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Comment

IT is well-documented that the tax revenue base of Malaysia is extremely narrow with around 15% of the workforce 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. Why we have a low tax revenue to gross domestic product (GDP) ratio is clear. Studies have been done before and it is clear that our tax incentives are too generous.

The tax agencies must at a minimum increase tax revenue on par with GDP increases. However, because of our long-standing fiscal deficits and the need to spend more on social services, we have reached a stage where we need some drastic action and this matter cannot be resolved within a year.

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.

Personal taxes

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.

However, why do we need to keep increasing reliefs when such “benefits” only impact 15% of the population?

Isn't widening the personal income tax base a function of chargeable income thresholds, personal reliefs and the tax rate besides making sure that all eligible individuals should be brought within the tax net?

So why do we keep raising the taxable thresholds like what has been done in the past?

Can we cease widening the scope of personal reliefs as much as the government wants to be seen to be a concerned and helpful government? We should focus on assisting the needy via effective trans-

Widening the tax base

Run-up to



fer payments first.

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 with various changes or reforms to the tax structure.

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. Why is there such a long holdup in enhancing/revamping the Promotion of Investments Act which many are hoping will reduce the tax incentives and focus only on the big-ticket investments?

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 then after that, we can mould their behaviour via assistance and education.

So, a low presumptive tax should be

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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.

Presumptive tax regimes (also known as simplified tax regimes) aim at encouraging tax compliance by reducing tax compliance costs and by levying lower tax rates as compared to the standard tax system.

These regimes usually target micro and small businesses and levy tax on a presumed tax base that intends to approximate taxable income by indirect means. Hence, they can be particularly relevant where actual taxable income is difficult to assess accurately.

With the e-invoicing programme in its first phase now, once the full spectrum of this programme is completed say within three years, then we will have a robust way of managing tax compliance and all small businesses can then graduate into the normal tax system.

Alternatively, in the interest of simplicity, all small businesses can be subject to a presumptive tax for the first three years before it moves into the normal system.

We also have so many organisations (many unregistered) that carry out charitable activities. Why can we not place all these establishments within the purview of a Commissioner of Charities and educate and support these organisations so that better financial records are maintained and abuse is curtailed? In that way, we also ensure better compliance.

Indirect taxes

Can we not combine the Sales Tax and Service Tax legislations and once the full

e-invoicing programme is fully executed, can we not actually impose a Retail Tax (for both goods and services), as the effective monitoring of retail establishments will be so much better than it was before e-invoicing came into play?

The key reason for the GST was that the weakest chain in the system is the retail sector, but that contention is now no longer an issue if we have effective tax administration via the e-invoicing mechanism.

On another note, do we really need duty-free islands when we know the amount of abuse that happens on those islands?

Simplification in tax policy

We have been going through much confusion in the last few years with too many changes in the tax structure.

That does not bode well for us. Clear tax policies which are simple to execute and implement must be the order of the day.

We need to move towards more simplification and consolidate our various tax legislation. Do we really need a Real Property Gains Tax when we have introduced Capital Gains Tax within the existing Income Tax Act?

Do we really need a separate tax like the suggested Luxury Goods tax on goods and services when we already have Sales Tax and Service Tax legislations?

A clear, transparent, structured plan is needed to transform the low tax revenue base in the country.

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