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Malaysian Institute of Accountants (MIA)'s Malaysian Tax Conference 2019

Malaysia's New Tax Reform

Fairer, Competitive, Efficient

Lee Heng Guie
Executive Director, SERC
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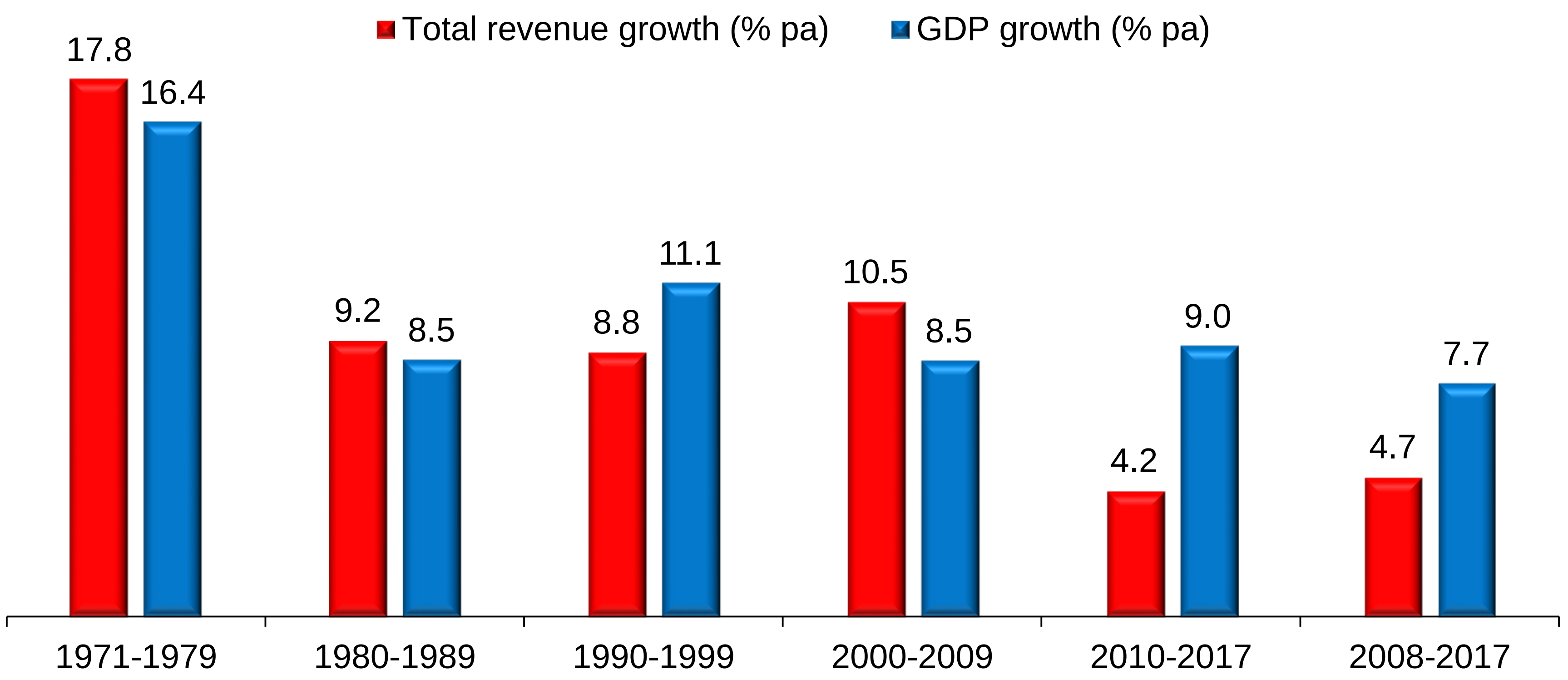
Federal revenue exhibited a MODERATION TREND

- Federal revenue growth paced slower from 10.5% pa in 2000-09 to **4.2% pa in 2010-17**, **lagging behind nominal GDP growth of 9.0% pa in 2010-17**.

