

# TUESDAY TIMES ISSUE #85

**HOW WILL BUDGET 2022 AFFECT YOUR FINANCIAL PLANS?**

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# TUESDAY TIMES



Our finance minister Mr. Lawrence Wong, announced the Budget 2022<sup>1</sup> on 18 Feb 2022 and projects the Government will spend S\$102 billion (\$102,000,000,000) in the coming year.

“Budget is never just about allocating resources for the coming year, but a strategic roadmap for the future,” says our previous finance minister Heng Swee Keat. The Singapore Budget is a strategic financial plan to address the challenges facing us and to build our future Singapore together.

In fact, on a personal level, a financial plan is no different from a country's budget plan. Put simply, it's a roadmap with action plans on how you allocate your finite resources in the pursuit of achieving your goals and objectives.

In the next section, let us examine further some of these measures that are announced at Budget 2022 and how they would affect your personal/family financial plan.

## 1. Increase in the Goods and Services Tax (GST)

The first increase will take place on 1 January 2023, from 7% to 8%, and the second increase on 1 January 2024 from 8% to 9%.

Assume that the amount spent in a year is \$70,000 for goods and services. Let us examine the effects of the GST impact with just a 1 & 2% increase and what is the real percentage increase. See Table 1 below.

*Table 1: Impact on increased of GST on \$70,000 spent on goods and services*

| Year           | Amount Spent | GST | GST Amount | Difference GST Amount | Real % increase |
|----------------|--------------|-----|------------|-----------------------|-----------------|
| 2022 (current) | \$70,000     | 7%  | \$4,900    | N.A.                  | N.A.            |
| 2023           |              | 8%  | \$5,600    | \$700                 | 14.29%          |
| 2024           |              | 9%  | \$6,300    | \$1,400               | 28.57%          |

As you can see, for the same amount spent in the year 2023, the additional \$700 & \$1,400 translate to an absolute increase of 14.29% and 28.57% respectively when compared to GST incurred in 2022.

This impact will not be felt immediately as Singaporeans will receive payouts from the enhanced Assurance package over the next five years, but soon ahead, this shall translate to higher living costs especially for bigger items incurred (such as home renovation, purchase

of a car, vacation) and this laterally means lesser amount allocated to long term savings.



## 2. Reaching 55: CPF Retirement Sum

The Central Provident Fund (CPF) basic retirement sum (BRS) will be raised by 3.5 percent per year for the next five cohorts of CPF members, turning age 55 from 2023 to 2027.

Table 2: Estimated Monthly Payouts and Retirement Sums for Members Reaching Age 55 from 2023 to 2027

|  | Year that Members Reach Age 55    |           |           |           |           |           |
|--|-----------------------------------|-----------|-----------|-----------|-----------|-----------|
|  | 2022<br>(previously<br>announced) | 2023      | 2024      | 2025      | 2026      | 2027      |
| <b>Estimated Monthly Payouts Provided By Retirement Sums at Age 65<sup>1</sup></b> |                                   |           |           |           |           |           |
| <b>BRS</b>   | \$850                             | \$870     | \$900     | \$930     | \$950     | \$980     |
| <b>FRS</b>   | \$1,570                           | \$1,620   | \$1,670   | \$1,730   | \$1,780   | \$1,840   |
| <b>ERS</b>   | \$2,300                           | \$2,370   | \$2,450   | \$2,530   | \$2,610   | \$2,690   |
| <b>Retirement Sums at Age 55</b>   |                                   |           |           |           |           |           |
| <b>BRS</b>   | \$96,000                          | \$99,400  | \$102,900 | \$106,500 | \$110,200 | \$114,100 |
| <b>FRS</b>   | \$192,000                         | \$198,800 | \$205,800 | \$213,000 | \$220,400 | \$228,200 |
| <b>ERS</b>   | \$288,000                         | \$298,200 | \$308,700 | \$319,500 | \$330,600 | \$342,300 |

<sup>1</sup> Assumes male member under CPF LIFE Standard Plan, starting payouts at age 65.

*(This table above is extracted from Annex E-3 of the Budget Statement for Budget 2022)*

The intent of the BRS payouts is meant to cover basic living expenses. If a person turns 55 this year (2022), the estimated monthly payouts when this person turns age 65 (ie in 10 years 2032) is \$850.



The question is what would be the real purchasing power in 2032? We can use a financial calculator and calculate Present Value (PV), which is the concept that states an amount of money is worth more than that same amount in the future. See Table 3 below.

