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## Taxing for the future

ONLY two things are certain in life, it has been said - death and taxes. The money collected from each income-earner pays for the patrolling of the neighbourhoods by policemen and of the integrity of the nation by the soldiers. The roads, hospitals, schools and welfare homes all require funds to run, and the entire administrative infrastructure will fall to pieces and the nation grind to a halt if not for the revenue derived from taxes. Even with this recognition, paying taxes is never a pleasant experience for the individuals and business concerns alike, no matter how small the amount involved.

For the Government, the best that it can strive for is to ensure that the tax regime is as fair and equitable as possible for all taxpayers, and yet have sufficient funds in its coffers to implement policies aimed at further improving the livelihood of the people. But the tax policy has also become a key tool in the management of the economy, not least because of its impact on the competitiveness of industry and the country's attractiveness as a destination for new investment. Sometimes it is a matter of perception and at other times, fundamentals; but in the face of globalisation and liberalisation, both perceptions and fundamentals are in a constant state of flux, and people with the capital hold sway over the global flow of funds.

A tax reform appears to be under way in this country. The Prime Minister and Finance Minister hinted on Tuesday at a tax cut for corporations in the new budget. With the numbers provided by the Federal Government in the Eighth Malaysia Plan (2001-05) period, Datuk Seri Dr Mahathir Mohamad's remarks seem to lend credence to the suspicion that the Government intends to reduce its dependence on direct taxes, and generate more revenue from indirect taxes. And it is certainly not something being pursued because it is exigent given the challenges posed by slowing external demand of the country's exports. A lot of thought would have gone into it, considering that the Government has come up with some very specific revenue projections. Sales tax revenue is expected to record an average annual growth of 24.2 per cent over the plan's five-year period and service tax 17.5 per cent. In contrast, corporate and individual income taxes would only grow by an average of 7.1 and 6.8 per cent, respectively.

Developed countries have generally been found to prefer not to depend too much on direct taxation. For a start, high income taxes are not popular with the electorate. But indirect taxes have also been found to be more efficient in distributing the burden of financing the state's operations - the more you spend, the more you pay. And it is far better at preventing evasion, under-declaration and other abuses that a tax system depending on direct taxes falls prey to; meaning more money can be collected, all else remaining equal.

In the case of Malaysia, the policy framework required to make the shift is already in place. Consumers, especially those in the big towns, are also fairly familiar with the sales and service tax by now. And they have lived with the you-use-you-pay principle for some time too - remember the toll roads? But to make the transition, the cooperation of all quarters is required. As with the lowering of corporate taxes to give the nation's competitiveness a lift, the shift away from direct taxation must be accompanied by measures that add to the taxpayer's confidence in the new system. Bureaucratic red tape and policy ambiguities can so easily negate

any goodwill shown by the people.  
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