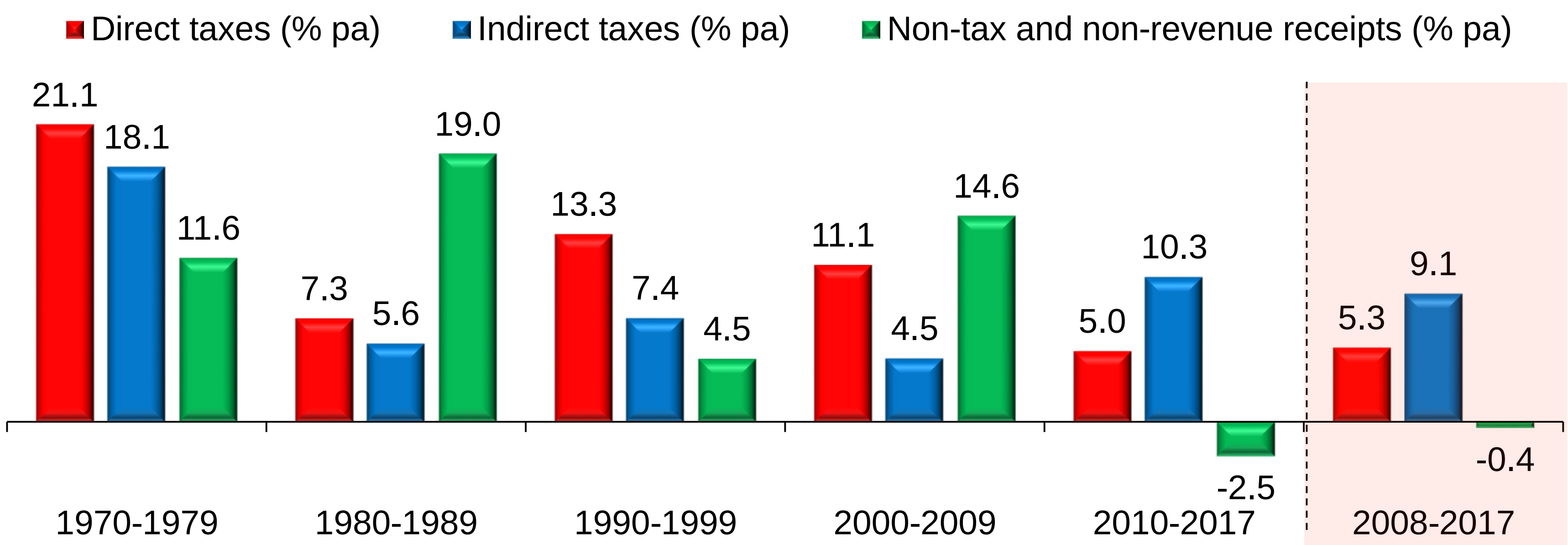
Malaysia's revenue and nominal GDP growth



