

'SST hike will create fair economy'

Move needed to broaden tax base, but would not burden targeted industries: Expert

BY **SIVANISVARRY MORHAN**
newsdesk@thesundaily.com

PETALING JAYA: A Sales and Service Tax (SST) rate of 8% will create a more equitable and sustainable economy, said Monash University economics professor Niaz Asadullah when commenting on Budget 2024.

Prime Minister and Finance Minister Datuk Seri Anwar Ibrahim, who presented the budget last Friday, said the government plans to raise SST from 6% to 8% but not for food, beverages and telecommunications.

Anwar also said the government will expand the scope of taxable services to include logistics, brokerage, underwriting and karaoke services.

Niaz said the government aims to promote social justice and fiscal discipline while adjusting the tax system to generate higher revenue growth and alleviate the burden on lower-income groups.

"The selective hike in SST and the expansion

of its coverage are seen as necessary adjustments within the government's ongoing tax reform agenda. It will boost the national economy after the major decline caused by the Covid-19 pandemic.

"However, while the manufacturing sales tax (imposed on taxable goods manufactured locally) is currently at 10%, the government intends to shift it to the SST rate, which remains reasonable and comparable to Singaporean businesses.

"Therefore, it is unlikely that the newly targeted industries would be affected significantly," he said, adding that when considering the increase in the SST rate to 8%, the main drawback was its narrow tax base.

"Most states have a narrow-based sales tax that applies to fewer goods, not services. It also has exemptions for items like food, housing and medicine.

"However, as the government is not ready to reintroduce the Goods and Services Tax (GST),

the increase in SST is seen as part of a long-term strategy to gradually broaden the tax base.

Subramaniam Munisamy, a 16-year logistics veteran operating in Shah Alam, said the recent announcement on increasing SST has undeniably presented some tough challenges for his business.

"However, we are determined to navigate through these hard times with resilience and innovative solutions.

"I will continue to adapt the logistic business model and provide uninterrupted services to my clients efficiently and cost-effectively," he said.

While the higher tax rate may increase levy costs, Subramaniam said it is a necessary step by the government to broaden the tax base.

He added that the government's move will contribute to the overall economic stability and growth of the country.

To this, Niaz said the impact on consumer behaviour and spending patterns among the logistics, brokerage, underwriting and karaoke

services, for instance, is another important aspect to consider.

"The economic implications of imposing an 8% SST rate on these businesses are yet to be ascertained. As with any tax increase, these businesses may be burdened.

"However, it is likely that the impact on these industries will be minor compared with the broader targeted sectors."

On the continuation of the 6% SST rate for essential services like food, beverages and telecommunications, Niaz said it is expected to have a positive effect.

He said in light of the high cost of living, the decision will provide relief to lower and middle-income families (B40 and M40), enabling them to allocate their resources more effectively.

"The decision not to increase the SST rate for telecommunications can be viewed as a strategy to support the government's digital transformation goals.

"By incentivising digital inclusion and broadband accessibility, the government aims to bridge the digital divide and promote greater digitisation and automation across industries," he said.