

Don't use Fitch Rating outlook to impose GST

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MP SPEAKS According to Bloomberg, the government has emailed a statement to reiterate that "Malaysia remains committed to trimming the deficit to 3 percent of gross domestic product by 2015 and won't let state debt exceed 55 percent of GDP" and, at the same time, "it still plans to reduce subsidies and broaden the tax base".

This statement was made in response to the Fitch Ratings revision of Malaysia's outlook to 'negative'.

najib and budget We call upon premier Najib Abdul Razak not to punish Malaysians with a Goods and Services Tax (GST) for the wastage, leakages and corruption which has caused the country to suffer a record 15 continuous years' budget deficit and sky-rocketing federal government debt.

Unlike other resource-starved countries, Malaysia is blessed with revenue from rich natural resources.

According to former premier Dr Mahathir Mohamad, Petronas had contributed up to RM426 billion as at 2009, and that sum would have increased by another RM260 billion since.

Given such extraordinary contributions from the sector, with more than RM60 billion in contributions annually in recent years, Malaysia should be enjoying annual record surpluses instead of suffering from a persistent budget deficit.

mahathir abdullah ahmad badawi pak lah raising tensions In fact, Mahathir, who is now Petronas adviser, had asked in July 2009 "What did the government spend with the RM253.6 billion payment from the national oil company over the past six years?" when Abdullah Ahmad Badawi was prime minister.

This is reflected by the increase in government revenue by leaps and bounds from only RM93 billion in 2003 to an expected RM209 billion in 2013. That is a massive increase of 125 percent over just a decade.

The question must be asked as to why, despite the healthy increase in revenue, the BN-led federal government has been completely helpless in getting out of the deficit rut. The situation has deteriorated to the revision of Malaysia's credit rating

outlook to 'negative' which, if not met with the right policy responses, will result in a disastrous downgrade.

Short-term solution

The government's immediate policy appears to be to "broaden the tax base" by implementing the much discussed GST. However, will GST help resolve the federal government's deficit crisis?

In the short term, of course it would. In fact, the easiest way to reduce the deficit is by increasing taxes on every person and every product. However, will such measures be just a pill that gives temporary relief, but fails to cure the underlying cancer in Malaysia's public finances?

azlanIf GST is a cure, then Greece would never have gone 'bankrupt'. Spain, Ireland, Portugal and Italy would not have been in a financial crisis.

The standard GST or value-added tax (VAT) rate in Greece is 23 percent. It is the same for Spain, Ireland and Portugal, while it is 21 percent for Italy. Did the VAT or GST save these countries from a crisis arising from persistent deficits?

The answer is an obvious 'No'. And if the GST couldn't save all these nations from plunging into severe economic crisis, why should it be any different in Malaysia?

The GST will only postpone a crisis by boosting the government's revenue. However, if the government continues to spend wastefully, run inefficiently and be embroiled in the cancer of cronyism and corruption, then no amount of taxes raised from the man-in-the-street will prevent Malaysia from plunging into a crisis sooner or later.

In fact, the more the government collects from taxes, the more leakages there will be. This correlates directly with the fact that our country's debts have continued to accelerate despite the massive increase in government revenues, particularly from the oil and gas sectors over the past decade.

Instead of the GST becoming the 'reform' measure, the attempt to broaden the tax base in will fact become the hindrance to the much needed real reforms of reducing the reliance of off-balance sheet financing or contingent liabilities; enforcing open and competitive tenders for all government procurement and privatisation contracts; as well as to increase transparency at all levels of the government's budgeting processes to fight corruption.

If the prime minister really believes that the Fitch warning "is a concern that we share as a government and (the government) would seek to address those concerns", then he must heed our call in the upcoming Budget.

He should not impose the unnecessary burden of additional taxes on ordinary Malaysians, 85 percent of whom still do not earn enough to qualify to pay income tax today.

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