Source: BNM, SERC

Lower contributions from DIRECT TAXES and NON- TAX REVENUE

Sources of revenue trend



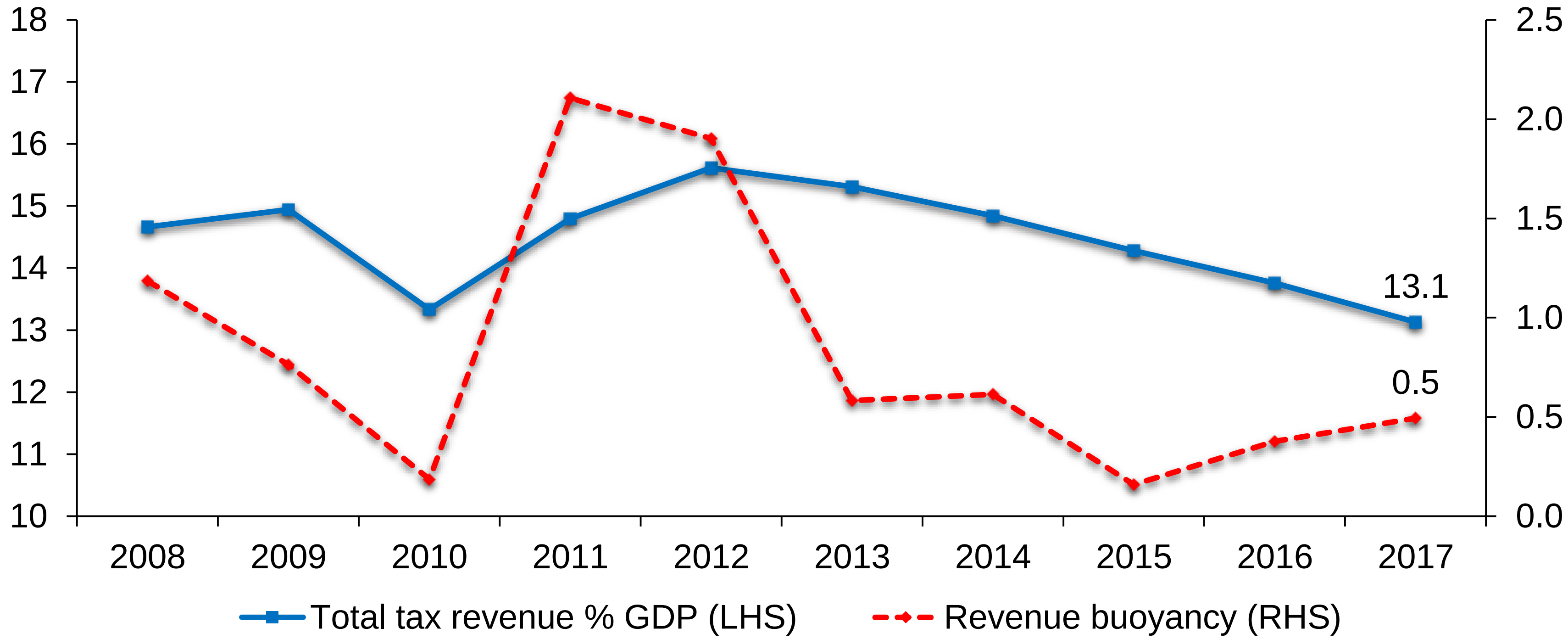
- **Direct taxes** dragged by a plunge in **petroleum income tax**
- **Indirect taxes** expanded higher by 10.3% pa in 2010-17 from 4.5% pa in 2000-09, partly lifted by higher revenue collection from the Goods and Services Tax (GST)
- **Non-tax revenue and receipts** declined by 2.5% pa in 2010-17 attributable to lower investment income receipts

Source: BNM

Overall TAX BURDEN improved amid DECLINING REVENUE BUOYANCY

- **Revenue buoyancy** trending lower **from 2.1 in 2011 to 0.5 in 2017**, indicating slower revenue growth relative to economic growth
- Malaysia's **overall tax burden** (as measured by total tax revenue to GDP ratio) improved progressively from an average of 20.4% pa in 1980s to an average of 14.6% pa in 2010-17.

