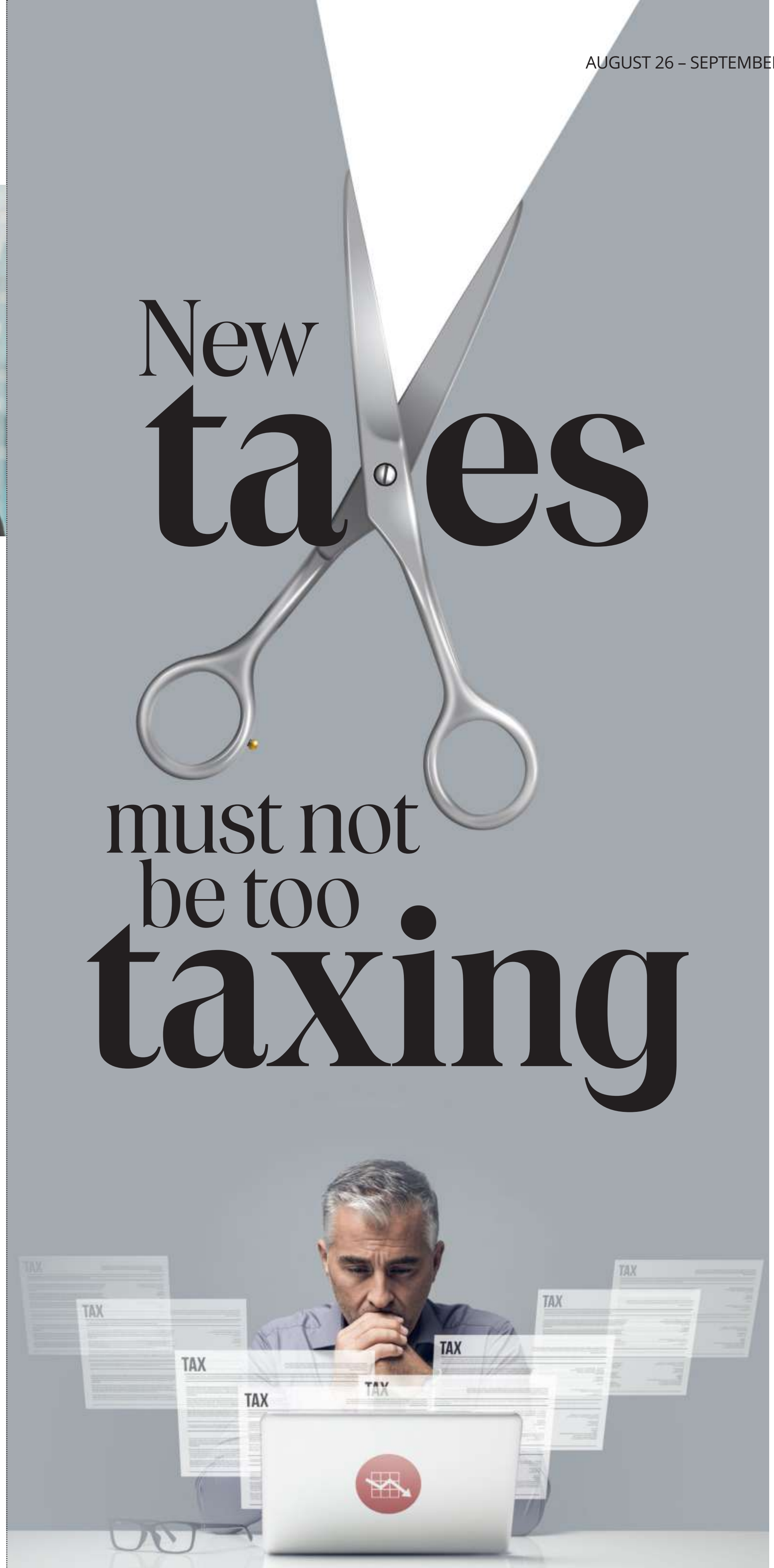
New taxes must not be too taxing



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THE Madani Economy framework is based on two pillars - restructuring the economy towards making Malaysia a leader in South-East Asia, and secondly, raising the people's quality of life by enhancing economic drive, encouraging investments and strengthening local industries to make Malaysians more innovative and competitive.

