore more competitive. "A fairer tax; A brighter future" was made the GST slogan. GST was supported strongly by politicians at the highest level. The Prime Minister said that, "The ministers who worked on the GST, along with the civil servants, were the Deputy Prime Minister, Minister for Finance Richard Hu, Minister for Trade and Industry Dhanabalan and later the Minister of State for Finance Teo Chee Hean." Many high level politicians advocated GST on various occasions. For example, the Prime Minister, Goh Chok Tong, said that GST would not be introduced to raise more money. If GST increased total revenue, the government would return the excess revenue.[57] The Acting Prime Minister, Lee Hsien Loong, said, "Let us proceed with the GST on 1 April. I do not anticipate any difficult problems, but if there are, we will solve them."[58] The Finance Minister and the Minister for Trade and Industry not only defended GST in Parliament, but also advocated it on numerous occasions outside Parliament. The Finance Minister's dedication was reflected in his four-hour visit to different shops, the IRAS office, and the Causeway customs check points to observe the functioning of GST on the first day of its introduction.

6.1.2 Mass Participation

The job of implementation of the GST was not limited to the IRAS or the Ministry of Finance. It was developed as the government's program in a wider sense, given many organizations were involved in its preparation from its inception. For example, the GST Steering Committee was represented by the Ministry of Finance, the Ministry of Trade and Industry, IRAS, the Department of Customs and Excise, and the Attorney General's Chamber. The White Paper on GST was issued jointly by the Ministry of Finance and the Ministry of Trade and Industry. The Ministry of Information and the Arts, Ministry of Community Development, Police, Community Development Centers, The Civil Aviation Authority of Singapore, Department of Statistics, and the Trade Development Board were also involved in the GST preparation process. The Consumers Association of Singapore participated in the joint operations set up to monitor the price situation. The Monetary Authority of Singapore conducted a study on the impact of GST and the tax offset package on the economy. Different institutes, including the Economic Society of Singapore, organized various seminars on GST. Different trade associations were also involved at different stages.

6.1.3 Administration

GST was new for taxpayers as well as tax collectors in Singapore. As this tax did not replace any major tax, it was necessary to recruit new officials. Since Singapore had already converted the tax administration from a department in the civil service to an autonomous revenue authority in order to run a service-oriented, professional and efficient organization, it did not take much time to recruit and train GST officials. These officials worked hard, often for long hours, during the GST preparation and implementation period.

The Singaporean economy is sophisticated, due to the diversified transactions of big and/or multi-national companies. So it was not unnatural to encounter problems quite often under a broad-based tax system such as GST. Issues were dealt with quickly, however, due to the motivated and hard-working personnel involved in the GST preparation and implementation process. The tax administration was staffed by open-minded people who were ready to listen to the taxpayers and consider their genuine concerns. This helped to win the confidence of businesses.

6.1.4 Extensive Public Education Program

Singapore launched an extensive public education program explaining the rationale and mechanics of GST. The government organized numerous dialogue sessions, seminars and classes, and launched television and radio programs, and newspaper advertisements. The main focus of these programs was to prepare businesses for the GST.

A White Paper on GST, plus several brochures and pamphlets on GST, were prepared and widely distributed, helping to remove the doubts and fears of several groups. As a result, businesses were in a better position to comply with the GST, and consumers did not resist it.

6.1.5 Consideration of Local Conditions

An attempt was made to suit GST to the local conditions in Singapore. To this end, a Parliamentary Select Committee was formed to hear the concerns of businesses and others about the GST Bill. Businesses and others submitted their recommendations to this committee, and those concerns determined to be genuine were incorporated into the GST Bill. Similarly, real questions of the business community were considered seriously by the IRAS staff. Special attempts were made to not distort the working of the economy through the GST system. For example, the re-export of goods plays an important role in Singapore's economy. Traders use this country as a regional distribution hub. The MES and BWS were designed to relieve the imports of the qualifying exporters from GST. A tourist refund scheme was adopted so that tourist sales would not be adversely affected. Since Singapore is a leading financial center, a lenient approach was taken with regard to the financial sector. To this end, fixed input tax recovery rates for banks and financial institutions were adopted under the GST system.