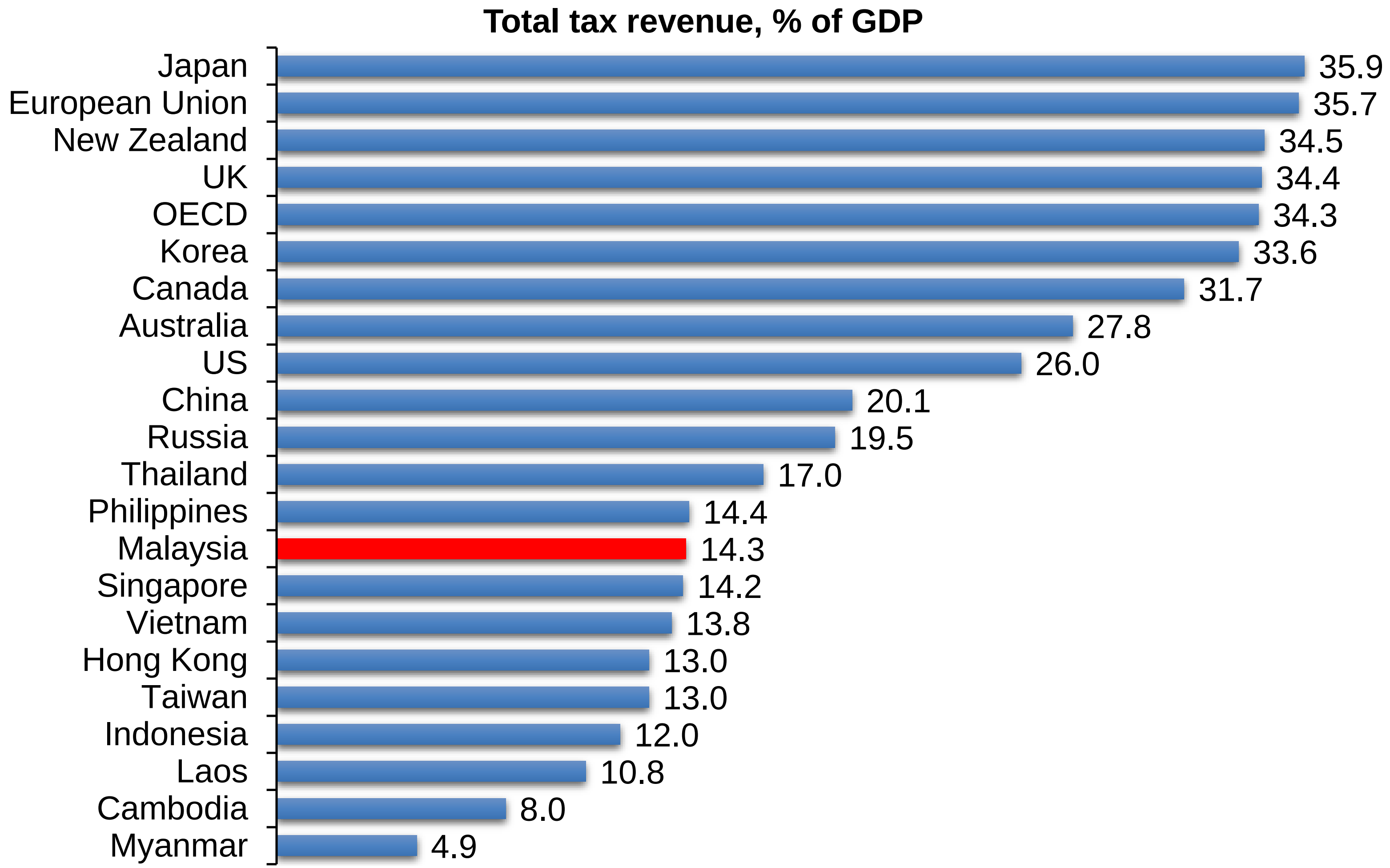
Malaysia's overall tax burden and revenue buoyancy



Source: BNM

Malaysia's overall tax burden THIRD HIGHEST in ASEAN

- Malaysia's overall tax burden is comparable to its regional peers and significantly lower when compared to developed economies.

