

'GST will affect middle and lower income group most'

MalaysiaKini.com

Apr 7, 2014

COMMENT The Goods and Services Tax 2014 (GST) Bill has been recently tabled for Parliament reading. This sets in motion GST's eventual implementation from April 1, 2015.

Minister in the Prime Minister's Department Idris Jala wrote in his blog on Nov 4, 2013 that GST "will tax most those who consume the most, which of course will be the rich" and "the imposition of a 6% GST will have minimal impact on the poor because a range of essential items will be zero-rated and exempted".

Whilst measuring the extent of taxation based on the absolute amount of tax paid, as what the minister has written, is one way; it is not the norm in international practice as it does not measure the burden of taxation relative to the level of income.

Indeed, the IRS (the tax administrator in the United States) defines a regressive tax as "a tax that takes a larger percentage of income from low-income groups than from high-income groups".

The similar definition is also adopted by the Macmillan Dictionary and the Collins Dictionary. Besides, income is the best metric to assess the household's ability to pay.

Hence, a tax is measured relative to income levels to determine the impact of the tax on the rich vs. poor.

Why is GST a regressive tax?

Using Bank Negara's estimates of income/expenditure and combining with the latest Household and Expenditure Survey 2009/2010, a study by the Penang Institute took into account the level of income, households' spending pattern and evaluated the burden of GST – being GST paid as a proportion of household income.

The detailed study and other information is available [here](#).

Despite setting essential items like basic food, public transportation, education and healthcare as exempt or zero rated items, the study shows that after taking into account households' expenditure pattern and income, GST is a regressive tax (i.e. the low and middle income households will bear a higher tax burden than the higher income households).

Consistent with international findings

Our finding that GST is a regressive tax is consistent with international findings. For example, the study published in the International Business & Economics Research Journal (May 2013) by Anthony Stokes and Sarah Wright, entitled "Does Australia Have a Good Income Tax System?", also concluded that GST is a regressive tax.

What is the impact of GST on Malaysian households?

The yellow line in the chart below (measured by the scale on the right hand side) shows that the

proportion of income payable as GST (GSTI) is higher for the low and middle income households compared to the highest income households.

The worst hit households are those earning about RM2,500 per month - with GST burden at 2.67% of their income. The lowest income households (with average monthly income of RM605) will pay 2.35% of their income in GST.

However, the highest income households (with average monthly income of RM 30,815) will bear only 1.32% GST burden.

Apart from hitting the low to middle income households, we also find that households will pay higher percentage of their income as GST if they are:

- engaged as technicians, clerical and services workers, farmers and fishermen
- in single person households
- in young households (less than 24 years old)
- bumiputera-led households
- households residing in Peninsular Malaysia

For more information on our research and on our interactive spreadsheet detailing the impact on different households, visit the **[Penang Institute website](#)**.