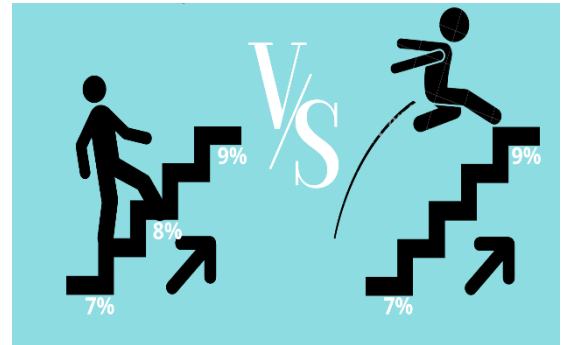


## GST Rate Change: $+2 = 1 + 1$ ? The house always wins

### Overview

Most of us would have expected the GST rate to increase from the current 7% to 9% directly. The question that all of us had in mind was, "When?".

If the Singapore Pools were to take bets on the effective date of GST increase, there should be an equal number of bets that the GST rate would increase on 1 July 2022 (the last GST increase from 5% to 7% was announced in the Budget in February 2007 and took effect on 1 July 2007), if not, 1 January 2023 (i.e., the start of the calendar year).

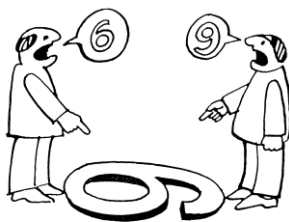


There was probably a small amount of 'outsider' bets placed on 1 October 2022 (Singapore government to provide at least six months in advance for business to prepare the rate change) and 1 April 2023 (so that the GST rate increase coincides with the start of the fiscal year of the Singapore government).

The market sentiments were that the Singapore government would likely bite the bullet and increase it to 9% directly (as per the last rate increase from 5% to 7%).

So, it came as a surprise (I lost my bet on 1 July 2022) when the Finance Minister announced that the GST rate increase will be a staggered increase from 7% to 8% with effect from 1 January 2023 and from 8% to 9% with effect from 1 January 2024.

### The different perspectives



From the businesses and Singapore government's perspective, a straightforward increase of 2% would definitely be a better move since businesses would only need to review the impact once and the government could collect more revenue earlier.

From the consumers' perspective, a  $1\% + 1\%$  increase is better compared to a 2% increase due to the simple fact that consumers will only incur more cost at a later date.

With this move, consumers are relieved as they felt that the government is more compassionate (don't want to burden the population with too many price increases) and has finally heard their voices, in staggering the increase in GST rate etc. (but isn't the real voice of the consumer saying **not to** increase the GST rate?).

However, if you think hard and deep enough, a  $1+1$  scenario versus a  $+2$  scenario shouldn't make

much difference to the low and middle-income families because of the enhanced Assurance Package that will be given out to buffer the additional costs suffered by them in view of the GST rate increase.

In calculating the amount of Assurance Package, the difference in additional tax revenue between the two options would have been taken into consideration and the government would also have worked out the additional burden that low and middle income families would suffer between the two options.

So, while \$6.6b is given out as enhanced Assurance Packages in a 1+1 scenario, I'm sure that the amount of Assurance Packages to be given out in a +2 scenario would have been adjusted accordingly so that the government can still collect what it needs to meet the spending needs of Singapore in the next few years.

Afterall, the Singapore government has all the data and statistics required to run financial models in different scenarios before arriving at a \$6.6b Assurance Package.

## **Conclusion**

In conclusion, in raising the GST rate by 1+1, the low and middle-income families probably didn't win, the businesses lost and ultimately, the house (i.e., Singapore as a whole) won.

In my professional view, this is a good move by the government.

Because I'm a GST consultant.

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