

Blinkered view of GST hampers tax reform
Malaysiakini.com
April 6, 2010
Wan Fadzrul Wan Bahrum

There is an urgent need to address Malaysia's fiscal deficit and reduce national debt. In 2009, these stood at 7% of the federal budget and 47% of GDP respectively. These numbers are far too high.

Although historically the fiscal deficit reached a higher level in the 1980s (15% of GDP), the effects were mitigated by our rapidly expanding economy.

Malaysia was also in the midst of an assertive period of privatisation, which yielded bonus revenues and eliminated government spending on certain sectors.

We are now in a different era. Our economy may be growing, but nowhere near the phenomenal rates experienced in the 1980s and 1990s. Current growth will not cover 12 years of consecutive deficits.

Government expenditure must be slashed. Leakages and waste must be curtailed. Unfortunately the benefits of these measures will take time to materialise. Since we need to address our dire fiscal straits now, an increase in tax revenue is a necessary evil.

Coming from someone who believes in low tax, that is a painful admission to make. My instinct tells me that I really should be calling for more tax reduction. After all, what right does the government have to make taxpayers pay for problems it has created?

Other options are worse and must be avoided. For example, we must not increase our import duties or introduce new tariffs. Such moves will only prevent the public from reaping the benefits of cheap foreign goods, thus making lives even more difficult.

We must not increase income tax. The 1.5 million taxpayers are already paying more than their fair share. They are practically coerced by the government to subsidise the 26.5 million citizens who are not taxpayers.

We must not increase corporate taxes. This will only make business more difficult, and we certainly must not create more problems for the engine of our economic growth and recovery.

We must not ask Petronas to pay even more into government expenditure. That would probably kill Petronas. And any wild thoughts about doing to Petronas what Hugo Chavez did to Venezuela's PDVSA must be erased too.

The only viable option we have, therefore, is indirect tax, such as the proposed Goods and Services Tax (GST). The proposal is not new as the discussion goes back to the 1980s. As a matter of fact, it has been claimed that in 1993, a similar tax was proposed by then finance minister Anwar Ibrahim.

Malaysians are already paying a proto-GST in the form of the current 10% sales tax and 5% service tax (SST). Implemented in 1972, the SST is stealthy on the costs it imposes on the consumer. Many of the prices we currently pay in the supermarkets, for instance, already have the SST incorporated.

GST and prices

So what will happen if the 4% GST is brought in to replace the SST? Unlike some parties who claim that prices will only rise, we believe an honest calculation will show that there will be some reductions.

It is unfortunate that too many politically-charged arguments have been put forth by various quarters. They have already made up their minds to reject the proposal. It is thus unsurprising that they have only emphasised the potential for price increase.

mtuc cawp water tariff pc 171006 charles santiagoTake a recent roundtable on the GST chaired by Charles Santiago, the DAP MP for Klang. Malaysiakini reported there was consensus on negative price effects for consumers.

In reality these assumed 'negative effects' can be minimised or averted using the various rebates and exemptions for low-income groups proposed alongside the GST. This point was made clear by Jeyapalan Kasipillai, deputy head of Monash University Malaysia's School of Business. But his comments were not taken seriously, nor fully reported.

Low-income consumers spend a greater proportion of their income on certain goods often described as 'necessities'. If such goods are exempted, a large proportion of low-income expenditures will not be affected by GST. And if we were to include zero-rated goods, the input tax rebates would actually yield a positive effect on lower income groups.

I said this during the roundtable and I say it again now. The introduction of GST will result in a 2.79% reduction in some prices. The additional burden on low-income consumers will be minimal, if any. It is therefore wrong to insinuate as if all prices will go up.

Nevertheless, just like any other economic predictions, there are assumptions that must be made in cases like this.

Firstly, we assume there measures will be put in place to prevent profiteering. A mechanism must be introduced so that the input tax rebates received by subsequent suppliers will neutralise the taxes charged.

Secondly, the rate of monetary inflation must be taken into consideration. The predicted reduction in prices (2.79%) is below the average inflation faced by the economy in recent years. So certain goods are susceptible to having zero-reduction or even price increases.

inflationHowever it is incorrect to simply say that, in an inflationary environment, the GST will not result in a net benefit. Retaining the SST in such an environment would definitely result in comparatively higher prices. Some prices may rise just because of inflation, not due to GST.

Thirdly, there is the issue of compliance cost. The compliance cost of the GST is predicted to be around 1% of the supply value. As compliance costs are mostly fixed in nature, certain goods face a comparatively lower or higher compliance cost relative to each other.

Fast moving consumer goods, for example, would spread their per-unit compliance costs over a large sales volume - examples include consumer staples such as food and beverages, clothing, toiletries and certain pharmaceutical goods.

Durable goods, however, may face higher per-unit compliance cost due to their low volume, high mark-up profit base - vehicles, home durables and luxury items are such examples.

Democratic effects of GST

There is also one huge benefit of the GST that has hardly been mentioned, perhaps because it has nothing to do with prices. That is the positive effect the GST will have on democratic accountability.

money ringgit currency hundred notes 301007The GST will be paid by everyone and at every instance of a commercial transaction. Therefore, the question will be asked: 'What will the government do with this money?'

The public will demand more accountability for their money. This can only be good for the future of Malaysia.

The GST, I believe, will be the first step towards better governance - a virtuous cycle if you will. With more public scrutiny will come accountability and from there, intensification of the meagre system of checks and balances in the nation's democratic institutions.

While those opposed to GST bask in their 'victory' over the suspension of the second reading of the GST Bill, I hope they are aware that this is actually a loss that could cost Malaysia much more than a few measly ringgit.

As Oliver Wendell Holmes put it: "Taxes are the price we pay for a civilised society."

Opponents of GST may have gained a short-term political benefit, but they have made it difficult to introduce much-needed tax reforms in the years ahead.

Copyright © 1999-2007 Mkini Dotcom Sdn. Bhd.
Source : <http://www.malaysiakini.com/news/128399>