Articles

VALUE ADDED TAX POLICY AND IMPLEMENTATION IN SINGAPORE[1]

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INTRODUCTION

The Value Added Tax (VAT) was introduced in Singapore in 1994 as a major part of an overall tax reform package and with a strong political commitment to its implementation. As the Singaporean economy has many special features that make it difficult for a generic VAT to function well, such as a very high ratio of imports and exports to GDP and a relatively large financial sector, a number of modifications were made in its design and administration to facilitate its operation. These modifications demonstrate how the basic structure of the VAT can be successfully adapted to fit the particular circumstances of a country, provided it is done with care to practical issues of compliance and administrative feasibility. The detailed preparation, openness, and high energy level of the tax authorities made it possible to implement VAT in an exemplary manner. The case of the implementation of the GST in Singapore comes close to being a "best practices" framework to guide other governments toward a successful introduction of this important system of taxation.

1. EARLY THOUGHTS ON GST

Although extensive literature has been developed on the tax policy and design aspects of the value added tax (VAT), very little has been written on its implementation.[3] Although there is general agreement amongst tax professionals that the implementation strategy is critical to the success of a tax reform,[4] as yet we do not have a "best practices" framework to guide governments on questions related to the implementation of a VAT. This examination of the introduction of the goods and services tax (GST, a general value added tax) in Singapore reviews the important tax policies embodied in the design of the GST tax system and identifies some of the key features of Singapore's successful implementation strategy.

The idea of introducing a VAT in Singapore arose around the time when Singapore became a republic. A VAT up to the wholesale level was recommended in 1966 in place of the existing corporate profit tax, payroll tax and employer's provident fund contribution, protective tariffs, and miscellaneous sales taxes.[5] The main objective behind this proposal was to promote exports.[6]

The idea of VAT was put forward again in 1977 when the Prime Minister suggested that 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.[7] The committee, in May 1980, reported "VAT is not feasible at present" and recommends instead a selective sales tax on luxury consumption items.[8]

The idea of introducing a consumption-based tax, such as VAT, in Singapore became relevant again in the mid-1980s in the light of tax reform taking place around the world, particularly following the US tax reform in 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. This

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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 has been adopted widely throughout the world.
4. For example, Seth Terkper, "Why the VAT Failed in Ghana". *Tax Notes International*, Vol. 12, No. 23, 3 June 1996, pp. 1801-16.
5. 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.
6. Id., p. 2.
7. Goh Khee Kuan, The Introduction of GST in Singapore, an unpublished paper, p. 3.
8. Report of the Technical Committee on the Feasibility of a VAT in Singapore, extracted from Goh Khee Kuan, id., p. 3.

meant that the country needed to reduce its dependence on income tax in order to make its economy more competitive. In this respect, VAT was considered as an alternative way to make up for the revenue loss from the reduction in income taxes, as VAT does not discourage investment, saving and work. This is reflected in the Report of The Economic Committee of 1986, in which the Committee recommended that the government shift from direct to indirect taxes as its main source of revenue.[9]

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

2. THE RATIONALE FOR GST

The White Paper stated the following reasons for the introduction of the GST in Singapore:[12]

(A) It was necessary to restructure the whole tax system in order to maintain the international competitiveness of Singapore's economy. To this end, it was necessary to reduce the rate of income tax and to introduce GST as an alternative source of revenue to make up for revenue loss from the reduction in the income tax rate.

(B) Singapore would be facing the problem of an ageing population. In such a situation the income tax system would put a greater burden on a smaller group of younger working Singaporeans. This might inhibit growth and enterprise. Therefore, it would be necessary to introduce a broad-based tax such as GST to distribute the burden of taxation among a larger number 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 a tax burden, and "rewards enterprise and strengthens economic resilience". GST relieves exports completely from the burden of internal commodity taxes through the zero-rating[13] 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,[14] which facilitates administration and makes it difficult to avoid or evade the tax. The catch-up effect[15] 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) As GST is levied on a wide range of goods and services, and as 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. In addition, GST does not cause cascading/pyramiding.[16]

(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.

Thus, GST was 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.

3. GST AS A PART OF A TAX REFORM PACKAGE

The plan was to introduce GST as a part of an overall tax reform package. As the Finance Minister in his 1993 Budget statement announced: "The GST will be introduced with a generous package of offsets, comprising corporate

9. Report of the Economic Committee, The Singapore Economy: New Direction, Ministry of Trade and Industry, Republic of Singapore, 1986, p. 89.
10. The Inland Revenue Department was converted into a statutory board and renamed the Inland Revenue Authority of Singapore, IRAS, on 1 September 1992.
11. Goh Khee Kuan, op. cit., p. 4.
12. The Goods and Services Tax, Ministry of Trade and Industry and Ministry of Finance, 1993, pp. 5-9.
13. 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 the taxpayer can get a credit for the tax paid on his inputs.
14. 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.
15. "Catch-up effect" means that understated values at an early stage of the production and distribution chain will be discovered at a later stage.
16. "Cascading" is a term used to describe a situation where tax is paid on tax while pyramiding is a term suggesting that 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 stage. VAT also avoids the problem of tax pyramiding, since 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.

