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TAX REGIME

THE CASE FOR REVERTING TO GST

The GST, while admittedly being regressive for pinching the poor more than the rich, can overcome this apparent inequity with targeted zero-rating of goods and services

JAPAN recently came out of its two-decade long economic stagnation. But Abenomics, which is Prime Minister Shinzo Abe's three-pronged initiative to put the economy on a growth footing, has had only a Lilliputian effect in raising Japan's economic growth.

The Japanese economy is expected to grow a measly one per cent. Japan would therefore need all the private consumption demand that it could muster to prop up its economy.

It was therefore a surprise that Abe announced last week that Japan's consumption tax will increase to 10 per cent from Oct 1.

That increase had been shelved twice before for fear of its deleterious effect on consumer demand. The bold move to increase the tax from eight per cent to 10 per cent comes against the backdrop of political suicides that claimed the scalps of several of Abe's predecessors from the introduction and subsequent increases of its consumption tax.

The last spike from five per cent to eight per cent in 2014 even damaged the economy badly.

So Abe had taken a great risk not only to his political career but also to the moribund Japanese economy.

That Abe had shown such fortitude despite the odds against his tax increase demonstrated his foresight that the consumption tax might have a salubrious effect after all on an economy that is only chugging charily forward, dented even further by slowing global demand.

For sure, the new tax will enrich Japan's treasury. The extra revenue will help fuel public expenditure as a countervailing measure against the anticipated contraction of consumer demand.

We have not embarked on such a risky move as Abe.

But Tun Dr Mahathir Mohamad's recent warming up to



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the possibility of reintroducing the goods and services tax, or GST, portends a similar move in the future.

In line with its election manifesto, the Pakatan Harapan (PH) government lost no time in revoking the controversial six per cent GST.

Introduced five years ago it was replaced with a 10 per cent sales tax on goods and a six per cent levy on services (SST).

The GST is admittedly regressive. It hits the poor more than the rich. But a well-targeted mechanism of exemptions and zero-rating of goods and services largely consumed by the poor should overcome this apparent inequity.

Doubtless, the GST causes a one-off jump in the inflation rate. However, research suggests that over the long-term this spike tapers off to deliver an inflation rate lower than if the GST was not implemented.

What is much admired about the GST is that it is an efficient system of taxation. Even our minister of finance once admitted it was so. It is efficient as it ropes in a larger segment of the consuming population into paying tax. Given generous tax exemptions, only two million, or six per cent of the population, pay any tax now.

So efficient was the GST that it

brought in RM42 billion into government coffers in 2017. Contrast this with the expected SST collection of RM22 billion this year.

Risks loom though at GST's reintroduction.

FIRST, the previous introduction so incensed the public that it was a factor in booting out the previous government.

The present government might meet the same fate in the next general election.

SECOND, the government would be seen to be flip-flopping on a crucial fiscal policy.

The tax collection machinery would once again have to be overhauled. That would invite the derision of the opposition and the discomfort of the business community.

THIRD, the GST risks stoking another round of inflation and cost of living increase.

Without fiscal stimulus, the economy will invariably soften as the GST contracts private demand. But these issues can be managed.

The previous outcry over the GST was a result of public anger that more taxes were being collected amid poor governance.

The Pakatan Harapan government has shown fiscal rectitude.

It has been tough on corruption and financial mismanagement.

The public therefore would

now be more charitable in its response to its reintroduction, more so if the GST is pitched at a rate that allows the government to rake in at least as much revenue as the SST will bring.

This would suggest a rate that is half that of the previous rate.

As a sweetener, with the GST the government can throw in toll reduction and petroleum subsidy at least for the bottom 40 per cent of households. And to prevent an economic blow from the contraction of private consumption, the government should do what Japan is doing this time round.

In addition to a plethora of fiscal stimuli, construction activities related to the 2020 Olympics and low unemployment should cushion the hit on its economy from its sales tax hike.

The government should be bold to take measures that are good for the long-term management of the economy rather than being preoccupied with its electoral prospects.

As Steve Jobs once said, "Sometimes when you innovate you make mistakes. It is best to admit them quickly and get on with improving your other innovations."

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