To fund these initiatives, the government needs to ensure it can sufficiently increase revenue.

As it is, tax collection remains the largest contributor to government revenue, representing approximately 75% of total revenue.

On the back of an already high level of operating expenditure which restricts the ability to expand development expenditure, it is imperative to put in place a comprehensive strategy to increase revenue.

The 12th Malaysia Plan and the impending Fiscal Responsibility Act are likely to reduce the budget deficit to a more manageable and sustainable level, putting further pressure to focus on the revenue side of the equation.

E-invoicing

e-Invoicing is set to commence in 2024, with full implementation by 2027. A comprehensive implementation strategy coupled with strong data analytics has the potential to increase tax compliance rate as well as help stop leakages arising from the shadow economy. The introduction is also in line with the government's plan to digitalise tax administration and strengthen digital services infrastructure. However, there are aspects that need to be considered, such as cost of compliance, digital literacy and readiness as well as impact to industries that are already regulated.

Goods and Services Tax (GST)

It is well acknowledged that the current Sales and Services Tax (SST) regime as a single stage tax is not efficient. A number of unintended consequences arise for businesses, consumers and administrators amidst their efforts to fit a constantly evolving economic environment into a tax system founded on the dynamics of the economics in the 1970s. The implementation of a broad-based consumption tax such as the Goods and Services Tax (GST) or Value-Added Tax (VAT) to replace the SST is preferred when we consider our experience during the GST era (2015 to 2018) and now.

There was more certainty and transparency to the application of the law under GST. Having an indirect taxation practice in Malaysia that is consistent with those in other jurisdictions improves ease of doing business, while plugging leakages. A GST system will see us moving away from relying on taxing corporate profitability as we will be taxing consumption - at every stage of the supply chain - a more stable taxation base.

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Capital Gains Tax (CGT)

A study to consider a low tax rate on CGT for corporates disposing of unlisted Malaysian shares was mentioned during the retabling of Budget 2023. Since Malaysia is one of the few remaining countries that do not have a broad-based CGT regime, such a move may be seen as progressive. As the means of wealth accumulation in society shifts away purely from income, taxing capital gains albeit at a lower rate makes the overall tax system more progressive and broad-based. It is important to ensure that this strategy does not result in capital flight and dampening of investments. A pragmatic approach would be to initially implement the CGT on a defined category of transactions and progressively widen it.

Inheritance tax

Rumours have been surfacing on the potential introduction of inheritance tax. Proponents would argue that inheritance tax offers a path to a more equitable society as wealth amassed is redistributed where beneficiaries of generational wealth contribute to the common good. However, one would need to consider what impact this would have on behaviour to save and invest, exodus of high net worth individuals, and the true equity in taxing wealth that has been subjected to tax due to the existence of RPGT and income tax. Given the present economic make-up of the Malaysian population, the inheritance tax feature may not be attractive in terms of potential revenue when compared to the cost to implement. There is also consideration on how inheritance tax will interplay with zakat since it is already mandatory as a Muslim's religious duty on accumulated wealth.

Green taxes

Malaysia is aspiring to become a net zero nation by 2050 and is committed to reduce CO_2 intensity against GDP by 45% in 2030. In view of this, potential fiscal measures enabling this ambition may include the introduction of green taxes. Beyond revenue generation, this is expected to drive businesses to behave in a more environmentally sustainable manner.

Potential green taxes to be considered may include taxes on pollution, energy wastage and carbon emissions. Where such fiscal measures are being considered, details on potential green taxes and carbon trading should be announced together with the introduction of the national carbon policy and Nationally Determined Contributions Roadmap and Action Plan later this year so businesses can plan and assess appropriate actions.

In conclusion, any new taxes should not be at the expense of the overall economic growth and well-being of individuals.

Careful evaluation and engagement with stakeholders must be done and implementation should be carried out in a transparent manner with clear guidance to ease acceptance.

It will be interesting to see how developments from the mid-term review of the 12th Malaysia Plan, and the upcoming Budget will outline strategies to grow government revenue.