DON'T SPEND MORE THAN YOU EARN | MY SAY | 50

Prioritising tax policies that are inclusive, equitable and sustainable is key to economic growth 50 |
It's critical to budget for the Dual Language Programme 51 |
Why we should welcome back GST 52 | Issues that can arise with capital gains tax 53 |
Has the US dollar peaked? 54 | Debt-pushing as financial inclusion 55

123RF

FORUM

The key feature of GST, which imposes tax at a transactional level, is that it provides transparency, which would automatically result in parts of the shadow economy being brought into the net.

GST for sustainable revenue growth

TRUST IN
Resilience

BY JAGDEV SINGH

Over the last few months, the Malaysian government has announced various Madani economy initiatives, allocating funds for wide-ranging areas to benefit targeted groups, including an inclusive housing pilot project, the Malaysian Investment Development Authority's talent development plans and e-tunai credit.

During the 12th Malaysia Plan Mid-Term Review, the expenditure ceiling was raised by RM15 billion to RM415 billion. The increase was to meet the need to finance priority areas for the people's benefit, to improve the quality of management and re-target subsidies to meet the basic needs of the people. While these measures are a step in the right direction to drive inclusive growth, they need to be funded by expanding the government's revenue base in a sustainable manner.

Ahead of Budget 2024, there have been more focused discussions on the government's decision to widen the revenue base, with the Goods and Services Tax (GST) mooted as a possible revenue enhancement measure.

The guessing game continues as to how and when GST can be implemented, bearing in mind the need to ensure that it does not unfairly burden the lower-income groups.

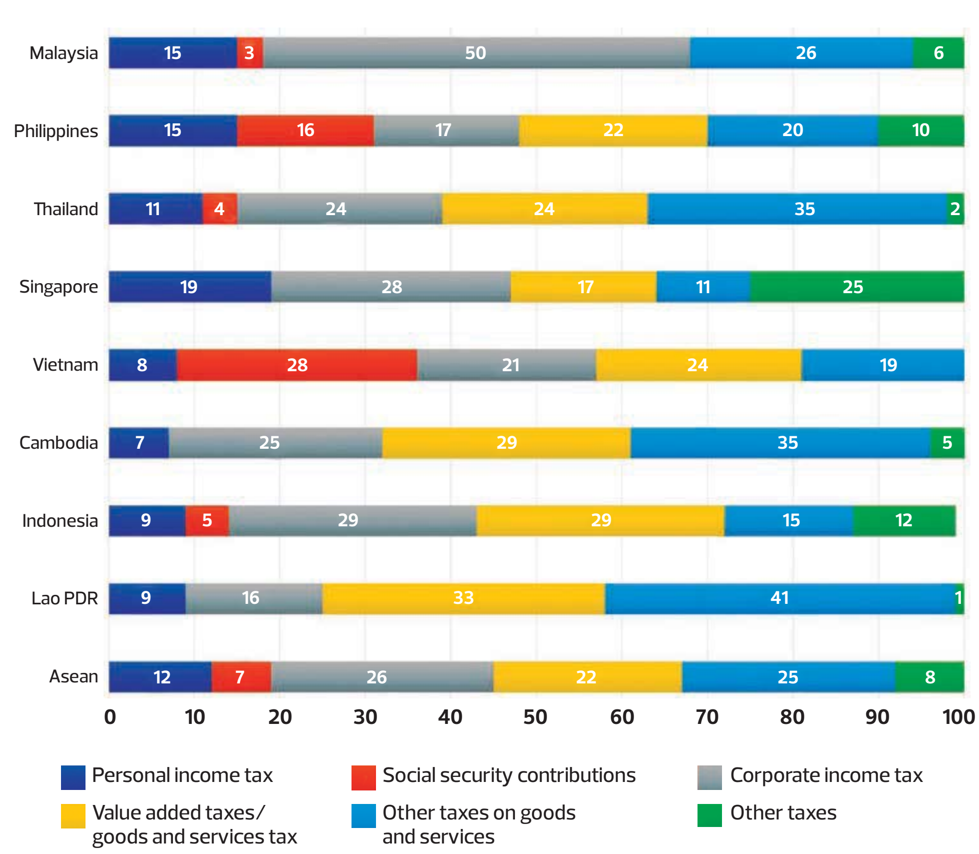
Malaysian tax revenue landscape

Tax revenue is, and has been, the largest source of revenue for the federal government for a while now. In 2022, it constituted almost 71% of total revenue. Yet, our tax-to-gross domestic product (GDP) ratio (11.7% in 2022 and 11.8% in 2021) is on the lower end of the spectrum when compared to most of our neighbours as well as the average for Asia-Pacific.

