

**Scrapping GST will be a disaster for Malaysia, say economists**  
**The Malaysian Insider**  
**May 17, 2015**  
**By Julia Yeow**

As public anger over the newly introduced goods and services tax (GST) mounts and calls for its abolishment intensify, economists and tax experts have warned that a government backtrack would spell disaster for the nation's already ailing economy.

In April, Malaysia implemented its biggest tax reform in decades with the introduction of GST, saying the multi-stage tax would allow for a much-needed increase in government revenue to offset a mounting national deficit.

Malaysia has one of the region's highest household debts, and low investor confidence over the past year has resulted in an underperformance of its bonds and stock market.

Experts say the implementation of GST is long overdue – only two million out of a population of 28 million currently pay income tax – and the increased federal revenue will help to ease growing government debt.

“Essentially, the GST is spreading out the burden so it isn't concentrated on a small group of taxpayers who are currently supporting the expenditure of the majority,” said RHB Research Group chief economist Lim Chee Sing.

“It will allow us to broaden the tax base, and allow the government to reap more revenue to better manage finances.”

However, widespread confusion over how the tax works, its growing list of exemptions and price hikes of goods and services to up to 30% in some cases have beleaguered its implementation.

Thousands of protesters took to the streets on May 1 calling for the tax to be scrapped, citing increased hardship for the country's lower-income groups due to the rising prices of almost all basic household and food items.

But economists and tax experts said scrapping the tax would result in further erosion of investor confidence and spell greater long-term problems for the economy.

In January, Prime Minister Datuk Seri Najib Razak widened the nation's fiscal deficit target to 3.2% of the gross domestic product (GDP) for 2015 and cut government spending to offset the global drop in oil prices.

The government relies heavily on revenue from oil and gas sales for revenue and to control its national debt.

“We cannot afford to call off the GST. It will be disastrous for the country, it will destroy us,” Lim told The Malaysian Insider.

He said studies into GST began more than two decades ago in Malaysia and the decision to implement it had been postponed many times.

"When will we ever be ready? We've actually procrastinated for too long. We cannot hold back any longer."

Tax academic Jeyapalan Kasipillai said that while the government has the prerogative to revert on its decision to implement the GST, such a move would be "reckless and irresponsible".

"To my knowledge, no country in the world has ever implemented the GST and then regressed on it," he said.

"The government has spent billions of dollars, recruited some 3,000 people for the Customs Department. Businesses have spent a lot of money training their staff, and buying software," said Jeyapalan, who is a member of the Finance Ministry's GST Monitoring Group.

"Every country goes through the teething stages of six months to a year. After a year, everything settles down, there's acceptance, and the monitoring will have greater impact."

He said the country would not be able to achieve a developed nation status without the much-needed increase in tax revenue.

"We shouldn't be talking about abolishing the GST. Instead, the challenge lies ahead in improving on this mechanism."

However, public perception towards the GST has remained overwhelmingly negative, compounded by the emergence of one of the worst corruption scandals in history, namely the multi-billion-ringgit 1Malaysia Development Bhd controversy.

Opponents of the taxation system have pointed to Najib's apparent inability to manage the country's finances as proof that the GST was merely a "quick-fix" solution to the country's economic woes, and that increasing federal government revenue would not address the increasing government debt problem.

"Our problem has never been a matter of revenue," said Tony Pua, publicity chief of the opposition DAP.

"Our revenue has been massively boosted by oil revenues for the last eight years and that did absolutely nothing to curb our structural excessive expenditure patterns, which have in turn resulted in accelerated increase in federal government debt," he said.

Pua said increasing tax collection to address Malaysia's debt problem was like "prescribing treatment for symptoms of a disease instead of diagnosing the cause of

our ailment”.

“The underlying reason for Malaysia’s persistent deficit is our institutionalised government spending behaviour,” he told The Malaysian Insider.

“Hence by implementing the GST today, it will only increase the pain and burden of the man on the street without curing the chronic spendthrift behaviour of the government.

“Corruption, wastage, inefficiency, bloated civil service and all other forms of leakages... these are the issues that need to be addressed first and foremost.” – May 17, 2015.

Copyright © 2015 Edge Insider Sdn Bhd

Source:

<http://www.themalaysianinsider.com/malaysia/article/scrapping-gst-will-be-a-disaster-for-malaysia-say-experts>