

GST bad for middle class

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PETALING JAYA: While Barisan Nasional leaders try to convince Malaysians that the Goods and Services Tax (GST) will not burden them, a Singapore politician says the picture has not been so rosy in his country, where the tax was introduced 20 years ago.

“GST has been harmful for the economy and for most working people in Singapore, especially the middle class,” said Tan Kin Lian in a blog article posted recently.

Tan, who describes himself as a social activist, contested in the 2011 Singapore presidential election and finished in fourth place. He runs an organisation that teaches the public about long-term financial security.

He said it would be better for Singapore to scrap the GST and impose higher income tax on the rich.

Singapore introduced the GST in 1994 at 3%. The rate has been increased gradually over the years. It is now 7%.

Tan said many of his compatriots had been misled into believing the GST was good for Singapore by the argument that the coinciding reduction in income tax rates would attract businesses to the country and create jobs for the local population.

“Most of these people are misled by the false propaganda that is fed to them over the years by the government and the proponents of GST,” he said.

He acknowledged that Singapore remained an attractive place for multi-national companies to set up their operational headquarters and manufacturing and research facilities, but he added: “Most of them are attracted by the tax holidays and the other incentives given by the Economic Development Board rather than the lower corporate tax rates.

“They enjoy exemption of tax on their overseas sourced income anyway. This is bad for their host countries, and does not benefit Singapore much, apart from creating a small number of jobs for the operational headquarters.

“Some of the top jobs are not given to Singaporeans, as they are allowed to recruit ‘foreign talents’ to manage these operations.

“I do not see much evidence of companies setting up in Singapore due to the lower corporate tax rates.

“Tax is only one cost of doing business. The other factors, such as rentals and the salaries and

skills of local workers, are also important. These two components have increased significantly over the past two decades, more than outstripping the benefit of a lower tax rate.”

A fallacy

Tan said the GST had been a “major contribution” to inflation in Singapore.

“Apart from adding to the cost of goods and services, it also creates additional cost to businesses of accounting and complying with GST.”

He dismissed the argument that the GST, being consumption based, would encourage savings.

“This is a fallacy,” he said.

“For the majority of workers, the cost of paying for essentials takes up most of their income, perhaps more than 80%. They do not really have much choice in avoiding GST by being frugal.”

Tan gave little weight to government cash handouts in alleviating suffering caused by the GST.

“The government has introduced some cash handouts, called GST vouchers, to help the lower income people to offset the GST,” he said.

“This scheme does not benefit the large proportion of workers who earn above the threshold to qualify for these vouchers. They are the middle class that form the large proportion of the population, and is the group that is being squeezed by the high cost of living.

“The big beneficiaries of the GST system are the high income earners in Singapore. They earn their income from working in Singapore and enjoy low taxes.

“The proponents of GST argue that high income tax will drive these talents away from Singapore.

“This is a fallacy. They cannot earn this income by working in other countries.

“Take a look at these high income earners—corporate CEOs, bankers, lawyers, doctors, property developers, political leaders—and you will understand why they like GST.”

Malaysia plans to introduce GST beginning April 2015 despite strong objections from activists and the opposition.

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