

Economist: GST can plug PKR's RM8bil excise duty hole

MalaysiaKini.com

Aug 6, 2012

By Aidila Razak

The introduction of the goods and services tax (GST) will be quick way to plug the RM8 billion loss in revenue from the scrapping of excise duty in the automotive policy mooted by PKR.

At the rate of four percent, the GST would be able to bring in revenue of RM8 billion to RM9 billion for the government, Ratings Agency Malaysia chief economist Yeah Kim Leng said.

"They will need that to offset the loss of revenue from the car industry," Yeah (left) said when contacted.

He said the politically contentious GST was a more efficient way compared with the income and sales taxes, which would not be able to close the gap.

"There will a growth in sales tax from a drop in car prices, but it will not be that substantial to offset the loss in excise duty revenue," Yeah said.

The RM8 billion in savings would only immediately benefit car purchasers, though indirect savings, and not other consumers, he added.

According to PKR de facto leader Anwar Ibrahim, scrapping the excise tax on cars would put RM8 billion back into the domestic market, thereby spurring economic activity and raising the income and sales taxes.

However, even Anwar admits that this would only generate about RM1 to RM1.5 billion in tax revenue a year.

In detailing the policy proposal last week, Anwar said the loss in revenue would be eased in parts through an approved permit (AP) auction system, which could bring in up to RM3 billion a year up to 2015, when it would be scrapped.

The RM8 billion hole would also be plugged through the the establishment of a used car export industry.

Anwar said cars that were sold off to upgrade to better cars after the dip in prices would be reconditioned and exported to other markets, earning the government export duty as well.

Spend less instead

While Yeah believes the idea of a used car export industry "is worthy of support", he doubts that it would become a major contributor to government revenue.

"It's a good opportunity and desirable in the long term, but at this juncture, there is intensifying competition in the international automobile market.

It's something to look at but (the revenue) will not be that sizeable to offset losses from excise duty," Yeah added.

Wan Saiful Wan Jan (2)However, Institute of Democracy and Economic Affairs (Ideas) chief executive Wan Saiful Wan Jan feels the approach taken to plug the hypothetical hole is wrong.

"I don't think (PKR) should be looking at how to make more revenue, but to look at how to spend less. You have RM8 billion less, so spend RM8 billion less," Wan Saiful said.

A strong advocate of smaller governments, he said PKR's proposal to shrink the Prime Minister's Department was a step in the right direction, but it had to go beyond that.

One area where savings can be reaped, the think tank chief said, was the bloated civil service.

While PKR and Pakatan Rakyat, through their Buku Jingga manifesto, also see savings through cutting corruption, this would harder be to quantify, since it is something that has never been done.

"So it's yet to be seen," Wan Saiful said, adding that savings by way of a cut in civil service, although politically sensitive, would be much easier to quantify and measure.

Proton will survive

Both Yeah and Wan Saiful also agreed that in principle, a revision of the excise duty policy would create a "wedge" between consumption and production efficiency.

"Over time, car prices will have to go down. It is a major household expense and any government will need to look at the cost of transport and housing to ease the cost of living," Yeah said.

As of 2010, there were 21.25 million registered vehicles on Malaysian roads, an increase of 11.74 percent compared with the previous year. As at 2011, about 10 million of these were cars.

Yeah added the cost and benefit analysis of the policy proposal would bring up immediate shortfalls, such as road congestion.

However, Wan Saiful said zeroing on this was an "elitist" approach, as this would only affect major cities.

As of 2010, the highest number of vehicles (close to 5 million) were registered in Kuala Lumpur, followed by Johor, Selangor and Penang.

"Why are we penalising those in the rural areas who need are in dire need of transport?" Wan Saiful asked.

Both the analysts also believe that the price pressure could also push national carmaker Proton to buck up and compete.

"As we enter the Asean economic community, we will need to compete with other manufacturers, and one way I can see this happening is through strategic joint ventures with global manufacturers," Yeah said.

Wan Saiful added that while the decision was politically sensitive, policymakers should have confidence in Proton's ability to compete.

"Yes, it's true that thousands of people will be affected if Proton goes down, but after decades in the business, I am confident that Proton can survive," he added.

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