States absorbing GST - robbing poor for the rich
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COMMENT Robin Hood is today regarded as a folk hero as he robbed the rich to help the poor. That is a primitive form of social protection.

In modern society, social protection comes in the form of government cash hand-outs and development grants to narrow the gap between the haves and have-nots.

In a federalist nation, the government typically plays a coordinating role and redistributes wealth among the states to ensure a more balanced inter-state development.

But Malaysia has an asymmetric system where most tax revenue (income tax and oil royalties) ends up in the federal coffers while the states are left with very little.

Given the minute transfer of revenue by Putrajaya, state governments are having a difficult time maintaining, much less improving, their administration tasks.

Therefore, it is ridiculous to now see the states having to absorb the Goods and Services Tax (GST) when providing government services.

Last week, Penang and Terengganu followed Johor to absorb the GST which will cost them between RM1.6 million and RM46 million meant for the federal Treasury.

State grants not catching up

In 2013, Putrajaya allocated RM6.27 billion for the 13 states, amounting to 2.4 percent of RM251.6 billion federal budget.

The federal government is still using two major grant categories - the Capitation Grant and State Road Grant (Marris) - when financially assisting the states. The two account for more than 60 percent of the RM6.27 billion.

The 13 states receive RM377 million in capitation grants and RM3.5 billion in Marris allocations in 2013.

While Treasury's guidelines explicitly state that the states can enjoy revenue growth grants, export duties on tin, iron ore, minerals and others, Putrajaya has the final word in dictating the usage of federal funds and even the appointment of contractors.

Such an arrangement not only renders the state government powerless, the mechanism of federal-state fund transfer is also outdated.

A detailed scrutiny of Article 108-112 of the Federal Constitution - the basis of such transfers - shows that the current state grants are given based on the economic realities dating back to the 1960s.

At that time, the mining and agricultural sector formed the backbone of the Malaysian economy. This arrangement made sense in the 20th century but is certainly not suitable for our increasingly industrial and service-oriented economy.

Sabah and Sarawak however - amidst their justified anxiety in joining the Federation of Malaysia - secured a special grant from Putrajaya to protect the special position of both East Malaysian states.

GST the Aussie way

In contrast, the Australian government - a federalist nation too - shares its GST revenue with its six states and two territories ever since this new tax was implemented there in 2000.

Canberra allocates AUS$95.3 billion, or 24 percent of total AUS$398.3 billion, from its 2013-14 commonwealth budget to the state and territory governments. Half of the state grants are derived from GST revenue.

What makes a bigger difference is around 85 percent of this commonwealth funding is broadly untied which allows the states flexibility to support service deliveries as they choose.

The remaining 15 percent is decided at the negotiating table between the commonwealth federal and state governments.

Compared to the Australian arrangement, Malaysian state governments receive peanuts with fund transfers made at the discretion of the federal government as shown below:

Better federal-state sharing needed

In Malaysia, we have one dominant federal power and 13 subordinated states.

While the federal government enjoys RM273.9 billion for the 2015 budget not inclusive of subsequent supplementary budgets, the largest budget allocated among the 13 states is only a measly RM6.36 billion (for Sarawak).

This biggest state budget is only a paltry 2.3 percent of the massive federal budget.

As many would have noticed, with state revenue is limited to land tax and forestry tax, it is not unusual for a state to reclaim and sell the land while giving approval to massive deforestation to gain badly-needed extra revenue.

Similarly, the booming property market in Iskandar Malaysia is linked to Johor and its local authorities seeking more revenue from land and assessment rates collection. In the long run, this may create a dangerous bubble economy.

The Penang, Johor and Terengganu governments are taking a populist approach in announcing their absorption of the GST, giving rise to the Third World phenomenon of 'robbing the poor for the rich".

More precisely, it is robbing the poor to fill the huge cavity in the Treasury's following the 1Malaysia Development Berhad (1MDB) scandal and this in turn has worsened the budget deficit, among others.

In tackling the GST question, it is time for the 13 states to fight for a more equitable federal government allocation to relieve their own financial burdens. The sharing of GST revenue is one such option.

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