6.1.6 Generous Package of Offsets

Singapore introduced a generous package of offsets together with the introduction of GST. The reduction in the rates of corporate and individual income tax and property tax helped businesses to offset their cost of compliance with GST. Income tax rebates relieved many taxpayers from the burden of paying income tax. The property tax rebate also helped to lessen the impact of GST. Similarly, the abolition of or reduction in the rate of several specific commodity taxes and non-tax rebates helped to minimize the impact of GST. Due to such a generous package of offsets and the low rate of GST, the public was not heavily impacted by the introduction of GST.

6.1.7 Support from the Business Community

The business community was not hostile to GST. The openness and willingness of government agencies to listen to the business community won the confidence of the business community, and dialogue became a part of GST preparation and implementation process. Many trade associations organized more than one GST seminar for its members. These seminars were intended to clear the doubts and confusions of the trade association members on GST.

6.1.8 Good Timing

Singapore introduced GST when the economy was strong. The GDP growth rate has been very high since the early 1990s. There has been full employment and people have been in a position to afford a new tax. The budget surplus has enabled the government to reduce other taxes that were expected to generate less revenue than the GST in the first few years of GST's introduction.[59]

6.2 Lessons Learned

Singapore introduced GST in a successful manner in a relatively short period of time. The public accepted the tax well. Strong political commitment, mass participation, careful planning, good timing, dedicated personnel, detailed preparation and an extensive taxpayer education program were the secrets for the success of GST. As GST was not driven by immediate revenue needs, it was possible to introduce a low rate GST with a generous package of offsets to reduce its impact. An absolute majority of the ruling party in the parliament was an added advantage for the country.

Although many countries may not be in a position to fix a very low rate and high threshold, to introduce a generous tax offset package, and may not have an absolute majority of the ruling party in the Parliament, careful planning, detailed preparation, mass participation, an extensive taxpayer education program and good timing are essential ingredients for any country to successfully implement such a value added tax system.

Appendix Table 1: Gross Domestic Product by Industry

(Million Singapore Dollars)

Sectors	1991	1992	1993	1994	1995
Manufacturing	21,191	21,237	24,524	27,674	31,636
Financial and Business Services	19,858	22,235	26,739	30,576	34,187
Commerce	14,082	15,094	17,934	21,168	23,652
Transport and Communication	9,991	10,169	11,494	12,986	14,130
Construction	4,799	6,212	6,772	7,976	8,555
Others	9,786	10,611	11,820	13,505	14,783
Total	79,707	85,558	99,283	113,885	126,943
Less : Imputed bank service charges	5,024	5,296	5,878	6,423	7,058
Add : Import duties	638	736	853	762	744
Grand Total	**75,321**	**80,998**	**94,258**	**108,224**	**120,629**

Source: Year Book of Statistics Singapore, 1995, Department of Statistics, P. 57

Appendix Table 2: Composition and Trend of Public Expenditure

(Million Singapore Dollars)

Headings	1991	1992	1993	1994	1995
Operating Expenditure	7,805	8,486	9,144	9,700	10,883
Development Expenditure	3,525	3,795	3,410	4,418	4,671
Total Expenditure	11,330	12,281	12,554	14,118	15,554
Total Revenue	14,852	17,218	19,527	23,280	24,782
Fiscal Surplus	3,522	4,937	6,973	9,162	9,228

Source: Economics Survey of Singapore,1st Qrtr '96, Ministry of Trade & Industry, Republic of Singapore

Appendix Table 3: Composition and Trend of Tax Revenue

(Million Singapore Dollars)