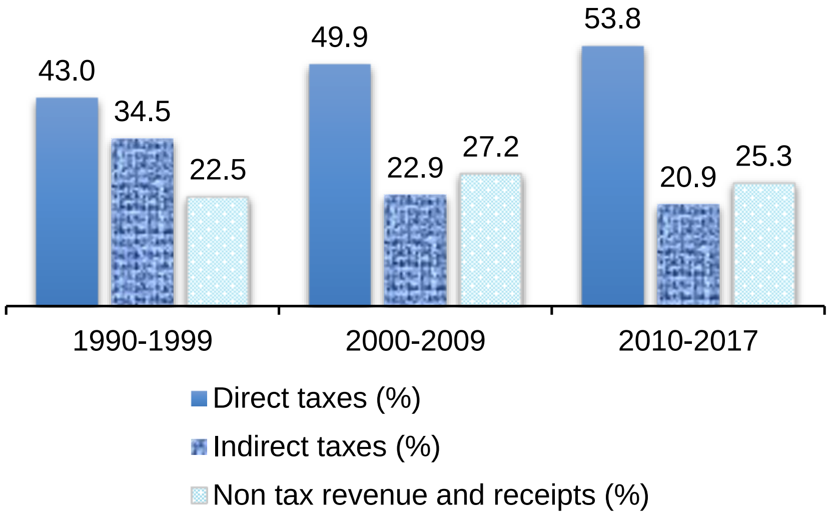


Source: compareyourcountry.org

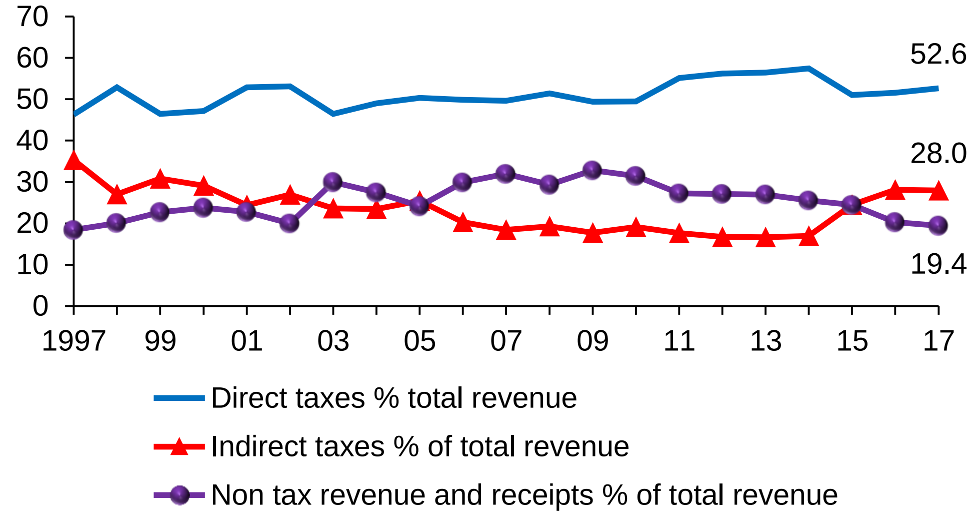
Sources of revenue indicates a NARROW TAX BASE

- **Direct taxes** formed a high proportion of total revenue (53.8% pa in 2010-17)
- **Indirect taxes** reduced progressively from an average share of 34.5% pa in 1990s to 20.9% pa in 2010-17
- **Non-tax revenue and receipts** have remained relatively stable

Sources of revenue % of total revenue



Source of revenue % of total revenue, 1997-2017



Source: BNM

Features of A GOOD TAX REFORM

FAIRNESS AND LOWER OVERALL TAX BURDEN to provide more incentives 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 in administration to minimize 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 increased costs for SMEs and also invited unproductive rent seeking behavior, especially by more connected companies.

REVENUE ADEQUACY AND SUSTAINABLE to meet prudent budget spending while maintaining fiscal stability.

ISSUES for Consideration

1. **A CONDUCIVE BUSINESS-FRIENDLY REGIME AND REGULATORY ENVIRONMENT,** supported by stable macroeconomic conditions are equally important.

2. **HIGH TAX INCIDENCE, COMPLIANCE AND BUSINESS COSTS** can affect the cost of producing goods and services.

3. **SALES AND OTHER RELATED TAXES** can influence tourists' spending on domestic goods and services as well as the hospitality sector.

4. **PERSONAL INCOME TAXES** can influence the mobility of labour, increase the supply domestic workforce and attract talented workers.

5. **INPUT AND RAW MATERIALS TAXES** cascading through the production process can dampen production and investment as well as penalize exports.

6. **EXCESSIVE TAXATION SUCH AS IMPOSING EXCISE DUTIES ON THE LEGITIMATE INDUSTRIES** (cigarettes and liquors) encourages the consumption of illegal products and rampant smuggling activities.

Tax Reform in DIGITALISATION AGE and SHARING ECONOMY

- Digital economy is tackled under the Organization for Economic Cooperation and Development's base erosion and profit shifting (BEPS) project.
- In March 2018, the OECD released an interim report of the OECD/G20 Inclusive Framework on BEPS it sets out the Inclusive Framework's agreed direction of work on digitalisation and consensus-based solutions for taxing the economy.

Many countries are already acting unilaterally to address taxation of digital economy businesses:

India & Israel	UK & Australia	Hungary
Introduced significant economic present tests for creating permanent establishments	Specific tax regimes for multinational enterprises have been introduced	Turnover taxes have been introduce for targeted sectors

Under the interim measure, the EU's proposed new 3% digital service tax would apply as of 1 January 2020 to revenue from certain services, including selling online advertising space, creating certain online marketplaces, and transmitting collected user data.

Areas for TAX REFORMS

The tax system needs to **avoid ambiguous interpretations, exemptions and loopholes** that distort investment decisions and consumer choices.

Most importantly, domestic companies and foreign multinational enterprises are attracted by **a stable and predictable tax system,** which is administered in an efficient and transparent manner.