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."[17] To this end, several reforms were brought about in Singapore's tax system together with the introduction of GST. Major changes are outlined below.

There was a plan to bring down the rate of corporate tax from 30% to 25% in the medium term. To this end, the corporate income tax rate was reduced from 30% to 27% in 1994 and from 27% to 26%, effective in the 1997 Assessment Year.

In 1994, personal relief under the individual income tax was increased from Singapore Dollar (SGD) 2000 to 3000. Its top rate was reduced from 33% to 30% in 1994 and to 28% in 1996, with proportionate reductions in other tax brackets. Further, a rebate on individual income tax was granted to reduce the impact of GST.[18] The top rate of individual income tax was reduced from 30% to 28% in 1996. Other rates have been reduced accordingly.

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 1 July 1994, and from 15% to 13% effective 1 July 1995. The property tax was reduced further to 12% effective 1 July 1996. These changes might be questioned on policy grounds, given the very strong property market that existed at that time.

The estate duty was revised in 1996. The first SGD 3 million of all residential property income and the first SGD 500,000 of all income from movable assets was exempt from the estate duty in 1995. In 1996, these figures were raised to SGD 9 million and SGD 600,000 respectively. Estate duty was levied at a rate of 5% up to the first SGD 10 million and 10% above SGD 10 million in 1995. In 1996, 5% was levied on property valued up to SGD 12 million, and the rest was taxed at 10%.

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 to nullify the effect of GST. Similarly, the 5% tax on domestic PUB (public utility tax on electricity, gas and drinking water) bills of more than SGD 40 was reduced to 2%, and restaurant and hotel surcharges were reduced from 4% to 1%. The 5% tax on domestic telephone charges and the 5% entertainment duty on all forms of general entertainment were suspended. Similarly, the cinematography film hire duty was also terminated.

Public assistance grants provided to older, low-income people and those certified medically unfit for work, widows or deserted wives with dependent children and orphans were increased from 3% to 5%, in order to help these groups offset the cost of GST. Similarly, higher subsidies were given in order to offset higher costs of health and education services under GST. The Singapore allowance for pensioners was increased from SGD 100 to SGD 130. Also, rebates on service and conservancy charges for one- to five-room HDB flats and rental for one- and two-room House Development Board (HDB) flats were granted. Rental rebates were specially designed to help lower income groups.

In summary, goodwill for the GST was generated with the voters through a general reduction in the less popular or economically inefficient taxes.

4. THE GST SYSTEM

The GST Bill was presented to parliament on 26 February 1993 and read a second time on 19 March 1993. It was then referred to the Select Committee of Parliament for recommendations. The Finance Minister was a member of this committee. The committee invited suggestions from the public. The intention was to develop a GST system best suited to the needs and circumstances of Singapore. The closing date for submission of representations was 20 May 1993. During this time, the committee received 70 representations from different groups.[19] These recommendations related to group registrations, reverse charges, the major export scheme, the bonded warehouse scheme, tourist refunds and the Asian currency unit. Between 18 and 29 June 1993, 17 interest groups were called to elaborate on their submissions.[20] The Select Committee considered the genuine concerns of the representations and incorporated them into the GST Bill.[21]

The Select Committee presented its report to parliament on 7 September 1993. The final bill was passed by parliament on 12 October 1993 and approved by the president on 20 October 1993.

Singapore developed GST subsidiary legislation in the form of regulations and orders. A set of proposed draft

17. Fiscal Year 1993 Budget Statement, Part III, p. 1.
18. The rebate was SGD 700 for 1994, SGD 650 for 1995, SGD 600 for 1996, SGD 550 for 1997 and SGD 500 for 1998 and so on. This means that, for the 1994 assessment year, individuals whose income tax liability was SGD 700 a year or less did not have to pay income tax for that year.
19. Of these representations, 56 were from the business community, 7 from individuals and academicians, 1 from a political party and 6 from others.
20. Goh Khee Kuan, op. cit., p. 10.
21. 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 extended the bonded warehouse scheme to all imported goods. In addition, it also recommended that the requirements for claiming bad debt relief should be relaxed, cash accounting should be allowed for small businesses and clarified the conditions for qualifying for the major exporter's scheme. 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. See Charles Lim Aeng Cheng et al., Goods and Services Tax: The Law and Practice, Butterworths Asia, 1995, I 41.

GST subsidiary legislation was issued on 8 April 1993 for comments from the public. The first set of subsidiary legislation came into force on 20 December 1993 and the remainder on 23 March 1994.[22] They were amended several times in 1994. Similarly, several Schedules of the GST Act were amended by the subsidiary legislation on 23 March 1994. All these amendments reflected government's openness and willingness to fine-tune the legislation.[23]

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, e.g. the sale and lease of residential land and buildings and certain financial services. The intention behind the adoption of the broad base is to make the tax system very simple.

