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The Taxation System on Hong Kong and Singapore

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ABSTRACT

The main aim of this article is to explore the tax structure in two Asian Dragons that are Hong Kong and Singapore. This article covers the evolution of tax system in Hong Kong and Singapore. The article covers how these countries in the past two decades, through their taxation systems rose to be the most attractive investment destination in the world. This article highlights the various taxation policies that these nations have introduced and how these policies have benefited the businesses and individuals of these countries.

Keywords: *Tax System, Decade, Investment, Destination.*

1. INTRODUCTION

Hong Kong is one of the developed countries in the world with the area of around 1110 square km. Hong Kong is a vibrant country. Hong Kong territory is consists of the Hong Kong Island, 260 remote islands and the New Territories. Hong Kong is known for tourist destination as it is the shopping paradise, international cuisine, and highly coordinated transportation network. Hong Kong has a GDP of around 320.9 billion USD and has the population of around 7.347 million people and has 60,530 as per capita income. (China highlights).

In terms of business and trade, Hong Kong is the freest economy in the world as it provides free visa access to about 170 countries in the world. Hong is one of the participative countries in APEC (Asian Pacific Economic Corporation), ADB (Asia Development Bank) and the founding member of the World Trade Organisation. According to the recent trends, Hong Kong is ranked as the leading exporter in the world as it is the 6th largest exporter in merchandise trade and 15th largest exporter of services. (Economic abd Trade Information on Hong Kong).

2. EVOLUTION OF TAX SYSTEM IN HONG KONG

i. Implementation of Tax System in Hong Kong

The tax system was introduced during of the Second World War in Hong Kong. It was a single tax system which was introduced to address ‘gifts’ for the war efforts to great Britain. Due to this, businessmen come up three tax rate rather than one single tax on income. The three tax systems were property tax, salary tax, and the profit tax. Also, the income generated from the activities outside Hong Kong was not taxable.

ii.Tax System After the War

After the war, both the government and British rulers again introduced the normal tax system in which the tax was charged on income. The government also implemented that the tax was “as high as possible” around 50 percent of the income was taken as the tax. Due to this business again opposed the government tax system and formed an organisation called Chinese Anti- Direct Tax Commission to protest against the system. The only change was the establishment of the personal assessment in 1947.

iii. Tax System During 1947 to 1980.

Until 1980, the British government forced the government to have a colony’s tax system in Hong Kong and made pressure on the government for the income tax system. In the period 1947 to 1980, there were three periods in the tax system of Hong Kong of 10 years each. Each financial secretary in these tax periods dominated the tax system in Hong Kong. The financial secretary in 1950s was the Sir Arthur Clarke who worked under Sir Alexander Grantham. Sir Alexander Grantham established a first review committee. In 1960s financial secretary was the Sir John Cowperthwaite who worked under Sir David Trench. Sir David established second review committee and in the 1970s Sir Philip Haddon-Cave worked under Sir Murray Maclehose to establish the third review committee.

iv. Tax System During 1980 to 1997

In the period 1980 to 1997, there was the judicial expansion of the tax system in Hong Kong. Earlier there was no tax for the income generated from the activities which took place outside the country but many countries have implemented a tax on the source as well as on residence. During 1980 under Section 14 of the Inland Revenue Ordinance, there was the implementation of a tax on profits arising from ad derived from Hong Kong. There were many cases reported during this period regarding the tax system which made the tax government realise that they failed to amend the judicial expansion and to implement the tax in the outside profits but they achieved to make courts to interrupt it as the equal effect.

v. The Post-Handover Period

Since 1997 there was not much change in the tax structure of the Hong Kong but during the Post-Handover Period, there were three developments in the tax system. First was the proposal of basic law in Hong Kong. Second, the introduction of GST in the Hong Kong and last was the entering of the double tax agreement system in Hong Kong.