*Table 3: Determining the Actual Value using the concept of PV*

|     | Estimated Monthly Payout at Age 65 | Present Value (assume inflation 2%) |
|-----|------------------------------------|-------------------------------------|
| BRS | \$850                              | \$697.30                            |
| FRS | \$1,570                            | \$1,287.95                          |
| ERS | \$2,300                            | \$1,886.80                          |

**"Doing this as early as you can (i.e. before 55), is a good strategy for your retirement goals."**

Using the Report on the Household<sup>2</sup> Expenditure Survey 2017/18, the average Monthly Household Expenditure<sup>2</sup> by Income Quintile 1-20% is \$2,570.

With an assumed 2% p.a inflation, a payout of \$850 in 2032 translates to only \$697 (in current context). Is this amount realistically sufficient to cover for basic living expenses?

The increase of BRS/FRS is to cope with inflation and improvements in standard of living. Therefore, from a financial planning perspective, especially for those who are currently below age 55, I am of the view that fulfilling the FRS as early as you can (ie before 55) is a good strategy for your retirement goals.

The amount that you shall be receiving from Age 65 (for as long as you live) assures your basic retirement needs. For the fortunate ones who have already fulfilled your FRS, congratulations to you! However, for those whose CPF Special Account (SA) have yet to reach FRS, the increasing BRS/FRS does appear to present a steeper climb and could get harder to attain. So you might want to consider contributing to it now, especially so if you are self-employed or a freelancer.

### **3. Increased Property tax for non-owner-occupied residential properties (such as condominiums, HDB flats or other residential properties that the owner does not live in or occupy).**

The property tax rates for non-owner-occupied residential properties, which includes investment properties will be increased from the current 10%-20% range to 12% to 36%. All non-owner-occupied residential properties will face higher property taxes, and the increase will be more significant for properties at the higher end. See Table 4.

Table 4: Property Tax Rate for non-owner-occupied Residential Properties

| Annual Value   | Property Tax Rate for Nonowner-occupied Residential Properties |            |                      |            |                      |            |
|----------------|--|------------|----------------------|------------|----------------------|------------|
|                | Current  |            | Effective 1 Jan 2023 |            | Effective 1 Jan 2024 |            |
|                | Tax Rate   | Tax Amount | Tax Rate             | Tax Amount | Tax Rate             | Tax Amount |
| First \$30,000 | 10%  | \$3,000    | 11%                  | \$3,300    | 12%                  | \$3,600    |
| Next \$15,000  | 12%  | \$1,800    | 16%                  | \$2,400    | 20%                  | \$3,000    |
| First \$45,000 | -  | \$4,800    | -                    | \$5,700    | -                    | \$6,600    |
| Next \$15,000  | 14%  | \$2,100    | 21%                  | \$3,150    | 28%                  | \$4,200    |
| First \$60,000 | -  | \$6,900    | -                    | \$8,850    | -                    | \$10,800   |
| Above \$60,000 | *16-20%  |            | 27%                  |            | 36%                  |            |

Please refer to the IRAS Property Tax Rates for the details.

Annual property tax is calculated by multiplying the Annual Value (AV) of the property with the Property Tax Rates that apply to you.

For example, if the AV of your property is \$30,000 and your tax rate is 10%, you would pay \$30,000 x 10% = \$3,000 in property taxes.

With these changes, a Property with an Annual Value of \$60,000 will see an annual property tax bill of about \$8,850 and \$10,800 in the year 2023 and 2024 respectively.

That's an effective 28.26% and 56.52% increase compared to the current tax rate respectively.

Therefore, with the increase in property tax, the net income received will be reduced ie net yield. This shall greatly impact an individual's cash flow.

A point to note is that the current loan rates are still generally low (below 2%), once banks start to adjust these rates, this will further impact the net yield.

In conclusion, Budget 2022 will affect your financial plans in one way or another. With uncertainties of living with Covid-19 as the new normal, rising energy (i.e. oil) prices breaching \$100 a barrel, supply-chain disruptions arising from the Russia-Ukraine conflict, it is perhaps seemly, to invoke that timeless adage, which prescribes that we should hope for the best and prepare (or plan) for the worst.

With this at heart, and mindful of these unpredictable times, it is apt as well as prudent to review your financial plan and prioritise, so that your goals and objectives are aligned with it.



Patric Sum is an active member of IFPAS and is currently serving in the IFPAS Education & Training Working Committee. He holds the CFP®, CHFC®/S, CLU®/S, IBFA, and AEPP designations.

NOTES:

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