Singapore did not intend to generate a substantial amount of revenue from GST immediately, but instead to develop it 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 very low rate of 3%, one of the lowest,[24] if not the lowest rate in the world, and the government promised that it would not raise it for 5 years. A rate below 3% is difficult to justify in terms of its administration and compliance costs. The broad base also made it possible to fix a low rate and yet to generate a reasonable amount of revenue.

In order to avoid putting undue compliance costs on small vendors who generally do not maintain good records, a decision was made to keep them out of the tax net. To this end, a threshold of SGD 1 million turnover was set.

Several special schemes were adopted to address the special nature of Singapore's economy. An outline of these special programmes is given below.

4.1. Special schemes

Although Singapore does not have any natural resources, its strategic location positions it well as a major centre for business. The country has the second largest cargo-handling port in the world. It is a great shopping centre and tourist destination. Singapore is also a major financial centre. The country's tiny economy has been growing very fast. The accounting and recordkeeping system in the industry and business sector is well developed. While given the nature of Singapore's economy, a multi-stage sales tax like GST might not be as appropriate as in many other countries, Singapore has adopted special schemes to avoid an adverse impact of GST on its economy.

4.1.1. Special schemes relating to exports

Re-exporting plays an important role in Singapore's economy. Traders use this country as a regional distribution hub. Imported goods are re-exported after some manufacturing, processing or packaging. Singapore has taken care to relieve exports from the burden of taxation.

The common practice of relieving exports from VAT around the world is achieved by zero rating. However, traders still face cash-flow problems under the zero-rating system, as they have to pay tax first and reclaim it 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 that reduces the cost of financing the input tax. Zero rating also increases the compliance costs of traders, as they have to pay 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 adopting the major exporter scheme (MES) and bonded warehouse scheme (BWS) under the GST system.

(a) *Major Exporter Scheme*

The 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 to pay tax at import and claim it back at export. The government does not lose any revenue under the MES, since input tax paid attributable to exports is refunded to exporters anyway. The tax is levied only on domestic supplies by MES traders, meaning that the payment of GST is deferred until a return by registered exporters is submitted, in the case of domestic supplies.

A trader must meet the following conditions to use the scheme:

- he must be a GST registered trader;
- the value of exports 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, or 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 (if the 51% requirement is not met);
- he must have a satisfactory accounting and internal control system; and
- he must have a good track record as a taxpayer in relation to GST, income tax, property tax and other taxes.

The MES is designed mainly for 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 form and must supply his latest annual audited financial statements and a report from the

22. Id., p. I 41.
23. Id., p. I 41.
24. At that time Japan had a 3% rate of the consumption tax which was the lowest in the world.

auditor. The IRAS will inform the trader of the outcome of his application within 2 months of the date of receipt of the application. When the application is approved, a trader will be granted MES status, which will remain valid for 3 years or until it is cancelled by the comptroller of GST. An MES status trader will have to keep similar records and accounts to those kept by other GST registered traders. In 1994/95, a total of 3,214 traders operated the MES. This figure increased to 3,397 in 1995/96.

(b) *Bonded Warehouse Scheme*

Imported goods often change hands several times before they are re-exported. They are removed 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 particularly in the case of goods like 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 the BWS. Non-resident traders who use Singapore as a distribution hub also can use this scheme.

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

The BWS is suitable for overseas principals who import goods into Singapore for re-export (80% or more) and who do not have local distributors or agents, and for importers of approved commodities. A commodity trader or a service warehouse operator may apply to the comptroller of customs to operate a BWS. He has to submit a site plan and a lay-out plan of the proposed designated areas. Upon approval of his application, he will be given a unique licence number, which must be quoted on all official warehousing documents and correspondence to the IRAS in relation to this business. A BWS operator must furnish a banker's guarantee between SGD 1,000 and SGD 1 million to cover GST payable on his imports held at any point in time. He has to take permits electronically through Trade Net[25] for the import, re-export, removal from one bonded warehouse to another, and removal of goods for the local market. In the case of release of goods for the local market, he must pay GST by GIRO through Trade Net. He must maintain records of lot numbers allocated to each consignment and submit monthly returns on the movements 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 were issued through Trade Net. The bonded warehouse is required to maintain tight inventory control.[26]

4.1.2. The Tourist Refund Scheme

Initially, it was thought that a Tourist Refund Scheme would be unnecessary in view of the very low GST rate of 3%. However, a scheme was developed after hearing feedback from the Singapore Tourist Promotion Board and the Singapore Retailers' Association, since Singapore was being developed as a tourist destination. Under this system, tourists who spend SGD 500 or more in one shop or within a retail chain can claim a GST refund.

GST registered retailers can operate the Tourist Refund Scheme. They have to 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. They must keep copies of invoices or receipts issued in connection with such sales. It is necessary for them to complete the refund claim forms in triplicate, and they must be signed by the seller and the customer. 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 customer.

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. Customs may require tourists to present small, high value items that can be hand-carried for verification and endorsement at the GST Refund Counter located beyond the immigration checkpoint. Otherwise, the tourist could easily pass on these items to another person for local consumption, free of GST. Therefore, the practice of endorsing small high-value items at the counter beyond the immigration checkpoint is to minimize possible revenue leakage.

