Revenue without customs: the fiscal constitution of the free port

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Opium as the pillar of public finance

The Crown colony inherited the fiscal model of the free port. It levied no customs duties on general trade and financed itself largely through excise revenue, above all from opium. In the nineteenth century opium accounted for more than half of the revenue of the Straits Settlements. Even in the early 1920s, government opium sales still produced about three quarters of excise revenue and 55 per cent of total revenue.[1]

The system changed form at the beginning of the twentieth century. After the Straits Settlements Opium Commission of 1907–1908 had investigated the problem of addiction, the government ended the opium farm in 1909 and took over the trade as a direct monopoly with state-owned retail shops.[2] The change removed the revenue farmers, whose syndicates Part A described, but it made the government itself the seller of the drug. In 1925 the colonial treasurer Arthur Meek Pountney designed an Opium Revenue Reserve Replacement Fund, which began with $30 million and was intended to replace opium revenue gradually through the compound growth of its investments.[3] The fund is an early example of a colonial

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government building up an investment reserve to replace an uncertain source of revenue, an idea that would reappear on a far larger scale in the reserves managed by GIC and Temasek, examined in Part D.

The long resistance to income tax

The merchants of Singapore defended the fiscal model of the free port with determination. In 1860 the government in Calcutta withdrew a proposal by the local Governor to levy income tax after merchants had successfully resisted an attempt to collect port dues. A second proposal in 1910 never progressed beyond the bill stage because of violent opposition from European and mercantile interests.[4]

Only war broke the resistance. In 1917 a War Tax Ordinance was enacted to finance contributions to imperial war expenditure. Re-enacted for several years, it was repealed in 1922. A permanent Income Tax Ordinance came into force in 1947, modelled on the Model Colonial Territories Income Tax Ordinance of 1922 with provisions adapted from the United Kingdom Income Tax Act 1945.[5] Singapore's present Income Tax Act descends from that ordinance.

Fiscal policy as a competitive factor

The fiscal history of the Crown colony shows how deeply the low-tax character of Singapore is rooted. For almost a century and a half after its founding, the port did without customs duties on general trade and, except during the First World War, without income tax. The merchants regarded both as threats to the competitiveness of the port and used their influence in the Legislative Council and in London to resist them. When income tax finally came after the Second World War, it was introduced at moderate rates.

The modern tax policy of Singapore, with its low corporate and personal tax rates, its tax incentives for financial and trading activities and its reliance on consumption taxes and the returns of state investments, continues this tradition. Parts E and G examine the incentive schemes for family offices, fund managers and trading houses.

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Their logic was already visible in the fiscal constitution of the Crown colony: commerce should bear as little tax as possible, and the state should finance itself through other sources.

Notes

1. Diana S. Kim, "The Sticky Problem of Opium Revenue", *BiblioAsia*, vol. 16, issue 3, October–December 2020: opium accounted for over 50 per cent of Straits Settlements revenue in the nineteenth century; in the early 1920s government opium sales represented 75 per cent of excise revenue and 55 per cent of total revenue. ↩
2. Diana S. Kim, "The Sticky Problem of Opium Revenue", *BiblioAsia*, October–December 2020: the Opium Commission of 1907–1908; the end of the opium tax farm in 1909 and the transition to a direct government monopoly through state-owned retail shops. ↩
3. Diana S. Kim, "The Sticky Problem of Opium Revenue", *BiblioAsia*, October–December 2020: the Opium Revenue Reserve Replacement Fund designed by Arthur Meek Pountney in 1925, beginning with $30 million. ↩
4. Article on the history of income tax in Singapore, *Singapore Journal of Legal Studies* [2007] 1–24: the proposal of 1860 was withdrawn after merchants resisted port dues; the proposal of 1910 "failed to progress beyond the Bill stage when violent opposition by European and mercantile interests proved too strong". ↩
5. *Singapore Journal of Legal Studies* [2007] 1–24: the War Tax Ordinance of 1917, re-enacted until its repeal in 1922; a new Income Tax Ordinance came into force in 1947, modelled on the Model Colonial Territories Income Tax Ordinance 1922 and the UK Income Tax Act 1945. ↩

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