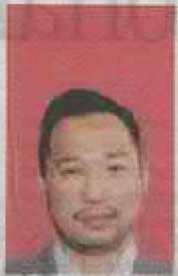
TAX REFORM

2024 Budget is the perfect vehicle to reintroduce GST



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AFTER the launch of the Madani Economy framework, two parts of the National Energy Transition Roadmap, the New Industrial Master Plan 2030 and the 12th Malaysia Plan midterm review, another crucial economic document that will add to and complement the Madani Economy narrative is the upcoming 2024 Budget.

One aspect that is missing in terms of structural change within the Madani Economy framework is reform of the tax system.

If we agree that the current Sales and Service Tax (SST) system is the best option that we have, then discussions about reforming the tax system are irrelevant.

However, that is clearly not the case in the Malaysian economy today. Our revenue base is still narrow and SST is far from progressive.

The black economy is still widespread, and reliance on oil and gas as one of the main sources of revenue is obviously not in line with the aspiration to move away from a fossil fuel-based economy.

SST is an obsolete tax system, which is not compatible with a country that aspires to become a high-income nation in just a few years.

The government, in the 2024 Budget, must consider reintroducing the Goods and Services Tax (GST), either next year or in early 2025.

GST is more efficient and transparent. It can broaden the revenue base and tackle the black or shadow economy.

As a consumption tax system, we can move away from heavily relying on oil and gas revenue and fully commit to the sustainability agenda moving forward.

When the tax system is efficient and extended into the shadow economy, the government's revenue will see a predictable and sustainable improvement. This is in contrast to a one-off increase if the government focuses only on eradicating corruption or managing leakages in the system, which are crucial nonetheless.

This extra revenue can be used to directly help the people, especially to manage the rising cost of living, by increasing their income and wages, improving social safety nets, reforming the pension system, building more basic services, providing job guarantees, and exploring emerging sectors such as renewable energy.

GST is more superior in terms of attracting foreign direct investments (FDIs) to our shores. As GST is rolled out, the government can gradually reduce income and corporate taxes.

Reducing corporate tax would make our country more attractive than our neighbours to foreign investor.

In this context, given the current regional and global landscapes, the introduction of the Capital Gains Tax (CGT) seems inappropriate as it would have an opposite effect on investors. Many nations in this region do not have the tax and it could dampen our competitiveness from an investor's point of view.

As GST is not imposed on exported goods and services, it has the potential to improve our exports and trade in general.

As the government strives towards fiscal consolidation, as stipulated in one of the key performance indicators of the Madani Economy framework, GST is crucial. But it is not sufficient. One has to pair it with targeted subsidy measures, which must be elaborated on in the 2024 Budget.

In economics, one has to understand that taxation is not merely about generating revenue for the government or stimulating economic activity. A superior tax system, like GST, can improve governance, accountability, and provide a more transparent framework of economic management.

GST has the capacity to redistribute income, create a just and fair economic system for society, and ultimately bring about social justice and an authentic humane economy as espoused in the Madani economic philosophy.

Currently, only 4.5 million Malaysians of the 16 million-strong labour force pay taxes to support a population of about 33 million. Is that fair? Those who work hard and earn more will have to pay more taxes. Is that compassion?

Hence, the 2024 Budget will be a perfect vehicle to bring substantive structural reforms to the economy. One aspect would be the reintroduction of GST.

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