Goods must be brought out of Singapore through Changi International Airport within 2 months of the date of purchase. The customer must bring the completed claim form together with the goods to the GST Tourist Refund Inspection Office. After checks, the Customs Officer will endorse the claim form and return both copies to the customer. The customer must seal a certified copy in the envelope provided by the seller and drop it in the mailbox next to the Inspection Office and keep the other copy.

On receipt of the certified claim form, the seller must refund to the customer the amount stated on the form by posting a cheque 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 taken 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 GST refunded to customers and input tax is

25. 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.
26. Report of the Select Committee on the Goods and Services Tax Bill, 1993.

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.

The tourist refund scheme has been implemented by the retailers themselves to date. They can deduct a part of the GST levied on tourist sales as administrative expenses. But they have to make everything clear to their customers at the time of sale and must include this amount on the refund claim form. As it is a service charge related to exports, GST is not due.

Asia Tax Free Shopping (ATFS) has been operating a tourist refund scheme since 28 April 1997. Under the new system the minimum amount spent to qualify for GST refunds is SGD 300 instead of SGD 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 back immediately at the airport, they do not have to wait up to 3 months as under the retailers' operated tourist refund scheme.[27] ATFS will claim a refund from the IRAS and will charge a fee of 15% of the GST amount paid by the tourists.

4.1.3. Banking and Financial Services

(a) *Banks and finance companies*

Singapore levies GST on fee-based services, such as fees for safe deposit boxes, fees for bank advice, subscription fees for credit cards, premiums against general insurance, etc., in which case it is easy to find out the charge for these services. On the other hand, the operation of any current, deposit or savings account, the provision of any loan, advance or credit, foreign exchange, and the issue and sale of shares, life insurance, etc. are exempt from GST. This is because it is not easy to identify the charge for these services by financial institutions. 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."[28]

Under the conventional VAT system, taxpayers are not allowed input tax credit attributable to exempt supplies. For example, banks are not allowed input tax credit on purchases relating 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 (such as rent, office equipment, furniture, construction, stationery, electricity, lawyers' services, etc.) is likely to be passed on to customers in the form of higher interest rates. This increases the cost of production.

Since Singapore has a well developed financial market and does not want any negative impact of taxation on its banking and financial activities, banks and finance companies are allowed to claim a credit on input tax in respect of exempt supplies made to GST registered businesses. However, it might invite administrative complications, since it would be necessary for them to keep separate records of registered, non-registered and overseas customers (since they can lend money to overseas as well as domestic customers, and the domestic customers can be registered or non-registered, 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 on which banks or finance companies can recover associated input tax. They may also recover input tax relating to exempt loans made to GST registered domestic customers. However, it would be very difficult for the individual financial institution to track the supplies made to GST registered customers without a major revamping of their computer systems, which would raise compliance costs.

To avoid this problem, pre-determined input tax recovery rates have been fixed, allowing banks and finance companies a special method for calculating recoverable input tax. These rates are based on the industry's statistics. They 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 on the basis of the type of bank and finance company for 1 year. The rates are as follows:

Table 1: Fixed input tax recovery rates for banks and finance companies

Type of bank	Input tax recovery rates (percentage of total input taxes 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 in 1994 proper banks were allowed to recover 80% of the total tax paid on their purchases and imports. 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, and registered and non-registered customers. Taxpayers are generally happy with this system. It avoids disputes between banks and finance companies and the IRAS regarding input tax credit. The IRAS does not have to examine taxpayers'

27. *The Business Times*, April 15, 1997.
28. The Goods and Services Tax, Ministry of Trade and Industry and Ministry of Finance, 1993, p. 22.

books and accounts in detail, thus reducing time and financial costs of both parties and avoiding tax cascading.

Banks and finance companies collect output tax on their taxable supplies. As these are generally a small proportion of their total supplies, they collect much less tax on their output than they pay on their input so they are normally in a position to claim a refund.

(b) *Insurance companies*

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 their premiums. Insurance companies usually enter into reinsurance 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 reinsurance is conducted between companies only (not directly with consumers), reinsurance services are exempt from GST. This avoids administrative complication without causing any revenue loss. For example, the government will get revenue of SGD 3 on an insurance premium of SGD 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 reinsurance company is taxed, the reinsurance company will charge SGD 40 plus SGD 1.20 GST to the insurance company and remit SGD 1.20 to the treasury. The insurance company will charge SGD 100 plus SGD 3 GST to its customer. It will deduct its input tax of SGD 1.20 from the output tax of SGD 3 and pay the balance of SGD 1.80 to the treasury. Thus the government will get revenue of SGD 3 in either case.

The exemption of reinsurance relieves reinsurance companies from the requirements of collecting tax from the insurance companies and remitting it to the treasury. However, they are still required to register for GST in order to get input tax credit, which they can claim on the basis of the fixed input tax recovery rates.

