

ST Forum

## **Why 'GST credits for all' works better**

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MS WANG Xin Min's reply last Friday, ('Why targeted GST credits work better'), to my article, ('Making the case for GST roll-back', Jan 26) allows me to elaborate on some issues.

First, this year's proposed increase in goods and services tax (GST) credits has a limited coverage. Only citizens aged 21 and above are eligible. Permanent residents and foreigners working here are ineligible, whereas they would benefit from a two-percentage-point GST reduction.

Tourists will also not benefit from GST credits. Those leaving through Changi or Seletar airports can claim GST refunds for items taken out of Singapore. But no GST refunds are provided for expenditures on accommodation, sightseeing and other expenses; and neither can Malaysians travelling by road or rail claim refunds.

Statistics show that Singapore had 241,000 employed PRs and, excluding lower-paid work permit holders, about 110,000 foreigners on employment and S-passes. Some 10 million tourists visited last year, spending about \$14.8 billion.

All these people would benefit from a GST reduction - and are likely to spend more as a result.

Second, some indicative calculations of mine suggest that Singaporean households at or below the median monthly resident household income of about \$5,000 last year would tend to benefit more from the increased credits (assuming a typical household has two working adults), while those above the median would benefit more from a two-percentage-point GST reduction. (Unfortunately, this household income data also includes the income of PRs, so this discussion is only suggestive.)

This is partly because the increased credits fall from \$250 per adult to \$200 once the median is crossed, and partly because the mean monthly resident household income (\$7,090) significantly exceeds the median (and consumption spending varies positively with income).

Overall, one can conclude that a two-percentage-point GST reduction would be more demand-stimulatory than increased GST credits; more so if the real balance effect I discussed earlier is also considered.

However, it need not be an 'either-or' choice. May I propose the following hybrid scheme: A two-percentage-point reduction in the GST, and no additional GST credits for individuals with annual assessable incomes greater than \$24,000 (corresponding roughly to the above median household income).

For those earning \$24,000 and less, there should be additional GST credits, but these can be scaled back in the light of the two-percentage-point reduction.

The extent of the scale-back could be chosen such that the majority of households in this income range are no worse off under this scheme than under the current Budget proposal.