

2

REASONING FOR GST PROPOSAL



Large government expenditure in boosting domestic consumption and economy growth has led to fiscal deficit for years in Malaysia. Malaysia's debt-to-GDP percentage in year 2013 has breached 54.8 percent as shown in Table 2.1, mounting towards the nation self-imposed limit of 55 percent. Considerably high debt and fiscal balance ratio has bring about uncertainty as whether Malaysia is on its sustainable path. Malaysia experienced escalating fiscal deficits financed by debts for years ever since Asian financial crisis. Henceforth, it is significant for Malaysia government to replace foreign aid flows with domestic tax revenues as the former are not a reliable long term source of development financing. A study performed by the Performance Management & Delivery Unit (PEMANDU) inferred the possibility of Malaysia facing bankruptcy by year 2019 on condition that the debt of Malaysia continue to proliferate whilst granting subsidies deriving from large portion of government budget are not trim down. Fiscal structural adjustment and consolidation process is hence triggered so as to lower the overall balance

of Federal Government finance which has been persistently in deficit for numerous years consecutively. Malaysian Institute of Economic Research illustrated that long term budget deficit affects macroeconomic performance thus there is increasing needs in raising government revenue by diversify their revenue resource.

Numerous bold schemes in managing public finances are disclosed in Parliament during Budget 2014, emphasizing the cutback of Federal Government overall deficit as in GDP to 3.5 percent in 2014 and 3.0 percent in year 2015. Federal Government's strong commitment towards budget consolidation process can be vividly observed as the estimated overall deficit in ringgit terms is also being reduced. Many reasons were put forward in introducing GST among them are due to the dissatisfaction towards the current consumption tax structure, foreseeable diminution in the country's oil and gas resources as well as the existing tax system that has not been able to keep pace with the development of the economy. Possible slide in government's revenue somewhere in the future as well as the fluctuations of international petroleum price has driven government to come out with plans to widen its sustainable income base via taxation policy. In the same vein, it is the highly reliance in Petroleum Profit Tax, oil royalties, crude oil that has prompted Nigeria government to enforce VAT in year 1994 replacing its existing sales tax. In early 1990's, there was an equal contribution proportionally in revenue between direct and indirect tax in Malaysia as direct tax comprises of 35.2 percent whilst indirect tax consists of 36.7 percent. However, trade liberalization policies which took place in the 1990's, leading to the proportion of revenue to change substantially specifically in year 2012 as the contribution from direct tax was recorded at 56.4 percent and indirect tax at 17.2 percent as shown in Figure 2.1.