Types of Tax	1990/91	1991/92	1992/93	1993/94	1994/95	1995/96
Income Tax	5,340	6,150	6,440	7,309	7,694	8,150
Property Tax	1,249	1,439	1,477	1,615	1,789	1,698
Stamp Duty	593	621	676	1,109	1,390	1,271
Estate Duty	46	26	22	43	46	62
Duty on Betting	533	603	623	724	774	859
Private Lotteries Duty	81	95	99	118	143	182
Goods & Services Tax					1,523	1,633
Others	-	2	-	2	-	-
Total collected by IRAS	7,842	8,936	9,337	10,920	13,359	13,855
Total collected by C&ED	1,344	1,406	1,561	1,709	1,591	1,623
Total Tax Revenue	**9,186**	**10,342**	**10,898**	**12,629**	**14,950**	**15,478**

Note: IRAS = Inland Revenue Authority of Singapore; C&ED = Customs and Excise Department

Source: 1) Annual Reports of various years of IRAS. 2) Annual Reports of Customs & Excise Department

Appendix of Table 4: Individual Income Tax Rates

CHARGEABLE INCOME RANGE (SS$)	INCOME TAX RATE (%)	
	YEAR OF ASSESSMENT	
	1987-1993	**1994**
1 - 5,000	3.5	2.5
5,001 - 7,500	6	5
7,501 - 10,000	8	6
10,001 - 15,000	8	7
15,001 - 20,000	9	8
20,001 - 25,000	12	11
25,001 - 35,000	14	13
35,001 - 50,000	17	15
50,001 - 75,000	21	19
75,001 - 100,000	24	22
100,001 - 150,000	26	24
150,001 - 200,000	28	25
200,001 - 400,000	31	28
Above 400,000	33	30

For year of Assessment 1994, a one-off 5% rebate on the gross tax and GST rebate up to SS$ 700 is allowed.

Appendix Table 5: Number of Income Tax Payers by Type

Types of Income Taxpayers	*YEAR OF ASSESSMENT* 1992	1993	1994	1995
Individuals	1,061,585	1,133,945	383,295	417,517
Companies	19,356	20,751	17,483	17,455
Trusts	628	627	601	600
Clubs & Associations	257	1,707	1,716	1,733
Total	1,081,826	1,157,030	403,095	437,305

Source: IRAS Annual Reports

Appendix Table 6: Number of Positions of IRAS

		Tax Officer	*Office Support Staff*	*Total*	*Remarks (New Officer Recruitment)*
1991	December 31	800	724	1,524	(79)
1993	March 31	893	637	1,530	(143)
1994	March 31	1,010	606	1,616	(347)
1995	March 31	999	515	1,514	(127)
1996	March 31	1,057	460	1,517	(200)

Source: IRAS Annual Reports of Various Year.

Appendix Table 7: Cost of Tax Administration

(Million Singapore Dollars)

	1992/93	1993/94	1994/95	1995/96
IRAS				
Manpower Expenditure	50	55	66	69
Operating Expenditure	25	41	42	67
Total Cost	75	96	108	136
Total Revenue	9,337	10,918	13,359	13,855
C & ED				
Manpower Expenditure	27	31	39	42
Operating Expenditure	7	8	8	11
Total Cost	34	39	47	53
Total Revenue	1,561	1,709	1,591	1,623

Sources: 1) IRAS Annual Reports, Figures for April - March
2) Customs & Excise Dept. Annual Reports, Figures for January - December

Appendix Table 8: Number of GST - Registrants by Industry

Industry	At March 31, 1995		At March 31, 1996	
	Number	*Percentage*	*Number*	*Percentage*
1. Manufacturing & Electricity	5,798	14.4	6,260	14.4
2. Construction	3,575	8.9	3,956	9.1
3. Wholesale	17,419	43.2	18,475	42.5
4. Retail	3,409	8.4	3,521	8.1
5. Restaurant & Hotels	751	1.9	826	1.9
6. Transport & Communication	2,806	7.0	2,956	6.8
7. Finance	1,512	3.7	1,739	4.0
8. Real Estate & Business Services	3,631	9.0	4,086	9.4
9. Community, Social & Personal Services	1,372	3.4	1,478	3.4
10. Others	94	0.2	173	0.4
Total	**40,367**	**100.00**	**43,470**	**100.00**