GST System in Hong Kong

SAR government decided to implement GST with the main objective to get income tax cut. However, the GST implementation in Hong Kong was of no use as it was opposed by Business Community. (Hong Kong Tax System)

3. CURRENT TAX SYSTEM IN HONG KONG

i. Corporate Income Tax
The current tax on profit is 16.5 percent and around 15 percent on the unincorporated basis. There is no withholding tax on income, dividend or any other income applied to both residents and non-residents. The government follows "assess first and audit later" approach.

ii. There is an Income tax treatment for the avoidance of the double tax system in Hong Kong. More than 23 countries had implemented

Income tax treatment

iii. Indirect Taxes
Currently, there is no indirect tax rate in Hong Kong. So there is no VAT and GST standard rate in Hong Kong.

iv. Personal Taxation
It is a tax which is charged on salary. The most effective rate is 15% percent and the top rate is 17 percent. There is no social security tax implemented in Hong Kong.

v. Other Taxes
There is no customs duty charged on export as well as import duties and there is no gift tax in Hong Kong SAR. The excise duty is charged on various goods like alcohol, tobacco, oil, cigarettes etc. The property tax is charged on the holders of land and building in Hong Kong. In Hong Kong, every business needs to pay business registration tax. It was started from the year 2012. There is no capital tax in Hong Kong from 2012. (Hong Kong SAR Tax Profile)

4. BENEFITS OF TAX STRUCTURE

i. It is easy for a businessman to conduct business in Hong Kong was there is no capital tax and estate duty. The tax duties are made according to the interest of Businessman.
ii. Hong Kong unique tax system allows the residents to purchase assets outside the home country and there is no withholding tax.

iii. There is single jurisdiction governance in Hong Kong which provides various benefits to banking investments, legal and accounting services and all are used on the same law.

iv. With the implementation of new amendments in Hong Kong, the Hong Kong trust will last forever and it will provide benefits to many businesses.

v. The forced Heirship protection will not harm the transactions of the movable goods in the country for the lifetime. (Zetland Fiduciary Group Newsletter)

5. INTRODUCTION TO SINGAPORE

Singapore, a small an island country with a landmass of 719.9 square km is one of the fastest growing regions in the world. Located in South East Asia, Singapore is now a world leader and has a very well developed financial sector. Singapore, one of the four "Asian Dragons" is declared by many international organizations as the most "technological ready" country in the world. Singapore is one of the most attractive investment destinations for investors and industrialists from all over the world.
Singapore is the third largest Financial Centre in the world with the third largest foreign exchange market. Singapore ranks 5th on UN Human Development Index and has 4th largest per capita GDP with an estimated amount of 87100 USD.

The main engine behind this fast paced development in Singapore is its strong physical and social infrastructure.

Singapore is high ranked when it comes to quality of education and healthcare system. Singapore is home to some of the best Universities in the world like INSEAD, National University of Singapore, NUS Business School etc. that produces world class Human Resource. Singapore is also the founding member of ASEAN (Association of South East Asian Nations) and APEC (Asia Pacific Economic Cooperation) which were signed to facilitate growth and economic integration amongst the countries of Pacific region.

Singapore provides a well-developed business environment with a stable political and economic environment. The country ranks 2nd in ease of doing business as per the reports of 2017. Singapore has a strong global connectivity with trade linkages with highly advanced regions of the world like The United States and The European Union. There are many reasons behind the emergence of Singapore as a corporate powerhouse but one reason that had been focused upon in this document is the Taxation System and Laws of this country.

Taxation System of Singapore

The IRAS (Inland Revenue Authority of Singapore) is the governing body for taxation in Singapore. The income tax act was passed by the government after independence in 1965. The IRAS is responsible for collecting income tax, property tax, GST and other taxes from the people of the country.
Taxation policies and laws are the major economic factors considered by business organizations before establishing a business unit in a country. Singapore has one of the most efficient taxation systems in the world. Singapore Tax rates are one of the lowest in the world and the introduction of Goods and Services Tax (GST) has simplified the taxation process in the country.

(incorporation)The IRAS collects the following kinds of taxes from its residents

1. Personal income tax- chargeable on the income of the residents and corporate firms.
2. Property tax- this tax is imposed on the owners of properties calculated on the basis of expected rent
3. Motor Vehicle Tax- taxes, other than import duty, on the vehicles
4. Customs and Excise Duties- on petroleum products, tobacco, and Liquors.
5. Goods and Services Tax
6. Betting Taxes- duties on private lottery and betting
7. Stamp Duty- imposed on the commercial and legal documents related to stocks and bonds and immovable property

Good and Services Tax in Singapore

Investopedia defines Goods and Services Tax as a value added tax levied on most of the goods and services sold to households for domestic consumption. The GST is paid by the customers but it is remitted to governments by businesses selling those goods and services. GST is also collected on imported goods if it is collected by Singapore customs.
(Ministry OF Fiance, 2017)GST was first introduced in Singapore at a rate of 3% in 1994. Then it was increased to 4% in the year 2003, 5%in 2004 and then to 7% in the year 2007. As one can see that these tax rates are much lower than the tax rates in most of the economies in the world, which makes Singapore one of the most lucrative countries in the eyes of business people.

