

A tax sustainability framework

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Comment

THERE is obviously the need to reform or modernise Malaysia's tax framework to fit the nation's requirements.

So what kind of tax framework is suitable for the future?

The tax framework should be:

- > Simple and easily understood
- > Transparent and fair
- > Robust and flexible
- > Communicative and engaging

The behaviour and performance of the tax administration contributes significantly to the public's perception about paying taxes.

An effective tax administration collects the right amount of tax at the right time, with minimal cost to the government whilst being equitable to taxpayers.

It allows the government to deliver services and manage the country, while minimising obstacles to businesses and economic growth.

For this to happen, continuous consultation and engagement with taxpayers, and understanding the implications of tax legislation on businesses is important. An effective tax framework that is fit for the times really boils down to the basic principles of ensuring that transparent and fair laws are applied to all, at the appropriate times, in appropriate measures, for the good of the greater community.

As part of a credible and sound fiscal management framework, tax reform is essential if Malaysia is to move forward towards becoming a highly competitive and dynamic developed nation.

In general, tax reform must be built on

the following features:

> Fairness and lower overall tax burden to provide more incentive to work, save, invest and compete.

> Internationally competitive for businesses and encourage more investments in high technology and value-added sectors, create jobs and raise economic growth potential.

> Effective, simpler and less complex tax administration so as to minimise compliance costs and reduce business costs as well as discourage tax avoidance and evasion.

The complexity of the tax system and fiscal incentives/reliefs/allowances in terms of qualifying and reporting requirements increases costs especially for small and medium enterprises (SMEs).

> Revenue adequacy and sustainability to enable prudent budget spending while maintaining fiscal stability.

Widening the tax base

It is well-documented that the tax revenue base of Malaysia is extremely narrow with around 15% of the work force being subject to income tax and around 20% of registered companies paying income taxes.

This puts into focus the extremely narrow base from which the government tries to extract its tax revenue.

The tax agencies must at a minimum increase tax revenue on par with gross domestic product (GDP) increases.

A longer term framework or approach has to be initiated with specific milestones in place to move the needle in terms of improving the tax revenue to GDP ratio.

We should not be overly concerned about new taxes.

We should look at extracting what we can from the existing taxes we have.

Have the tax authorities done enough to generate the optimum tax revenue? There are leakages and administrative deficiencies in any system.

Have we looked at all this and taken steps to fix the issues?

Run-up to



We should start looking at managing government expenditure and once again, have we done enough to reduce unnecessary expenditure?

Effective revenue and public expenditure management is a must.

There is too much lip-service and no concrete steps being taken to safeguard tax revenue. Wastage abounds and no serious steps are being taken as far as a taxpayer can see.

The personal tax base is affected by higher chargeable income exempt thresholds as well as the granting of too many personal reliefs.

As part of political expediency, we keep increasing reliefs. Why do we need to keep increasing reliefs when such "benefits" only impact 15% of the population?

Corporate tax and incentives

As for the corporate income tax rate, it will be a challenge to lower it under current economic circumstances until the tax revenue to GDP ratio improves.

Simplicity can also be introduced in the corporate tax system. Why can't tax be determined by reference to financial reporting ... the less adjustments made for tax reasons, the better.

Why do we have capital allowances when we can just rely on accounting depreciation and accept accounting depreciation as being equivalent to capital allowances?

The bugbear in the corporate tax system is that of tax incentives.

We have to remove many incentives, double deductions, etc, as all these are unproductive and unnecessary under current circumstances.

Small businesses and presumptive taxes

How do we bring all the small businesses within the tax net?

A presumptive tax could be an option where an amount can be paid for a period of time based on annual sales while the small business builds its capacity to maintain proper financial records and then graduate into the normal tax system.

This is usually applied for the informal and small business sector ... simplicity brings people into the system and after that, we can mould their behaviour via assistance and education.

So, a low presumptive tax should be introduced that will make it simpler and easier to file tax returns so that compliance costs will be low.

To address the shadow economy, the government should look into encouraging e-payments and reduce cash usage for transactions above a certain limit. While tax policy is a powerful tool to motivate behaviour, it cannot be considered in isolation.

A holistic tax reform carried out with necessary benchmarking done with progressive and modern regimes could overcome the various challenges.

Prudent government spending, accountability and stronger public institutions that deliver quality services and value are equally crucial.

These factors are crucial to strengthening tax morale among Malaysians, which will bolster investor confidence and trust in the country.

We have been introducing ad hoc measure all these years.

We need a five-to 10-year roadmap outlining possible tax changes along the way with relevant milestones and these need to tie in with the industrial plan outlined for the country.

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