Note: Voluntary registrant 8,380 in 1995 and 9,960 in 1996 Source: Inland Revenue Authority of Singapore

Appendix Table 9: Number of GST-Registrants by Type of Organization

Type of Organization		At March 31, 1995		At March 31, 1996	
		Number	*Percentage*	*Number*	*Percentage*
1.	Sole- Proprietorship	5,109	12.7	4,978	11.5
2.	Partnership	4,029	10.0	3,857	8.9
3.	Corporation	30,008	74.3	33,433	76.9
4.	Trust	2	0.0	2	0.0
5.	Club & Association	300	0.7	319	0.7
6.	Institution	92	0.2	92	0.2
7.	Statutory Board/Government	34	0.1	34	0.1
8.	Group Registration	433	1.1	415	0.9
9.	Divisional Registration	360	0.9	340	0.8
Total		**40,367**	**100.00**	**43,470**	**100.00**

Note: The above figures include 82 registrants under bonded warehouse scheme (BWS) and 3,214 registrants under the major exporter scheme (MES) in 1995, and 82 BWS & 3397 MES, in 1996.

Source: Inland Revenue Authority of Singapore.

Appendix Table 10: Composition and Trend of International Trade

(Million Singapore Dollars)

Description	*1991*	*1992*	*1993*	*1994*	*1995*
Exports	101,879	103,351	119,473	147,327	167,515
Domestic Exports	66,031	66,337	75,394	88,533	98,473
Re-exports	35,848	37,014	44,079	58,794	69,042
Import	114,195	117,530	137,603	156,396	176,313
Total	**216,074**	**220,881**	**257,076**	**303,723**	**343,828**

Source: Economic Survey of Singapore, First Quarter 1996, Ministry of Trade & Industry, Republic of Singapore, p. 72.

Appendix Table 11: Tourist Arrival and Revenue from Travel

Year	No. of Tourists	Revenue from Travel (Million Singapore Dollars)
1991	5,415	7,872
1992	5,990	9,046
1993	6,426	10,121
1994	6,899	10,930
1995	7,137	11,653

Source: Economic Survey of Singapore, First Quarter 1996, Ministry of Trade and Industry, Republic of Singapore, p. 77 and 91.

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3. Goh Khee Kuan, *The Introduction of GST in Singapore*, an unpublished paper.

4. *GST Act 1993, and Subsidiary Legislation*, Republic of Singapore.

5. Leung Yew Kwong, *GST in Singapore: Some Aspects of Administration and Compliance*, 10th Asian-Pacific tax conference, November 1993, APTRIC, Singapore.

6. Mukul G. Asher, "The Proposed Goods and Services Tax (GST): Implications For Singapore's Fiscal System," *APRTIC BULLETIN*, Vol. 11, No. 6, June 1993, pp. 213-220.

7. *Report of the Economic Committee*, "The Singapore Economy: New Directions, Ministry of Trade and Industry," Republic of Singapore, 1986.

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9. Ronald I. McKinnon, "Export Expansion Through Tax Policy: The Case for a Value Added Tax in Singapore," *The Malayan Economic Review*, Volumes XI, October 1966 and XII, April 1967.

10. *Survey Research Singapore*, "Survey on Compliance Costs on GST, "1996.

11. *The Goods and Services Tax*, Ministry of Trade and Industry and Ministry of Finance, 1993.

12. *The Business Times*, Singapore, 13 September 1993, 13 October 1993, 30 October 1993, 30 March 1994, and 15 April 1997.

