

# Budget 2018: marginal impact on property

Tricia Song Director and Head | Research

**The Budget 2018 announced on February 19 may be negative for Singapore private residential property as the buyer's stamp duty (BSD) is raised by 1 ppt to 4% for the amount over SGD1 million. However, the impact is marginal and is unlikely to discourage buyers and developers in the current buoyant market. A 2 ppt point increase in GST could reduce retail spending, though the grace period of at least three years and a strong economy could cushion the hike. Pro-business measures such as corporate income tax rebates and enhanced wage credits should be mildly positive for office occupiers.**

## Residential

### Increase in Buyer's Stamp Duty (BSD) to 4%

With effect from 20 February, the top marginal Buyer's Stamp Duty (BSD) rate for residential properties is raised from 3% to 4%, the first change since 1996. The new top marginal rate of 4% will apply to the portion of residential property value which is in excess of SGD1 (USD0.76) million.

The BSD rates for non-residential properties remain unchanged at 1% to 3%.

### The BSD rates for residential property before and after 2018 Budget changes

Purchase price or market value of property	BSD Rates before 20 Feb 2018	BSD Rates on and after 20 Feb 2018
First SGD180,000	1%	1%
Next SGD180,000	2%	2%
Next SGD640,000	3%	3%
Remaining Amount	3%	4%

Source: IRAS

The government has said this is not a property cooling measure, but a source for higher revenue, and is in line with Singapore's progressive tax system. Nonetheless, we view this as a subtle "wealth tax" on luxury home buyers, as well as a message to developers to be prudent in large-quantum land purchases.

As the BSD is progressive, and applies on the amount above SGD1 (USD0.76) million, it would affect the higher-value segment more. Given the median transaction value of non-landed private homes in 2017 was around SGD1.2 (USD0.9) million (including new and secondary sales), the impact on most home buyers is very small and manageable. For example, a SGD1.2 (USD0.9) million home will have to pay SGD2,000 (USD1,515) or 0.2 percentage point (ppt) more in taxes. For developers who are looking to buy residential land which can cost hundreds to billions of dollars, the increase would be close to 1 ppt or SGD10 (USD7.6) million for a SGD1 (USD0.76) billion land purchase. They would likely price in the 1% increase in BSD and this could mean a 1% drop in land value, all things constant. As for new project launches, there is already a trend of smaller efficient unit configurations to ensure affordability. This BSD increase could encourage developers to size units to fit within the SGD1 (USD0.76) million quantum for buyers.

### Absolute and ppt change in effective tax burden for different residential purchase price points

Resi purchase price (SGD million)	New BSD (SGD million)	New Effective BSD rate	Old BSD (SGD million)	Old Effective BSD rate	Increase in BSD (SGD million)	Ppt increase on total purchase price
1.0	0.025	2.5%	0.025	2.5%	0.00	0.0%
2.0	0.065	3.2%	0.055	2.7%	0.01	0.5%
3.0	0.105	3.5%	0.085	2.8%	0.02	0.7%
5.0	0.185	3.7%	0.145	2.9%	0.04	0.8%
25.0	0.985	3.9%	0.745	3.0%	0.24	1.0%
500.0	19.985	4.0%	14.995	3.0%	4.99	1.0%
1000.0	39.985	4.0%	29.995	3.0%	9.99	1.0%

Source: Colliers International Singapore Research, IRAS

All in, we think the impact is marginal and is unlikely to discourage buyers and developers in the current buoyant market, but could prompt them to be more cautious and selective.

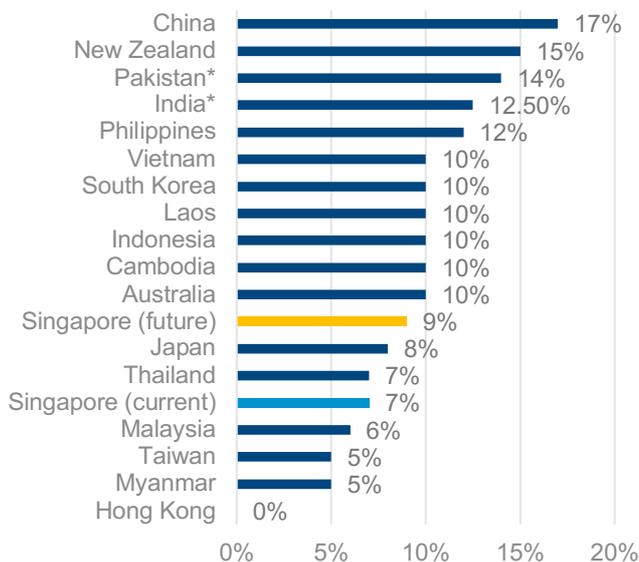
## Retail

### Increase in GST sometime in 2021-2025

The government plans to raise Goods and Services Tax (GST) by two percentage points, from 7% to 9%, sometime in the period from 2021 to 2025. This will be the first rise in more than 10 years.

GST was first introduced in Singapore on 1 April 1994 at 3%. The GST rate was increased to 4% in 2003 and to 5% in 2004. As announced in Budget 2007, the GST rate was raised to 7% on 1 July 2007.

### GST/ VAT rates in Asia Pacific



\* India 12.5% - 15.5%; Pakistan: Goods 17%, Services 14-16%.  
Source: Colliers International Singapore Research, Channelnewsasia

In theory, an increase in GST could crimp retail spending, especially discretionary spending and could affect F&B and retail property. However, in 2007, when the last hike was implemented, we note that the retail sales index appeared to be little affected, probably due

to the buoyant economic conditions then. GDP growth was 9.1% in 2007, and 8.9% in the prior year of 2006. Hence come 2021, depending on the economy then and the cushion effect of the three-year grace period, the impact on retail sales and retail property may be limited.

## Industrial/ Commercial

### Various measures to help businesses transform

The Budget continues to update or enhance measures aimed to raise digital capabilities, improve productivity and innovation, and to help businesses scale up and go overseas.

Some of the key measures include:

- > Businesses will get over SGD2.2 (USD1.7) billion worth of support over the next two to three years through:
  - > An extension of the Wage Credit Scheme for another three years. This was introduced in Budget 2013 and extended in Budget 2015.
  - > Corporate Income Tax (CIT) rebate cap raised to 40% of tax payable, capped at SGD15,000 (USD11,360) for Year of Assessment (YA) 2018, from 20% capped at SGD10,000 (USD7,570). The CIT rebate will also be extended to YA 2019, at a rate of 20% of tax payable, capped at SGD10,000 (USD7,570).
- > deferring earlier announced foreign worker levy increases in the Marine and Process sectors by one more year.
- > Various programmes to support workers to deepen skills and manage career transitions such as "Tech Skills Accelerator" and "Career Trial".

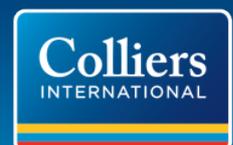
### For more information:

**Tricia Song**  
Head of Research  
tricia.song@colliers.com

**Govinda Singh**  
Executive Director  
Consulting, Valuation & Advisory Services  
govinda.singh@colliers.com

**Colliers International | Singapore**  
**1 Raffles Place, #45-00**  
One Raffles Place  
Singapore 048616  
Tel: +65 6223 2323  
Fax: +65 6222 4901  
RCB No. : 198901352R  
CEA Licence No: L3004691J

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