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KPMG: Economic & social pressures likely to mean much faster change for global tax rates in next 5 years

Global taxpayers can expect to pay more tax in the years ahead. Many governments worldwide continue to update their tax legislation and expand their tax systems to repay debt and pay for increased social welfare, even as the memory of the last global financial crisis lingers.

These are the conclusions of the KPMG 2015 Global Tax Rate Survey. Drawing on information from member firms in 145 jurisdictions, the survey shows that while tax rates in general are not changing very fast, governments are moving to widen the tax base, increasing the range of goods, services and activities that can be taxed to bring in more revenue.

At the same time, tax concessions introduced during recession to support industries and encourage consumers to spend are being withdrawn.

Head of Tax at KPMG in Singapore **Tay Hong Beng** explained that this widespread change is being driven in part, by global economic recovery and by changing expectations of state-provided social care.

He said: "Since the global financial crisis of 2008, governments worldwide have done their best to keep economies active and healthy, and many have run up large debts in the process. With many economies emerging out of recession and into growth, we are seeing updates to global tax systems to increase revenues so governments can pay down debt."

He added that people's expectations of the level of care they can expect from the State have increased globally.

"Social welfare is expensive. Governments are caught between meeting the expectations of their populations and finding the means to pay for them," said Mr Tay, "Singapore is not immune, as Singapore Government Budgets increasingly focus not only on building a brighter future, but strengthening social security."

Higher social security rates; movement towards indirect taxes

Simply raising income tax rates is difficult when companies and individuals can easily make comparisons between tax rates in different countries. Governments are finding themselves using different ways to increase their revenue.

The survey shows that social security rates have been increasing around the world. Global average social security rates for employers and employees are now higher than they have been at any time in the past seven years.

Global average social security rates paid by employers rose from 15.35 percent in 2014 to 17.14 percent this year. In Asia, five countries have raised the social security rates paid by employers this year – Japan by 0.18 percent to 14.7 percent, the Philippines by 0.3 percent to 7.37 percent,

Thailand by 1 percent to 5 percent, Vietnam by 1 percent to 18 percent and in Singapore, the employer's Central Provident Fund (CPF) contribution rate has also been increased by 1 percent to 17 percent.

There has also been a quiet movement in favor of indirect taxes - Value Added Tax (VAT) or Goods and Services Tax (GST). With new VATs being introduced this year in Malaysia and the Bahamas, and plans for a similar tax in India and the Gulf States, VAT is now in more than 160 countries. The adoption of indirect tax systems by nearly all of the world's economies is almost complete although the US remains a major exception.

In Singapore, indirect tax rates have remained at 7 percent, while CPF rates for employees and employers are at 20 and 17 percent respectively.

Corporate and individual tax rates

The global average corporate tax rate has remained virtually unchanged this year, standing at 23.68 percent compared with 23.64 percent in 2014. The highest headline rate remains 40 percent, levied in the US, while the lowest – excluding states which do not have a corporate tax or have a zero rate – is 10 percent in Bosnia and Herzegovina, Bulgaria, Gibraltar, Macedonia, Paraguay and Qatar.

The average rate in Asia is unchanged at 21.91 percent, with increases in India (33.99 percent to 34.61 percent) and Jordan (14 percent to 20 percent) being offset by the reduction in Japan (35.64 percent to 33.06 percent) and a cut in Pakistan from 34 to 33 percent.

The global average individual tax rate has moved in a range of less than 1 percent either side of the 31 percent mark since 2008. This year, it is 31.53 percent.

The lowest global average individual tax rate is in Asia at 28.63 percent. This is one percent up on 2014, driven by a jump in Taiwanese income tax rates – its first rise in 12 years – from 40 to 45 percent. The only reduction was in Malaysia, where rates fell by one percent to 25 percent, although this was subsequently raised to 28 percent in the recent Malaysian Budget announcement in October.

Singapore's corporate tax rates have stayed at 17 percent; however, individual tax rates for top earners will rise, with the top marginal tax rate to be increased from 20 percent to 22 percent in Year of Assessment 2017.

Towards greater transparency & better reporting

The economic and social drivers for higher taxes comes at a time when a major international effort to update tax systems is reaching completion.

Initiated by the Organisation for Economic Co-operation and Development (OECD) in 2013 and endorsed by the G20, the OECD's Action Plan to address Base Erosion and Profit Shifting (BEPS) includes 15 key areas to encourage more transparency, better reporting and more co-operation among countries in which multinational companies operate.

On 5 October 2015, the OECD issued a final package of reports, a plan for follow-up work and a timetable for implementation. While implementation and timing will vary across borders—and

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some European jurisdictions have already incorporated aspects of the plan—the final OECD release marks a crucial shift from the recommendation and consultation phase of BEPS to legislation and implementation.

Mr Tay said: "The work being done by the OECD will lead to a different tax system in the future- a system that encourages more transparency and better aligns the location of profits where activities are performed. In this regard, Singapore is well-placed to position itself as a key jurisdiction in the global economy within this new tax framework."

Notes to editors

About the 2015 Global Tax Rate Survey

Drawing on the knowledge of KPMG member firms globally, we have analysed information on current tax rates in 145 jurisdictions. KPMG firms have focused on the highest rates chargeable in each case, and have backed up the headline rate information with detailed footnotes on how these rates are applied.

For the first time this year, we have combined our separate Corporate and Indirect Tax Rate Survey and Individual Income Tax and Social Security Rate Survey into a single report. Our aim is to give a more comprehensive picture of the strategies being used by governments to raise revenue from businesses and individuals. The full set of data on all countries is available online at www.kpmg.com/taxrates.

About KPMG in Singapore

KPMG in Singapore is part of a global network of professional services firms providing Audit, Tax and Advisory services. Our website is located at kpmg.com.sg.

The KPMG network operates in 155 countries, with more than 162,000 people working in member firms around the world. In the ASEAN region, member firms operate across all 10 countries of this regional grouping providing professional services supporting the growth, compliance and performance objectives of our clients.

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