

The Case for GST: UHY on Why Malaysia needs GST to Retain its Competitive Edge

The allocation of RM232.8 billion to the 2012 Budget with a lower deficit is clearly an arduous task for the government to fund. For that, it may be practical to deduce that certain proposals in the Budget may not, eventually be fully implemented because of the need for funding. Perhaps the answer would come from the immediate introduction of GST.

Widely anticipated by observers, the recent budget announcement sidestepped talk of any implementation timeframe for GST (Good and Services Tax) for the country. While the concept enshrined by the PM's call for Malaysia to strive towards a high income nation via the ETP (Economic Transformation Program) should by now be well entrenched in the mindsets of the Rakyat, further reading of the ETP indicates an SRI (Strategic Reform Initiative) that lists Public Finance reform as an integral component of the ETP. Introduction of GST, to the country is an initiative listed in the Public Finance SRI.

The GST is a broad based consumption tax. This has been a major tool for governments around the world to collect further revenue, while cushioning budgetary deficits. PEMANDU, the agency behind the ETP estimates an additional RM6 billion in government revenue over the first 2 years of implementation. GST is an equitable system as compared to the sales and service tax regime where input credits are not given. In countries that have introduced GST, it forms the major part of their government's tax revenue.

On the international front, corporate tax rate in key Asian economies have been trending downwards to as low as 16.5%. In addressing private sector initiatives, Malaysia needs to stay competitive in terms of corporate tax rates too. The introduction of GST, which is almost a 'standard feature' of Asian economies, would open up the avenue for Malaysia to reduce corporate (and personal) tax rates. We are of view that this is still a good balance between keeping the Rakyat happy, while opening up further avenues for foreign business to reduce cost, attract quality talents from less attractive developed economies affected by the GFC (Global Financial Crisis) and deter the double whammy of local companies relocating their head quarters to other economies seen to be more strategic or attractive.

With the GFC in full swing, consumption demand from the US and Europe economies are in doldrums. Coupled with recent signs of economic trouble brewing in the Chinese and Australian economies, competition for FDIs (Foreign Direct Investments) will be cut throat. As Budget 2012 is a further catalyst to the government's ETP initiatives, Malaysia must implement GST as a feature of its economy in order to compete with other nations on favorable corporate and personal tax rates while enjoying sustainable economic development. Perhaps it would be in best interest of the nation that a clear implementation plan and schedule for the roll out of GST be announced before the next Budget.