We need a **shift away from taxing employment and business activity** towards **taxing consumption.**

Investment enhancement

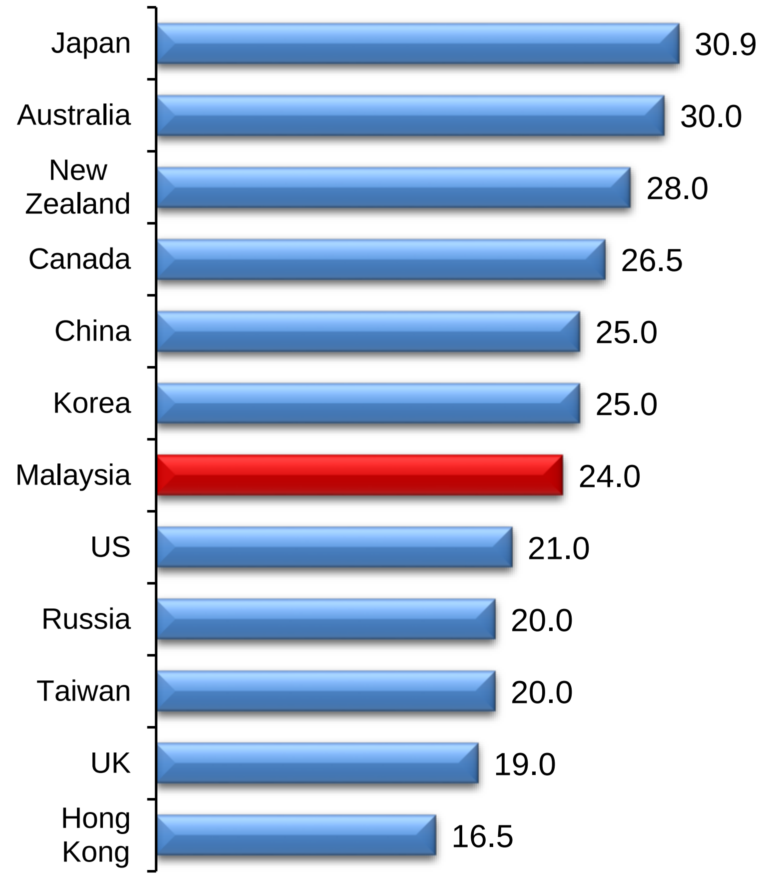
Providing **greater certainty, transparency and predictability in the application of corporate income taxes** would lead to higher investment, enhance economic growth and increase employment.

Reducing corporate tax rates (simpler and transparent) is more effective than providing special tax reliefs or incentives to enhance investment, especially SMEs. When the rationale for granting tax and financial incentives are based more on discretionary and subjective qualifications and reporting requirements, instead of automatic and objective requirements, they can instigate rent-seeking behavior and facilitate abuses on the granting of approvals process.

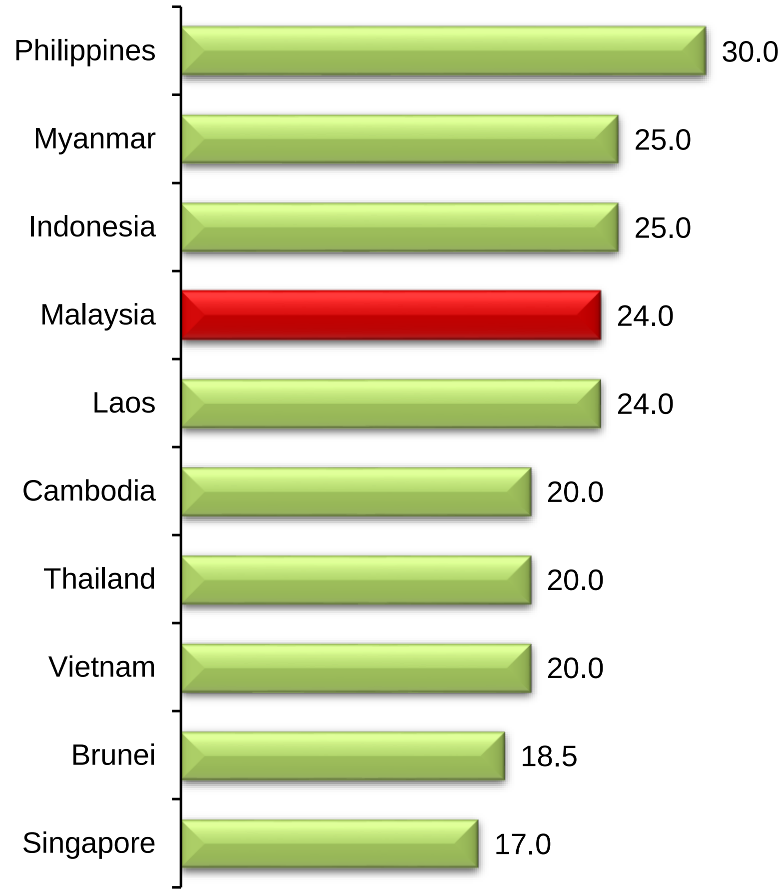
Lowering the corporate tax rate and removing differential tax treatment among sectors and industries would improve the quality of investment by reducing possible tax-induced distortions in the choice of investments.