If we were to break this down further, currently, more than 50% of our tax revenue is from taxing corporate profits. As shown in the chart consumption tax makes up a significant percentage of tax revenue among Asean countries and, of late, has been seen as the most pragmatic way of generating revenue growth. Singapore, Indonesia and Thailand have plans to increase their GST/VAT (value-added tax) rates in the coming years.

The noticeable trend in the chart is that GST/VAT contributions generally exceed corporate income taxes. If Malaysia brings

Regional tax structure and Asean average



Data extracted from 'Revenue Statistics in Asia and The Pacific 2023', OECD.

Don't bark up the wrong tree

The
REAL
deal

BY AU FOONG YEE

It's that time of the year again. Like clockwork, industry players are parading their respective wish lists in the run-up to the tabling of Budget 2024 later this week.

Over the years, this practice has been somewhat watered down and has taken on the look of an annual ritual. Look, whatever is being bandied about for the government's consideration is nothing new to the administration and to the man in the street. Well, I suppose organisations and non-governmental groups do need to be seen to be doing what is expected of them.

Let's cut to the chase. What Malaysians want far outweighs what is achievable, especially given the growing pressure on Putrajaya's coffers and global headwinds. Hence, as in the previous years, one can expect the majority of the wish lists to remain just that.

Take the property sector, whose all-time wish is for house-buying to be made more affordable through the provision of tax incentives, grants and lower interest rates. Developers too want a reduction in the cost of doing business and price of construction materials, apart from doing away with cross-subsidised affordable housing. Sounds familiar?

The business of property development is both unique and complex. While the federal government may set aspirations and direction for the industry, it is the state governments and local authorities — which number more than 150 — that really call the shots.

The Constitution of Malaysia provides that matters relating to local government rest within the scope of the respective state governments, not the federal government. The Ministry of Local Government Development, is tasked with overseeing the local authorities in areas such as the channelling of funds from the federal government, among other responsibilities.

It is no secret that property development activities are the prime contributor to the purses of most states. In fact, a recent report has estimated the contribution level to be as high as 95% for some states.

Their income is primarily derived from various forms of property taxes such as land conversion premiums. This being the case, it is little wonder that state governments are guardedly possessive about the building and construction industry in their realm.

Mind-boggling process

Property development approval processes at the state and local council levels are mind-boggling. A single project can only take off after a tenacious effort is made to secure two dozen or more approvals from a variety of departments. Naturally, the effort gets more trying if one were to develop a township.

Each state or federal territory has its own guidelines on areas such as the size and pricing of affordable housing units, bumiputera quota, discounts and the release mechanism (this refers to the authorities' approval for unsold bumiputera units to be put on the general market).

What all this means is that while the provision of tax incentives and grants at the federal level will be a boon for the property industry, it is also akin to treating the symptoms rather than the disease. No amount of tax incentives would ever be enough. Nor are they sustainable. Hence, expect the pain points to worsen.

Knee-jerk responses and the so-called quick fixes aimed at pleasing targeted audiences are not only ineffective but also prolong the pain.

> "The business of property development is both unique and complex. While the federal government may set aspirations and direction for the industry, it is the state governments and local authorities that really call the shots."

What the building and construction sector needs is clarity, transparency and accountability at the state and local authorities' level. It is only when these aspects are in place can home prices dip and become affordable.

Property development entails the input of and interaction with umpteen parties both inside and outside the government departments. This inevitably creates opportunities for corruption, especially when developers are always in a hurry for approvals as time is money to them.

Development activities entail a long gestation period with heavy financing and holding costs. Any delay along the way is bad news. Ultimately, unfortunately, the developer's woes will be passed on to buyers in the form of higher property prices.

Red tape jacks up home prices

A developer can only hand over to a buyer the vacant possession (VP) of a property that has received the Certificate of Completion and Compliance (CCC), a certification by industry professionals.

It was in April 2007 that Malaysia took a quantum leap, replacing the local authority-issued Certificate of Fitness for Occupation (CF) with the CCC. The shift was in response to complaints that the decades-old CF issuance was mired in red tape, causing unnecessary delays and creating room for corruption. For instance, the process of approval required the authorities to visit the site, yet they had limited technical resources.

In contrast, the CCC is a self-regulated and self-certified process. Every construction phase — from earthworks to landscaping — has to be signed off by professionals. Immediate remedial action can be taken on areas that have failed to meet the requirements set out in the building works. As a safeguard, any party found to produce false declarations, certificates, applications or representations of any form of the CCC process is punishable by law.

