SALES AND SERVICE TAX 2.0

It's an investment in Malaysia's future and fiscal resilience

MAKING a comparison between the Sales and Service tax (SST) and the Goods and Services Tax (GST) is actually engaging in a misguided debate.

The focus should be on where the expected additional revenue derived from the SST expansion (SST 2.0) will be directed and invested, and how the reform in the SST 2.0 model can improve the fiscal resilience of the economy.

The state of the Malaysian economy and the global economy at large today is different from a decade ago when GST was rolled out.

When GST was introduced, SST was abolished. And when GST was abolished in 2018, SST was reintroduced. Now, we have SST 2.0.

In Madani economic terms, it is about achieving the twin objectives of "raising the ceiling" and "raising the floor", which essentially seeks to empower the peo-

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ple and to transform the economy into a high-income nation.

Today, a whole range of public support — schools, universities, clinics, hospitals, roads, Internet access, bridges, security, legal system, etc — is more crucial than ever and this involves government spending and investments.

Imagine how we faced the Covid-19 pandemic without government support, just to show one example. Currently, humanity is facing a slew of existential and once-in-a-lifetime changes.

Climate change, technological revolution, digital economy and ageing society all require a fundamental shift in the structure of the economy and, hence, the need for the government to broaden their revenue base in a sustainable manner.

Adding to this is the global economic uncertainty and ongoing geopolitical risks which, again, require the government to play a greater role than in the past to mitigate their downside impact to the economy.

To stay competitive, the government needs to invest in many "moonshot projects" and research and development that will anchor and propel the economy to greater heights.

When it comes to paying taxes, the real question is always about the value that the people get from paying those taxes.

For instance, Denmark, Sweden and Finland have among the highest tax rates in the world. But they are also always ranked at the top globally in the happiness report.

Finland now has the "happiest people" for eight consecutive years. Denmark ranked second while Sweden came in fourth.

What are the reasons behind their happiness?

One factor that cannot be denied is their robust welfare system, including the comprehensive, high-quality and reliable healthcare, education and public transport systems.

In Sweden and Denmark, their strong social safety net and pension systems are among the best in the world.

To put it simply, it is about "higher taxes, higher rewards".

The same argument can be extended to the business community. The issue is not so much about additional costs due to higher taxes, but the value these companies can get for paying those taxes.

If the logic is that lower taxes will attract more businesses and investments, then many companies would have flocked to Paraguay, where its corporate income tax is one of the lowest in the world at 10 per cent.

Even with the higher taxes, Stockholm has been dubbed the "Unicorn Factory".

From Spotify to Minecraft, Stockholm has the highest number of tech unicorns (startups valued at above US$1 billion) per capita in the world after Silicon Valley in the United States.

Meanwhile, with the extra revenue from SST 2.0, Malaysians must feel their well-being and prosperity will improve in the future.

It is expected that the tax-to-gross domestic product ratio can be increased from the present 12 per cent to a level that is at least at par with our peers or with other Asia Pacific countries.

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