Malaysia's corporate tax rate UNCOMPETITIVE (worldwide average tax rate at 22.8% in 2015)

Corporate tax rate against selected major economies (%)



Corporate tax rate against ASEAN economies (%)



Source: KPMG, various official government website

PRODUCTIVITY enhancement

Reduction in top marginal rate on personal income since its rewards work efforts and boost productivity, retain talent as well as reverse brain drain.

Malaysia has **too many personal income tax bands and lower taxable income thresholds**. As a result, individuals' earning high income hit the higher tax rate bracket too fast. When compared to a Singaporean who earns above S$320,001 (RM992,000 @ RM3.10), the highest tax band only has to pay 22% personal income tax rate compared to that of a Malaysian taxpayer with taxable income above RM1 million (the highest tax band) has to pay 28% personal income tax rate.

Lowering personal and corporate tax rates can lead to productivity gains in firms that are innovating, dynamic and profitable. These include startup and enterprising starters.

Providing tax incentives to R&D expenditure has a stronger effect than direct funding to stimulate private sector's innovative capacity and more R&D intensive.

Comparison of personal income tax rate structure

Country	Income Tax / Personal Tax (%)			
	0%*	Min	Max	Personal tax band (number)
Australia	Yes	19.0	45.0	5
Canada	No	15.0	33.0	5
China	No	3.0	45.0	7
Hong Kong	No	2.0	17.0	4
Japan	No	5.0	45.0	7
Korea	No	6.0	42.0	7
New Zealand	No	10.5	33.0	4
Russia	No	13.0	13.0	1
Taiwan	No	5.0	40.0	5
UK	Yes	20.0	45.0	4
USA	No	10.0	37.0	7
ASEAN				
Malaysia	**Yes**	**1.0**	**28.0**	**11**
Cambodia	Yes	5.0	20.0	5
Indonesia	No	5.0	30.0	4
Lao PDR	Yes	5.0	24.0	7
Myanmar	Yes	5.0	25.0	6
Philippines	Yes	20.0	35.0	6
Singapore	Yes	2.0	22.0	11
Thailand	Yes	5.0	35.0	8
Vietnam	No	5.0	35.0	7

*Note: *Yes = tax exempted in certain income range; No = tax payer has to pay tax*

Source: Comparison of personal income tax rate structure

FISCAL and FINANCIAL INCENTIVES review

- **Targeted tax incentives are generally not very effective due to enhancement and compliance costs as well as the lack of transparency.**

Tedious requirements for the submission of documentation & subjective granting of approvals → Hinder the applications → Low utilization rate

- The Government and relevant agencies are encouraged to review and assess the likely benefits and costs of fiscal and financial incentives in terms of complexity, neutrality and revenue foregone, the utilization rate and the overall effects on raising investment.

Budget 2019:

To carry out a t**horough review of over 130 types of fiscal schemes** to support investments, administered by 32 approving authorities with the **intention to expire incentives which are no longer relevant or are duplicated**.

The **Ministry of Finance (MoF) and Ministry of International Trade and Industry (MITI)** will form a task force jointly chaired by both Ministers to **drive regulatory reform, particularly in the areas of improving trade processes and tax administration.**

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THANK YOU

Address	**: 6th Floor, Wisma Chinese Chamber, 258, Jalan Ampang, 50450 Kuala Lumpur, Malaysia.**
Tel	**: 603 - 4260 3116 / 3119**
Fax	**: 603 - 4260 3118**
Email	**: serc@acccimserc.com**
Website	**: http://www.acccimserc.com**