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

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

Table 2: Fixed input tax recovery rates for insurance companies

Type of companies	Input tax recovery rates (percentage of total input tax paid)	
	1994	1995
Life reinsurance	40	40
General reinsurance companies	75	75

Source: IRAS

4.2. Transitional measures

Usually, several transitional provisions are needed when a GST replaces other commodity taxes, including a general sales tax. For example, a provision is required for sales tax paid on stock when GST is introduced in order to avoid and/or minimize double taxation. Since GST did not replace a general sales tax in Singapore, few transitional provisions were needed except in areas such as the supply of goods and services made under long-term contracts completed before the introduction of GST. The transitional provision states that the supply of goods and services under non-reviewable contracts entered into on or before 7 April 1993 was zero-rated for a maximum period of 5 years from 1 April 1994. The supply is zero-rated until the first review date under a reviewable contract entered into on or before 7 April 1993. In the case of contracts entered into between 8 April 1993 and 31 March 1994, suppliers may add GST to the agreed price.

5. IMPLEMENTATION STRATEGY

As Singapore did not have any experience of a general sales tax, unlike other countries, initially it was thought to be more pragmatic to phase in GST over a period of 5 years. However, no time schedule for GST implementation was fixed until 1992. In early 1993, it was decided to introduce a broad-based GST all at once, beginning 1 April 1994. The idea behind this was to avoid a long transition period and uncertainties about the GST system. A delay might invite lobbying for special treatment for various groups, and a phased implementation would probably be more costly to introduce.

It was a deliberate decision to introduce GST at a time when the economy was strong, the budgetary position was favourable, and the government did not need additional money. This allowed the government to introduce GST at a very low rate and to develop a GST offset package to minimize its impact.

5.1. Administration

Since the introduction of GST was a national tax reform issue, it required a multi-agency participation. To this end, a GST Steering Committee was formed in March 1993 under the chairmanship of the Commissioner of the IRAS with representatives from the Ministry of Finance, the Ministry of Information and the Arts, the Ministry of Trade and Industry, the IRAS, the Customs and Excise Department, and the Attorney General's Chamber.

Similarly, a GST division was created in the IRAS and about 25 experienced people (15 officials in the first group and 10 in the second group) were transferred from other units of the IRAS to the GST Division. They were given 2 weeks of training on GST and other aspects of taxation. However, it was not adequate to manage GST with this limited number of people. So the IRAS decided to recruit new officials. To speed up the recruitment process, an inter-ministry working group was formed. An additional 170 officials were recruited for GST in 1993/94. They were trained on different aspects of GST. Customs officials also received training.

The Commissioner for Inland Revenue was appointed as the first comptroller of GST on 29 October 1994. Similarly, 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 formed on 1 January 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 GST. However, there was little time to develop the full system before the introduction of GST, so the agency first developed critical modules for registration, return generation and processing, receipt, and tax accounting. The same taxpayer identification numbering system was used for the GST as for purposes of income taxation. It also designed a simple enforcement system. Other modules, such as one for auditing, were developed after the introduction of GST.

5.2. Taxpayers' education programme

Singapore launched an extensive taxpayer education programme on GST. The IRAS' task was to get the business sector ready for it by explaining the equally important rationale and effect of GST to the public at large.

5.2.1. Getting business ready

The IRAS made every effort to get the GST message out to the businesses that were required to collect the tax for the government. It organized at least 598 dialogue sessions with industries and with almost all of the trade associations. During these sessions, IRAS officials expressed the way they felt GST would affect the business of a particular sector. The IRAS also communicated to each trade organization the GST formalities required by a particular line of business. These dialogue sessions were also intended to get input from businesses regarding the actual working of a particular line of business and to design the GST system in such a way that it would not become unnecessarily complicated. There was a lot of feedback from the business community, which helped to fine-tune the system to meet local conditions.

Similarly, 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 19 April 1993 and the last seminar (of the pre-GST period) on 28 March 1994. During this period, 382 seminars were held for more than 45,000 participants.

The IRAS also organized about 40 seminars in the evenings, Saturday afternoons, and Sundays for people working during normal office hours. As not all businesses are member of a trade association, it was not possible to pass on the GST message only through the seminars organized by the trade associations. So the IRAS organized 101 classes for those businesses (about 3,700 traders). IRAS staff also contacted retailers directly to explain the working of GST and visited 4,544 of them.

The IRAS managed a toll-free help-line to supply information by telephone. It received about 1,170 calls per day during peak time (i.e. April 1994) and 669 calls per day during other periods. IRAS staff provided advice to thousands of businesses and also set up an advice centre to assist people who came directly to the IRAS office. It sent GST materials to potential taxpayers together with their income tax return forms and income tax assessment notices and developed a video on GST, which was broadcast on television. GST was also covered on the radio and in newspapers.

The GST Division was organized into special teams to examine different aspects of specific industries in order to fine-tune the GST Bill and regulations. Special groups prepared industry-specific brochures and consulted with industries before they finalized them. They prepared 36 brochures and pamphlets and distributed them widely.