13. *The Straits Times*, Singapore, 5 February 1993, 11 February 1993, 13 February 1993, 20 March 1993, 30 March 1993, 16 April 1993, 27 January 1994, 6 March 1994, 28 March 1994, 1 April 1994, 2 April 1994, 5 April 1994, 18 April 1994, 24 May 1994, 27 July 1994, 30 July 1994, 20 August 1994, 28 December 1994, 5 January 1995, 24 January 1995, 27 February 1995, 14 March 1995, 15 March 1995, 16 March 1995, 17 March 1995, 8 June 1996, and 19 October 1996.

14. *The Sunday Times*, 31 January 1993, 6 March 1994, 2 April 1994, and 1 May 1994.

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6. GST and your accounting entries
7. How do I prepare my GST return?
8. GST general guide for traders
9. GST guide for motor traders
10. GST and the freight forwarders
11. GST and the construction industry
12. Major exporter scheme
13. GST Facts at your fingertips
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15. GST guide on group registration
16. Guide to divisional registration
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18. Customs GST Guide
19. A Handbook for the Bonded Warehouse Scheme
20. GST handbook for banks
21. Q & A relating to banks

22. GST handbook for merchant banks
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23. Q & A relating to merchant banks

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32. GST and the futures industry

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34. GST and the travel industry

35. A handbook on exports

36. Retailers' guide on the tourist refund scheme

37. GST guide for advertising industry

38. GST and the real estate sector

39. GST and the stock broking industry

ENDNOTES

1 1996 Budget Statement, Part I, p. 18.

2 *ibid.*, p. 18.

3 The concept of value added tax (VAT) was developed by Wilhelm von Siemens in Germany in 1919. It was revived again in 1949 by the Shoup Mission in its effort to design a comprehensive tax reform plan for Japan. The idea was limited to a topic of academic interest until France included it in its tax system in 1954. Since then, VAT has been a widely discussed topic in the field of public finance, and it has been adopted widely throughout the world. At the present time, about 110 countries are using this tax as a major component of their tax systems. It has now become a common element in modern tax systems in both developing and developed countries.

4 Ronald I. McKinnon, "Export Expansion Through Tax Policy: The Case for a Value Added Tax in Singapore," *The Malayan Economic Review*, Volume XI, No. 2, October 1966, pp. 1-27.

5 *Ibid.*, p. 2.

6 Goh Khee Kuan, *The Introduction of GST in Singapore*, an unpublished paper, p. 3.

7 Report of the Technical Committee on the Feasibility of a VAT in Singapore, extracted from Goh Khee Kuan, *ibid.*, p. 3.

8 *Report of the Economic Committee*, "The Singapore Economy: New Direction, Ministry of Trade and Industry," Republic of Singapore, 1986, p. 89.

9 The Inland Revenue Department was converted into a statutory board and renamed the Inland Revenue Authority of Singapore, IRAS, on September 1, 1992.

10 Goh Khee Kuan, *op. cit.*, p. 4

11 *The Goods and Services Tax*, Ministry of Trade and Industry and Ministry of Finance, 1993, pp. 5-9.

12 Zero-rating is a system under which tax is levied at a rate of zero percent. Under such a situation, in effect, no tax is payable on outputs but taxpayer can get a credit for the tax paid on his inputs.

13 VAT provides a self-policing mechanism except at the retail stage in that "evasion by suppliers through understating tax collected is counteracted by the purchaser's interest in ensuring that all tax paid is recorded. Similarly, evasion by purchasers in overstating tax paid runs counter to the interests of suppliers." Henry J. Aaron, (ed.), The Value Added Tax: Lessons from Europe, Brookings Institutions, Washington DC, 1981, pp. 3-4.

14 "Catch-up effect" means that understated values at an early stage in the production and distribution chain will be discovered at a later stage.

15 "Cascading" is a term used to describe a situation where tax is paid on tax, while pyramiding is a term where vendors apply a mark-up on the tax amount paid at an earlier stage(s). VAT avoids cascading, since the base of tax at the later stage does not include tax paid at an earlier stages. VAT also avoids the problem of tax pyramiding since the vendors do not apply a mark-up on the tax amount as the tax paid at an earlier stage is not included in their buying price.