Fast forward to the present, grumbling on the ground is that red tape has started to emerge in local councils ... I cannot vouch for this but, if true, the government must step in immediately. Bureaucracy will inevitably push up home prices.

Another complaint making its rounds is how some local authorities are introducing new building approval guidelines that are unnecessary and costly. There is no smoke without fire. Procedures and processes that are clearly spelt out and standardised give little room for corrupt practices.

Clearly, it is at the state and local authorities that improvements will go a long way towards containing home prices. It is not always about subsidies and grants. Let us not miss the wood for the trees. That's the Real Deal! E

Au Foong Yee (afyee@bizedge.com) is an editor emeritus at *The Edge*

---

back the GST, it would create an opportunity for us to gradually reduce our reliance on corporate income taxes. This could create an opportunity for us to reduce our corporate tax rates to be more competitive vis-à-vis our regional peers.

The case for GST

GST as a broad-based tax on consumption

Individual taxpayers who paid personal taxes in 2022 make up about 8% of the current population. The RM33.8 billion collected from personal taxes in 2022 does not reflect the full fiscal potential of a nation of 33.5 million people, given the low number of individuals who pay taxes.

Since the types of income and capital gains that are subject to tax in Malaysia for individuals are fairly narrow, consumption tax will help to broaden the tax base equitably.

Addressing inefficiencies in the current system

Sales tax and service tax (SST) are two separate taxes and, as such, inherently inefficient as a mechanism to tax consumption. By design, the number of items covered by sales tax has to be a lot lower compared to GST to keep the cascading effect of tax as low as possible. Similarly, only specific services, which in the majority of instances are consumed by the end consumer, are subject to service tax.

Despite this, there remains a cascading effect for certain goods and services that results in a tax on tax, which ultimately gets passed on to the consumer.

In the absence of an input tax mechanism, expanding the scope and coverage of SST would not be effective as it could bring about other unintended consequences.

An avenue that can really move the needle on revenue

While the government has other options in terms of new taxes or even increasing existing taxes, most of these may not make a meaningful contribution to the government coffers. Given the broad base of GST, which is not entirely dependent on corporate profitability, the potential upside can be significant.

A holistic approach to taxes

In the new economic landscape, which has moved away from the traditional employment-based and corporate-driven structures, it is important for the government to have better visibility of the value chain and ensure that the right amount of taxes, both direct and indirect, is being collected. The key feature of GST, which imposes tax at a transactional level, is that it provides transparency, which would automatically result in parts of the shadow economy being brought into the net.

A GST model that could work

Rate

As our starting point is a service tax of 6% that we are all familiar with and an embedded sales tax of 10% on a majority of goods meant for consumption, starting with a GST rate of 6% would be ideal.

There have been calls for a lower rate to start with. However, this would mean that we could be unfairly taxing consumption across the board (including by the T20) at a low rate. This will end up being akin to the current issue we have with subsidies, whereby it is difficult to distinguish between the different income groups. Hence, as discussed below, a strategy of targeted cash transfers would be more appropriate in mitigating the effect of a higher tax rate on the lower-income groups rather than imposing a lower tax rate on everyone.

Scope

Learning from the past, a long list of zero-rated and exempt supplies results in ambiguities and inefficiencies. Hence, in line with the GST strategy adopted in most countries, we ought to keep the carve-outs to a minimum. Coupling this with a more reasonable registration threshold of perhaps RM1 million would also simplify the administration process.

Addressing the elephant in the room

Unfortunately, GST is perceived as regressive and will potentially burden the lower-income groups if not implemented effectively. The additional GST burden on the lower-income groups needs to be compensated for by way of cash transfers that are targeted and regular. This needs to be an integral part of the implementation strategy.

Also, corporates should not be bearing the cost and uncertainties in terms of timely refunds. Hence, ensuring the proper implementation of a fund for GST refunds is critical.

In conclusion, a strong narrative coupled with an extensive education programme is key to an effective rollout of GST. It is important for the rakyat and businesses to appreciate the mechanisms of a consumption tax to dispel the misconception that it has a compounding effect that will result in price hikes. The lower-income groups must feel that they are not bearing any additional burden as the cash transfers will compensate for any increase in costs relating to their daily spending.

Equally essential is price control and anti-profiteering enforcement to keep unscrupulous price increases in check.

As Malaysia charts its growth journey under the Madani economy, a strong revenue base will propel the country towards high-income nation status. We are just one decision away from real progress. E

Jagdev Singh is PwC Malaysia tax leader