5.2.2. Educating the public

The IRAS launched an extensive publicity programme for the general public the objective of which was to explain the rationale for introducing GST and to raise the public awareness of the new tax. It was targeted mainly at consumers and was presented in various ways. For example, the IRAS organized talk programmes with community centres, the Ministry of Community Development, police and schools, who in turn could talk to the public at large. As local people might ask all kinds of questions to local police, IRAS officials gave talks on GST to the local police. It taught police training officers who in turn trained other policemen. As the police are scattered all over the island, they could educate local people in GST and could help particularly if there was a dispute between taxpayers and consumers in the initial period of implementation. The IRAS also educated teenage students attending junior colleges who in turn could influence their parents.

An advertising company and a consultancy firm were hired to assist the publicity committee. The company was awarded a contract of SGD 1.5 million to develop a programme targeting businesses and consumers. This type of publicity helped to remove confusion and the worries of several groups.

6. REGISTRATION

The IRAS prepared a list of potential GST-payers on the basis of the income tax data base. In 1992/93, the number of income tax returns was 1,157,030.[29] From these, it identified about 26,000 businesses whose annual turnover would be above SGD 1 million, meaning that about one-fifth of businesses would have to register for GST. It also estimated that it would cover more than 90% of the total value added with this number of taxpayers.

Registration for GST began on 12 November 1993. The IRAS sent letters to potential taxpayers informing them of registration, and also advertised the need to register in almost all major newspapers. It issued registration forms together with some more general brochures on 15 November 1993.

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

Initially, very few businesses registered so the IRAS carried out a telephone survey of 316 businesses on 24 and 25 February 1994. The response is in Table 3 below.

Table 3: Response of telephone survey on GST registration

Response	No.	Percent of total
Will register by 1/4/94	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 delaying and waiting to register until 1 April 1994.

By 31 March 1994, 32,799 businesses registered, more than 2,700 of them voluntarily.[30] This means that more businesses came to register than originally estimated, and the number grew over the years.

GST-registrants had to display registration certificates at their places of business. In addition, they were given GST logos. Without them, they could not collect GST. This was intended to assure consumers that only GST-registrants collected GST.

7. GST GOES LIVE

GST went live on 1 April 1994. As it was a crucial day for GST, the IRAS made special preparations. An operation command centre was set up at the tax office located at the International Plaza. A number of experienced officers were stationed there who could go anywhere at immediate notice. Its role was to monitor the events of that day and to respond to any problems that could arise. Thirty mobile teams were set up to handle problems that they came across, and to report complicated cases to the command centre. More than 1,300 telephone calls on GST were handled by specially trained officials on that day.[31]

The IRAS paid attention to every issue in order to make the implementation of GST smooth. For example, 1 April 1994 is a public holiday in Singapore, and banks are closed. Traders might have found a shortage of small coins and would have charged a higher price. To avoid this, IRAS officials kept sufficient 1-cent coins on hand to supply to the traders. Japan had earlier faced the problem of small denominations in 1989, when it introduced a 3% consumption tax. Singapore arranged to have small denomination coins available in advance in order to avoid the problem.

GST-inclusive price tags were another problem. It would have been very difficult for retailers to change all their price tags in just one night before the introduction of GST. So the IRAS suggested having two tags, one for pre-GST and another for post-GST. It also made it clear to retailers that they should display GST inclusive price tags. The intention was to clearly show the total price to the consumer. In the absence of such a provision, consumers would have seen the GST exclusive price but would have been required to pay 3% more at the cash counter. The double tag policy served to avoid this problem.

8. MONITORING, AUDIT AND INVESTIGATION CONTINUED

The IRAS extended its office hours from 8 a.m. to 9 p.m. during the period from 28 March to 8 April 1994. It continued its effort to make GST implementation smooth after its introduction. It opened a joint operations unit with the Ministry of Trade and Industry and the Consumer Association of Singapore in order to monitor the price situation.[32] This unit was intended to ensure a quick and coordinated response to the query/feedback the government might receive on a range of issues pertaining to GST. The joint operation has been effective in dealing with the price issue. The government announced that it would act quickly on complaints about unjustified price rises.

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

The IRAS has been carrying out audit and investigating activities to encourage compliance with the tax law. As GST is a new tax, the audit programme is intended to educate the taxpayers on various aspects of GST, rather than

29. Annual Report 1993, IRAS.
30. Charles Lim Aeng Cheng et al., op. cit., p. 47.
31. Goh Khee Kuan, op. cit.
32. The Consumers Association of Singapore is a body that is involved in consumers' welfare. The Ministry of Trade and Industry prepares the Consumer Price Index.

to penalize them. The IRAS has adopted both the industry-based approach and issue-based approach while conducting its audit. 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 of specific issues or tax treatment.

During the course of audits, IRAS staff found common mistakes, such as incorrect computations, 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. Circulars were sent to all GST-registrants pointing out these common errors and providing advice on how to avoid them. On 17 July 1996, the IRAS also released a press statement on these areas and cautioned the traders to avoid these mistakes.

