THE late, great proponent of supply-side economics Jude Wanniski once suggested that taxes are a penalty placed on work, so the only focus should be on reducing the penalties placed on work with an eye towards stimulating even more work. Wanniski was also instrumental in popularising the "Laffer Curve" theory, which implies that increasing tax rates beyond a certain point will be counter-productive for raising further tax revenue.

So with the introduction of the goods and services tax (GST) on April 1, 2015, many expected the corporate and individual tax rates to come down. And they did come down, albeit marginally.

There were reductions in individual tax rates too (for the year of assessment [YA] 2015) and an increase in the ceiling of disposable income on which chargeable income above RM100,000, which are the right moves in line with the Laffer theory.

Conversely, in Budget 2016, in what can be regarded as an about-turn of sorts, tax rates for individuals with chargeable income above RM600,000 saw an increase of 1% while chargeable income above RM1 mil increased by 3%. Some view the approach to be regressive with negative implications towards the attraction and retention of talent pool.

Corporate tax rate also saw a decrease but it was a marginal 1% reduction to 24% taking effect only from year of assessment 2016.

What is the rationale for delaying the effective date by one year? The word on the ground was that GST is new so the government needed to ensure a sustainable and steady revenue stream from the new corporate taxes to cover the bill.

Shift towards indirect taxes globally

GST or Value Added Tax (VAT), as it is known in some countries, is spreading across the world, whether as a new tax or as a replacement of other narrower forms of consumption tax. Diverging from expectations abroad, the introduction of GST/VAT is generally followed by a reduction in corporate and individual tax rates for individuals. For example, a 2% and 3% reduction in tax rates in the year of GST introduction by Australia and Singapore respectively.

An economic crisis forces governments to explore just where more revenue can be easily identified, Malaysia included. There are underlying theories explaining that indirect taxes are the choice. Several Organisation for Economic Co-operation and Development (OECD) studies indicate that corporate income tax is the least growth-friendly, while VAT is the most growth-friendly and progressive. Generally, the higher the corporate tax rate, the bigger the incentive for companies to shift income to lower tax jurisdictions.

The data in the table show that government revenue was highly reliant on direct taxes before GST was implemented, representing 57% of total government revenue in 2014. In contrast, our regional peers' government revenue contribution from direct taxes is between 31% and 33%.

Post-GST implementation, nothing much has changed in terms of revenue contribution from direct taxes. The forecast data for this year in the chart show direct taxes as 55% of total government revenue. In contrast, indirect taxes is expected to contribute 26% of government revenue this year (17% of total revenue attributed to GST collections).

Indirect taxes account for the largest share of government revenue for most countries in the region. The government should move away from its reliance on direct taxes and should strongly consider lowering them as the current split between direct and indirect taxes is not sustainable.

Global tax environment

Also, current tax rates are not competitive compared to other countries in the region. We need to be cognizant that tax regulations in the past were largely written for a different type of global economy. However, with today's complex global tax environment, these rules may no longer be relevant to see the country through to developed nation status in barely four years. A good observation of the significance of tax is how it has moved up the boardroom agenda, whereas in the past, tax was always an afterthought when it comes to investment decisions.

Tax incentives used to be a pull factor to lower effective tax rates but over the years, the authorities have tightened the qualifying conditions and this has caused businesses to struggle and in more serious situations be disqualified from enjoying the tax incentives. Evidently, tax incentives are no longer a differentiating factor as our neighbouring countries have also upped the ante and are offering more attractive tax incentives besides having lower direct taxes.

The reason to lower our direct taxes, the country will be better able to compete for foreign direct investments. Businesses will have more gross capital to invest in their business, thus increasing consumption, job opportunities and overall competitiveness.

In addition, Malaysia will be better able to attract and retain talents, while citizens will have more disposable income to cushion the rising cost of living which has been a major concern ever since GST was introduced.

A healthy balance

So what is a good balance between direct and indirect taxes? While there is no simple answer to what's the right balance, a check against countries that have been in this journey longer would be a good start.

Do I think the tax rates will come down in Budget 2017? In the current environment, it is unlikely (although I do hope I'm wrong). Do I think GST rates will be increased? Increasing the GST rate now could aggravate the situation further, especially when the lower and middle income groups are struggling to make ends meet. Therefore, it's unlikely in Budget 2017 but it is an avenue the government could consider in the near future if it is to rely on consumption tax as a way to shift reliance from indirect to direct tax.

Overall, it would be beneficial to have a more well-thought out tax strategy with longer lasting impact, focusing on measures targeted at the groups that need them.

Benedict Francis is the senior executive director of PwC Taxation Services Malaysia.

Corporate travel agreements put airline on good flight path

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Our objective is to make money," he says. The airline, which has been profitable since 2003, hopes to remain so despite posting a first-half net loss of US$6.6 million this year versus US$8.3 million net profit in the previous corresponding period.

Earnings were dragged down by a huge devaluation of the tenge, the KZK, and weaker regional travel markets.

"Hopefully this year will be profitable for the airline," he said. "It's a plus for the airline as well. In July-August, we made US$22 million profit," stressed Foster.

Air Astana has been profitable since inception and contributed significantly to Kazakhstan's economy. Its payments to the state budget exceed US$37 million, and Foster says it has never received any state subsidy.

Air Astana is a joint venture between the national wealth fund Samruk-Kazyna and BAE Systems, with 51% and 49% interests respectively.

Oil price a double-edged sword

Low fuel prices have been a blessing for most airlines. For Air Astana, the oil price is a double-edged sword.

"Low fuel prices have contributed to the airline's strong second half results. An increase in the fuel price will, to some degree, affect this. "More importantly, an increase in the price of oil is a catalyst for national economies like Kazakhstan, which are heavily engaged in the sector."

"We will see more activities on the ground, increase capital investment, and at a basic level, more confident consumer sentiment. Our airline expects all of this to drive passengers onto our aircraft."

"Air Astana has a significant number of corporate travel agreements with key oil and gas organisations. This further places our airline in a strong position for growth," Foster says.