16 Fiscal Year 1993 Budget Statement, Part III, p. 1.

17 Mukul G. Asher, "The Proposed Goods and Services Tax (GST): Implications for Singapore's Fiscal System," APTRIC BULLETIN, Vol. 11, No. 6, June 1993, p. 213.

18 Of these representations, 56 were from the business community, 7 from individuals and academicians, one from a political party and 6 from others.

19 Goh Khee Kuan, *op. cit.*, p. 10.

20 Charles Lim Aeng Cheng et. al., *Goods and Services Tax: The Law and Practice*, Butterworths Asia, 1995, p. 41.

21 At that time Japan had a 3% rate of the consumption tax which was the lowest in the world.

22 Trade Net is an EDI network system that enables the speedy exchange of trade documents and information.

It takes about 20 minutes to get a permit through Trade Net. See Customs and Excise Department, Annual Report 1995, p. 16.

[23] *Report of the Select Committee on the Goods and Services Tax Bill*, 1993, p. v.

[24] *The Business Times*, April 15, 1997.

[25] *The Goods and Services Tax*, Ministry of Trade and Industry and Ministry of Finance, 1993, p.22

[26] Annual Report 1993, IRAS.

[27] Charles Lim Aeng Cheng et.al. *op. cit.*, p. 47.

[28] *The Straits Times*, April 1, 1994.

[29] *The Straits Times*, March 28, 1994.

[30] Goh Khee Kuan, *op. cit.*.

[31] *The Straits Times*, April 2, 1994.

[32] *The Straits Times*, April 2, 1994.

[33] The Consumers Association of Singapore is a body that is involved in consumers welfare. The Ministry of Trade and Industry prepares the consumers price index.

[34] *The Straits Times*, April 2, 1994

[35] *The Business Times*, March 30, 1994.

[36] *The Straits Times*, April 2, 1994.

[37] National Trade Union Congress

[38] *The Straits Times*, April 2, 1994.

[39] *The Straits Times*, April 2, 1994.

[40] *The Straits Times*, April 2, 1994

[41] *The Straits Times*, March 6, 1994.

[42] *The Straits Times*, March 6, 1994.

[43] *The Straits Times*, January 24, 1995.

[44] *The Straits Times*, June 8, 1996.

[45] *The Straits Times*, October 19, 1996.

[46] *The Straits Times*, March 30, 1993.

[47] *The Straits Times*, March 30, 1993.

[48] The number of cumulative returns rec'd was 113,876 of a total cumulative due of 121,721 on 3/ 31/95.

[49] *The Straits Times*, April 5, 1994.

[50] *The Straits Times*, April 5, 1994.

[51] *Survey Research Singapore*, Survey on Compliance Costs on GST, 1996.

[52] In 1993-4, IRAS recruited 347 staff members. Between 1991 & 1993 this figure varied from 79 to 200 – the average annual recruitment rate was 180 for this period. This means IRAS recruited about 170 more officials in 1993-4, when preparation for the GST introduction was made. It may be assumed they were recruited for GST.

[53] The Finance Minister reported to Parliament on October 12, 1993 that start-up costs of GST for the government would be S$29 million. Out of this, S$ 16 million would be spent on manpower and S$ 13 million on computer-related matters. (*The Business Times*, October 13, 1993).

[54] *The Straits Times*, May 24, 1994.

[55] *The Business Times*, March 30, 1994.

[56] *The Straits Times*, May 24, 1994.

[57] *The Straits Times*, April 16, 1993.

[58] *The Sunday Times*, March 6, 1994.

[59] *The Straits Times* reported on March 30, 1993 that Singapore introduced GST in such a time when Singapore's coffers were full, allowing the government to keep the rate at 3% and sweeten the GST pill further with other tax cuts, rebates and waivers."