In 1995/96, the IRAS discovered errors in more than 900 cases. The first prosecution was of a local trading company on 7 June 1996. The company was fined SGD 12,500 for failing to charge and account for GST on its taxable sales.[33] The IRAS prosecuted a mould-, tool- and die-making company which collected GST of SGD 39,600 but failed to remit it to the IRAS. This company had to pay a penalty of 79,200 (double the amount of evaded tax) and a fine of SGD 1,000.[34] The IRAS recovered revenue of SGD 14 million through taxpayer audits in 1995/96. The corresponding figure for 1994/95 was SGD 3 million.

9. GST PERFORMANCE

It is not unusual to have some adjustment problems during the implementation of a new tax like GST. Businesses have to maintain books and records and undergo formalities for GST, and occasionally encounter new situations. The IRAS provides hot-line services for such enquiries, but it is often busy and difficult to contact. Some retailers announced that they would absorb GST in the initial stage of its introduction. Even if they did not charge GST to consumers, they had to show it in their receipts for GST purposes. When consumers saw GST on their receipts, they would argue with retailers, saying that they had not absorbed it as announced. Retailers had to explain why it was itemized on 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 7 April 1993 and 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 problems, the GST implementation has been very smooth on the whole. The IRAS continued its preparatory work, such as taxpayer education, fine-tuning of the legislation, etc., even after the implementation of GST. It has become an established tax in a short time, accepted by the majority of Singaporeans.

Since its implementation, the number of GST-payers has been increasing. There were 32,799 at the time of its introduction. It increased to 40,367 by 31 March 1995 and 43, 470 by 31 March 1996. The compliance level is fairly high. For example, the IRAS received almost 94% of the returns due in 1994/95.[35] Revenue collection is encouraging as well. GST generated revenue of SGD 1,523 million in 1994/95 against an original estimate of SGD 960 million. GST revenue increased to SGD 1,633 million in 1995/96.

Businesses have to bear some compliance costs under GST. These are essentially start-up running costs. As businesses in Singapore did not have any experience with a general sales tax system, it was hard for them in the beginning, since they had to learn about the system and apply it in their day-to-day business. They had to change their accounting and bookkeeping systems in line with GST requirements. For example, they had to change the format of their invoices and their computer systems. Many small and medium-sized companies had to upgrade their computer systems to accommodate GST requirements.[36] The cost of implementing it might have been relatively high for small traders who did not have their own IT department because they had to purchase new expensive software.[37] Both large and small traders had to train their employees on GST matters, increasing their start-up costs.

Businesses also had to incur operating costs. For example, they had to maintain records, submit returns and pay tax. As the personnel working on GST changed jobs, they had to train new staff as well. Further, since taxpayers are required to submit audited reports under the BWS and MES, they had to pay fees to auditors. These are a few examples of costs that businesses had to bear in relation to GST.

The IRAS commissioned a study on the compliance costs of GST one year after its implementation. According to the study, the average compliance cost of GST was SGD 4,339 in the first year of its implementation.[38] Most were start-up costs. The average operating costs were found to be very low, at about SGD 996. The average compliance cost as a percentage of turnover was 0.3018% in the case of businesses having turnover of less than SGD 1 million (those who registered voluntarily) and 0.0086% in the case of businesses with a turnover of more than SGD 50 million. This is expected to decline over time, as businesses become more familiar with the GST system.

33. *The Straits Times*, 8 June 1996.
34. *The Straits Times*, 19 October 1996.
35. The number of cumulative returns received was 113,876 out of a total cumulative return due of 121,721 on 31 March 1995.
36. *The Straits Times*, 5 April 1994.
37. *The Straits Times*, 5 April 1994.
38. Survey Research Singapore, Survey on Compliance Costs on GST, 1996.

Some of the reasons for low costs are as follows:
- the structure of GST has been made simple;
- returns are due only at the end of each quarter;
- the quarterly accounting period provides a cash-flow advantage to businesses;
- a high threshold keeps small businesses, who would have found compliance difficult, out of the tax net;
- an extensive taxpayer education programme gave taxpayers a good understanding of how GST works.

The tax administration had to bear some costs as well in administering GST. To staff the GST administration, some officials were transferred from other wings of the IRAS, while others were newly recruited.[39] The IRAS had to pay the new GST staff and also had to pay for an extensive taxpayer education programme. The overall costs of the IRAS increased from SGD 75 million in 1992/93 to SGD 96 million in 1993/94, an increase of about 22% over the previous year. A part of the increase was due to the conversion of the Inland Revenue Department into the IRAS in September 1992, and a part reflected GST preparation.[40] The cost of collection as a percentage of revenue collection increased from 0.80% of revenues in 1992/93 to 0.88% of revenues in 1993/94, but declined to 0.81% of revenues in 1994/95.

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 as a result of the introduction of GST.[41] 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.[42] As a result, prices did not rise as estimated before the implementation of GST. In any case, the Singapore Government's tight control over monetary policy ensured that inflation could not increase by the full amount of GST.

