

Any capital gains tax may hit Singapore mass-market condos the most: survey

Poll by NUS+RE finds dip in foreign buying also likely if property sales tax or inheritance tax is introduced

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IF Singapore starts taxing all gains from selling properties or reintroduces an inheritance tax, demand for mass-market condominiums is expected to be dampened the most, a survey found.

A dip in foreign buying activity is also likely, although only a minority of Singaporean investors may decide to focus more on overseas markets, real estate executives said in a poll by the National University of Singapore Real Estate (NUS+RE).

Norman Ho, senior partner in corporate real estate at Rajah & Tann, told *The Business Times* (BT) that the added effect of a capital gains tax, on top of existing stamp duties, will "definitely discourage wealthy owners from buying even more property".

Speaking in his private capacity in

July, Monetary Authority of Singapore managing director Ravi Menon floated the idea of a property gains tax or an inheritance tax to address inequality, and noted that the widening wealth gap across the world has historically been driven most strongly by property investments.

But Prime Minister Lee Hsien Loong has said that efforts to ease inequalities through wealth taxes face challenges such as ensuring fairness, and pose risks to the country's competitiveness.

Against this backdrop, NUS+RE sought the views of 43 senior executives in Singapore's real estate sector, including 22 developers. NUS+RE represents the Department of Real Estate and the Institute of Real Estate and Urban Studies (IREUS).

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Capital gains tax

Going by the poll results, transaction volumes of mass-market condominiums could be the hardest hit if a 10 per cent property gains tax were imposed. More than half (56 per cent) of the executives said non-landed residential projects in the outside central region (OCR) or suburbs will be the most adversely affected, compared with those in other locations.

IREUS deputy director Lee Nai Jia noted that many upgraders have been scooping up units in OCR non-landed projects due to the potential for capital gains. "A capital gains tax will therefore make these properties less appealing, especially to those purchasing their second property for investment gains," he told BT.

About 30 per cent of the respondents expected the core central region (CCR) to see the steepest drop in sales of non-landed private homes following such a tax, while the other 14 per cent said the rest of central region (RCR) may see the biggest impact.

In the CCR, luxury non-landed projects are usually sought-after for investment returns, so a property gains tax will likely clip demand for them too, Dr Lee added.

See Wei Hua, tax partner at KPMG in Singapore, said such a tax could also "heavily affect the luxury apartments and Good Class Bungalows with valuations in the millions". These prized assets are favoured by ultra-high-net-worth citizens, startup millionaires and affluent families.

Alan Cheong, Savills Singapore executive director for research and consultancy, said: "Intuitively, the luxury segment, perhaps those with an annual value in excess of a certain amount, could be where the taxes will be aimed at."

However, he doubts there would be a resultant drop in sales volumes, as ultra-high-net-worth individuals "are easily able to shake off the additional fetters of taxation".

For Singaporean buyers, the NUS survey suggested that a tax on capital gains is unlikely to shift much of their attention to overseas markets.

Close to half of the executives estimated that fewer than 10 per cent of Singaporeans will purchase assets abroad as a result of a property gains tax here. Only about a third expected that 11 to 20 per cent of Singaporeans would consider overseas purchases for investment.

"The respondents felt that buyers were concerned that the risks of investing in other countries were still high due to the uncertainty amid the pandemic," Dr Lee told BT.

Cheong said a capital gains tax may prompt middle to upper-middle income Singaporeans to turn their focus towards overseas properties. But he stressed the need for a cost-benefit analysis: "In their attempts to avoid additional taxes, they may fall prey to uncertain political and legislative changes to foreign ownership of real estate elsewhere."

Similarly, Ho from Rajah & Tann highlighted that many Singaporeans who bought properties abroad had

suffered due to currency fluctuations, low rental yields, poor capital appreciation or challenges in managing the assets.

In contrast, foreign buyers' interest in Singapore assets may wane if a 10 per cent capital gains tax were imposed, according to the poll.

Nearly half the executives thought that 11 to 30 per cent of foreigners might be discouraged from buying Singapore housing in the immediate term. Another quarter expected 31 per cent or more to be discouraged.

The remaining quarter of respondents expected a smaller impact, of fewer than 10 per cent of foreign buyers being put off by the tax.

Dr Lee said: "A property gains tax will definitely make foreign investors reconsider purchasing private properties here." However, Singapore should still remain attractive to some buyers due to factors such as its pro-business landscape and world-class education system, he added.

Other analysts similarly noted Singapore's continued attractiveness. See said the rise in property values over the years, coupled with the real estate market's resilience in spite of the pandemic, has made Singapore property "a golden investment in a politically stable environment".

Ho does not expect most foreigners to shun Singapore housing, given that their purchases are often because they travel here frequently for business or their children are studying in the city-state.

Likewise, Cheong said foreigners buy residential properties for a variety

of reasons, which may outweigh any additional taxes. And if a capital gains tax is applied in increasing steps according to higher transaction values or gains, it should not discourage foreign buyers, he added.

Estate duty

Inheritance tax, also known as estate duty, is charged on the total market value of a deceased person's assets. Singapore removed estate duty for deaths on and after Feb 15, 2008.

Most of the NUS survey respondents expected that estate duties would weaken sales at both suburban and high-end non-landed projects.

About 44 per cent said that reintroducing an estate duty will soften OCR demand most significantly, while another 37 per cent expected transaction volumes in the CCR to be the most affected.

Dr Lee noted that buyers – even those in their 30s – who have children tend to purchase residential properties with the intention of passing the assets on to the next generation. "If estate duties were reimposed, this group of buyers is likely to look for assets that are either more liquid or in locations where there are no estate duties," he added.

In particular, the rich may be discouraged from setting up family offices in Singapore, said 39 per cent of the survey respondents.

Nonetheless, Singapore's sound economic fundamentals, political stability and other attributes will still woo some family offices to set up here, Dr Lee said, adding: "Addition-

ally, the fiscal pressure on all governments due to the pandemic may lead to the imposition of wealth taxes across countries, and may therefore become a non-factor for family offices in selecting their base."

Asked whether a property gains tax or an inheritance tax might help tackle inequality, only 23 per cent of the respondents said such taxes would work to narrow the wealth gap.

See from KPMG observed that the middle class tends to be "disproportionately impacted by the imposition of estate duty, compared to the rich who are better able to manage their estate duties via moves such as changing their domiciliation status".

As such, resurrecting the estate duty is unlikely to achieve a redistribution of wealth or give a significant boost to revenue collection unless the previous estate duty regime undergoes a major overhaul, he said.

Furthermore, with Singapore's territorial tax system, imposing an inheritance tax could trigger non-real property assets to be moved out of the country, which could mean the loss of investments and jobs originally intended for Singapore, See told BT.

Cheong also noted the changing demographics of the needy in Singapore: "As the age groups that face structural unemployment are going to be younger over time, more Singaporeans now living in private residential properties may (later) find themselves in need of assistance, too."

He added: "Any taxes, whose proceeds are going to help the needy, levied on those in time of their need (to liquidate) would be ironical."