Goods and services in Singapore had been categorized as Taxable and Non-Taxable supplies under the GST regime. The below table will further help to understand the categorization.

	TAXABALE SUPPLIES		**NON TAXABLE SUPPLIES**	
	standard Rated Supplies (7% GST)	**Zero-Rated Supplies (0% GST)**	**Exempt Supplies (GST is not applicable)**	**Out-of-Scope Supplies (GST is not applicable)**
GOODS	Most of the consumer goods come under this category. E.g. TV, AC, Fridge etc.	Exports e.g. sale of TV to overseas customer	Sale and rent of the unfurnished property. Precious metals	Sale where goods are delivered from overseas to another place overseas.
SERVICES	Most local provisions of services fall under this category. e.g. transportation services to a customer in Singapore	International services. e.g. air ticket from Singapore to Thailand	Financial Services. E.g. interest on Debt, Dividend on Shares	Supplies outside of Singapore

Registration Liability

If a company has a total taxable income of more than 1 million SGD at the end of any quarter (at the end of 3 months) and three quarter before it, then that company is liable to register for GST. The quarter usually ends on the last day of March, June, September, and December.

Q1+Q2+Q3+Q4 (current) > 1 Mn SGD ⟶ registration necessary

Within the 30 days of the relevant quarter (the quarter at which the company has forecasted/earned more than 1 Million SGD), the company has to inform the financial officer.
For e.g. if the liability arises at the end of 30th December, then the company has to apply for registration before 30th January.

Exemption of GST Registration

1. The company can also register for GST even if the turnover is lesser than S$1 Million.
2. The company can apply for tax exemption if the goods and services supplied by the company come under zero-rated supply. It is not mandatory to apply for registration even if the taxable turnover is more than S$1Million.
3. If after being exempted from GST registration, the company brings changes in the supplies made by it, then it has to inform the comptroller of GST within 30 days of the date when the change occurred.

Advantages of GST Registration to Corporate Firms in Singapore

1. GST registration will enable the businesses to take advantages of various schemes of IRAS like the GST credits on goods and services collected from GST registered suppliers
2. GST registration provides psychological security to customers and vendors in Singapore. Therefore people in Singapore usually prefer GST registered firm for doing business.
3. The government has a large pool of financial data when the companies register for GST. This helps the government to predict accurate future financial environment. As a result people and firms are able to invest their money without the worry that it will be taxed.

GST in Singapore v/s GST in India

GST in India was introduced on 1st July 2017, whereas in Singapore GST was first introduced on 1st April 1994.
The Indian GST has 5 tax slabs- 0%, 5%, 12%, 18% and 28%, whereas in Singapore there are only two slabs- 0% and 7%.

In comparison with the emerging markets from around the globe, India has the highest rate of 18% with major commodities falling under this category. Singapore has the third lowest GST rate with all major commodities coming under 7% slabs. Thus we can say that the burden of tax on consumers is highest in India.
The biggest difference between the GSTs of both the countries is that in India, the consumers are charged two types of GSTs, i.e. CGST and SGST. Therefore India follows a duel-GST system. On the other hand, Singapore has no such system.

As compared to India, Singapore has a much higher threshold for GST applicability due to its strong manufacturing and financial sectors, thus reducing the burden on smaller businesses.

Findings

The major reason why countries like Hong Kong and Singapore are developing at such a fast rate is that both these countries charge very low rate of taxes from the households and businesses. The maximum Personal taxes on taxes in Singapore are 22% whereas the maximum tax rate in Hong Kong is 17%.

Both these countries are one of the major financial centers of the world. They have a very stable economic environment that makes these countries a major attraction to investors from all over the world.

These countries have strong trade ties with major exporting countries like China, United States, and the European Union.

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