A study was carried out by the Department of Statistics to monitor "hawker" food prices. It covered 1,650 hawker stalls and reported that only one in five hawkers had raised prices.[43] The Consumer Price Index rose by only 0.5% from March to April 1994 and by 1.5% between April and June 1994. The rate of inflation for the fiscal year 1994/95 was 3.6%, much lower than the inflation rate expected by the government. As a result, consumers were not greatly affected by GST.

10. CONCLUDING OBSERVATIONS

Singapore is one of the very few countries without experience of a general type of consumption tax before the introduction of GST. Yet the implementation of GST in Singapore has been very smooth and can be cited as a success story. The reasons are as follows:

10.1. 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" became the GST slogan. GST was supported strongly by politicians at the highest level. The Prime Minister, Deputy Prime Minister and many ministers, including the Finance Minister, were involved in GST preparation one way or another. As the Prime Minister stated, 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 in order to raise more money. If GST were to increase total revenue, the government would return the excess revenue.[44] The acting Prime Minister Lee Hsien Loong once 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."[45] The Finance Minister and the Minister for Trade and Industry not only defended GST in the parliament, but also advocated it on numerous occasions outside the parliament. The Finance Minister's 4-hour visit to different shops, the IRAS office and Causeway Customs check points to observe the functioning of GST on the first day of its introduction reflected his concern about it. It was politically easy to introduce GST in Singapore, due to the strong position of the ruling party in the parliament.

10.2. Mass participation

The job of implementing GST was not limited to the IRAS or the Ministry of Finance only. It was rather developed as the government's programme in a wider sense. As stated in the preceding sections, several ministers were actively involved in GST preparation. Many organizations were involved in its preparation from very early stages. For example, the GST Steering Committee was represented by

39. In 1993/94, the IRAS recruited 347 staff members. Between 1991 and 1993, this figure varied from 79 to 200 and the average annual recruitment rate was 180 for this period. This means that the IRAS recruited about 170 more officials in 1993/94, when the preparation for the introduction of GST was made. They may be assumed to have been recruited for GST.
40. The Finance Minister reported to the parliament on 12 October 1993 that start-up costs of GST to the government would be SGD 29 million. Out of this, SGD 16 million will be spent on manpower and SGD 13 million on computer-related matter. (*The Business Times*, 13 October 1993).
41. *The Straits Times*, 24 January 1995.
42. *The Business Times*, 30 March 1994.
43. *The Straits Times*, 24 May 1994.
44. *The Straits Times*, 16 April 1993.
45. *The Sunday Times*, 6 March 1994.

the Ministry of Finance, the Ministry of Trade and Industry, the 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, the Ministry of Community Development, the Police, the Community Development Centers, the Civil Aviation Authority of Singapore, the Department of Statistics, and the Trade Development Board were also involved in the GST preparation process. The Consumers Association of Singapore was also involved 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 in the GST preparation process at different stages.

10.3. Administration

GST was new for taxpayers as well as for tax collectors in Singapore. As this tax did not replace any major tax, it was necessary to recruit new officials for administration. Since Singapore had already taken the tax administration from the civil service in 1992 by establishing an autonomous revenue authority in order to make tax administration service-oriented, professional and efficient, it did not take much time to recruit and train GST officials.

The Singaporean economy is sophisticated due to the high intensity of international trade it enjoys, the diversified transactions of multi-national companies, and its relatively large financial sector. So it was not unexpected to encounter new problems quite often with the introduction of a new, broad-based tax like GST. However, new issues were dealt with quickly. The GST administration was staffed by open-minded people who were ready to listen to the taxpayers and consider their genuine concerns. This helped win the confidence of businesses.

10.4. Extensive public education programme

Singapore launched an extensive public education programme on the rationale and mechanics of GST. The government organized numerous dialogue sessions, seminars, classes, television and radio programmes and newspaper advertisements. The main focus of these was to get businesses ready for GST.

A White Paper and several brochures and pamphlets on GST were prepared and distributed on a wide scale, helping clear the doubts and fears of several groups and avoid confusion. As a result, businesses were in a better position to comply with the law, and consumers did not resist it.

10.5. 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 on the GST Bill. They submitted their recommendations to the committee which incorporated those considered to be genuine into the GST Bill. Similarly, genuine concerns of the business community were considered seriously by IRAS staff. Special attempts were made not to distort the working of Singapore's 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 qualifying exporters from GST. A tourist refund scheme was adopted so that tourists sales would not be affected adversely. Since Singapore is a leading financial centre, 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.

10.6. 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 relieve 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 itself, the public was not as heavily impacted by the introduction of GST as it might otherwise have been.

10.7. 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 their confidence, and the business community became a part of the 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, rather than to create a forum against it.

10.8. Good timing

Singapore introduced GST when the economy was strong. The GDP growth rate had been very high since the early 1990s. There had been full employment. People were in a position to afford a new tax. The budget surplus allowed the government to make a reduction in other taxes, which were expected to generate less revenue than the GST.[46]

10.9. Lessons learned

Many countries may not be in a position like Singapore 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. However, careful planning, detailed preparation, mass participation, and an extensive taxpayer education programme are key ingredients for success in the implementation of a VAT in any country.

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

46. *The Straits Times* reported on 30 March 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."