PRESENTATION FLOW

WORLD SCENARIO AND TREND

MALAYSIA AS A COUNTRY

TAX SYSTEM

SUSTAINABLE TAX SYSTEM
Presentation Outline

- Introduction
- Sustainable Economy
- Sustainability Initiatives Worldwide
- Sustainable Tax Policies: Global Perspective
- Sustainable Tax Policies: Some Selected Countries
- Trends and Lessons Learnt
- The Challenges of the Malaysian Economy
- Sustainable Tax Policies in Malaysia
- Conclusion
Introduction

• The financial crisis and lost of confidence in the system
• Demographic Challenge: The 7 billion world population of people living on earth to increase to 9 billion by mid-century (UN)
• Unemployment and high cost of living
• Rapid urbanization and rural-urban migration
• Climate Change: more extreme weather situations
• Globalization
• Rapid Information Technology
Introduction

“The challenge for humanity in the 21st century - adapting and sizing ourselves to fit within the capacity of one planet”
Introduction

• The world economy is rapidly approaching and in some cases exceeding the Earth’s capacity.
• If nothing is done, a potential 5% of global GDP will be lost annually, twice the impact of the current economic crisis every year, (former Chief Economist of the World Bank)
• The 21st century has witnessed an urgent call to tie economic growth and stability with sustainability mindset.
• Higher emphasis on sustainability and its synonyms; green economy, sustainable economy, sustainable development...
Sustainable Economy

• A sustainable economy results in **improved human well-being and social equity, while significantly reducing environmental risks and ecological scarcities** (UNEP).
• It **meets the needs of the present, without compromising the ability of future generations to meet their own needs** (WCED, 1987).
• It establishes a contract between generations with a certain balance between economy, ecology and social responsibility.
• It supports the capacity of the economy and preserves the environment and natural resources.
• Thus, a **sustainable economy considers human, social, economic and environmental sustainability aspects** (Robert Goodland, World Bank, Washington, DC, USA)
You never actually own a Patek Philippe. You merely look after it for the next generation.
Sustainable Economy

• It is well acknowledged by all countries that **all economic policies must be evaluated** in the **context of sustainability** and **TAX POLICY IS NO EXCEPTION**.

• There has been a growing trend towards using **tax policies as mechanism** to address the challenges threatening sustainable economy.

• Most often highlighted is the so-called **“green tax” policies; tax incentives and penalties** aimed at changing and making the behavior of businesses and consumers more sustainable.
Sustainability Initiatives Worldwide

• Green technology
• Waste management
• Energy efficient electrical appliance
• Green and Solar Energy
• Electric cars
• Green building
• Pollution control and environmental protection
• Human and animal rights advocacy
• Poverty eradication initiatives etc
Sustainable Tax Policies: Global Perspective

- Energy efficiency
- Carbon and climate change
- Green innovation, Green buildings and Green vehicles
- Renewable energy and fuels
- Water and Material resource efficiency
- Waste management
- Pollution control and Ecosystem protection
- Economic and other non-environmental tax reforms
## Green Tax Policy Ranking - Selected Countries

<table>
<thead>
<tr>
<th>OVERALL RANKING</th>
<th>TAX INCENTIVES ONLY</th>
<th>TAX PENALTIES ONLY</th>
</tr>
</thead>
<tbody>
<tr>
<td>US</td>
<td>1</td>
<td>France</td>
</tr>
<tr>
<td>Japan</td>
<td>2</td>
<td>Japan</td>
</tr>
<tr>
<td>UK</td>
<td>3</td>
<td>UK</td>
</tr>
<tr>
<td>France</td>
<td>4</td>
<td>Finland</td>
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<tr>
<td>South Korea</td>
<td>5</td>
<td>China</td>
</tr>
<tr>
<td>China</td>
<td>6</td>
<td>China</td>
</tr>
<tr>
<td>Ireland</td>
<td>7</td>
<td>Ireland</td>
</tr>
<tr>
<td>Netherlands</td>
<td>8</td>
<td>Australia</td>
</tr>
</tbody>
</table>

Source: The KPMG Green Tax Index 2013
## Some Recent Tax Policies: Paying Taxes 2014

<table>
<thead>
<tr>
<th>Feature</th>
<th>Economies</th>
<th>Some highlights</th>
</tr>
</thead>
<tbody>
<tr>
<td>Introduced or enhanced electronic systems</td>
<td>Croatia; Guatemala; FYR Macedonia; Madagascar; Maldives; Moldova; Morocco; Paraguay; Philippines; Rwanda; Sri Lanka</td>
<td>Rwanda introduced e-filing for corporate income tax, value added tax and labour contributions. The system was fully rolled out in 2012.</td>
</tr>
<tr>
<td>Reduced profit tax rate by 2 percentage points or more</td>
<td>Burundi; Gabon; Guyana; Jamaica; Lao PDR; Myanmar; Sweden; Tajikistan</td>
<td>The government of Sweden, in its 2013 budget statement, reduced the corporate income tax rate from 26.3% to 22% for 2013.</td>
</tr>
<tr>
<td>Merged or eliminated taxes other than profit tax</td>
<td>Armenia; Burkina Faso; Republic of Congo; Iceland; South Africa; Tajikistan; Uzbekistan</td>
<td>Tajikistan merged the minimal income tax with the corporate income tax and abolished the retail sales tax.</td>
</tr>
<tr>
<td>Decreased number of tax filings or payments</td>
<td>Albania; Panama; Romania</td>
<td>Panama changed the payment frequency for corporate income taxes from monthly to quarterly.</td>
</tr>
<tr>
<td>Reduced labour taxes and mandatory contributions</td>
<td>Republic of Congo; Thailand</td>
<td>Thailand reduced employers’ social security contribution rate from 5% in 2011 to 3% for January – June 2012 and 4% for July – December 2012.</td>
</tr>
<tr>
<td>Simplified tax compliance process</td>
<td>Qatar; Ukraine</td>
<td>Qatar relaxed the disclosure requirements accompanying the corporate income tax return for entities 100% owned by Qatari or Gul Cooperation Council nationals.</td>
</tr>
<tr>
<td>Introduced change in cascading sales tax</td>
<td>The Gambia</td>
<td>The Gambia replaced the sales tax with the value added tax, now set at 15%.</td>
</tr>
</tbody>
</table>

Source: pwc & Doing Business (2014)

**Tax Provisions for Clean Energy and Manufacturing**
- Tax credit for renewable electricity production
- Deduction for energy efficient commercial building property
- Modify and extend tax credit for construction of energy efficient new homes
- Tax credit for the production of advanced technology vehicles
- Tax credit for medium and heavy duty alternative-fuel commercial vehicles
- Additional tax credits for investment in qualified property used in a qualifying advanced energy manufacturing project
- Tax credit for cellulosic biofuel

**Provisions Pertaining to Manufacturing, Research, Clean Energy, and Insourcing**
- Tax Incentive for Locating Jobs and Business Activity in U.S.
- Enhance and Make Permanent the R and E Tax Credit
- Extend and Modify Certain Employment Credits
- Modify and Make Permanent Renewable Electricity Production Tax Credit
- Modify and Make Permanent the Deduction for Energy-Efficient Commercial Building Property
Some Recent Tax Policies: JAPAN

• Introduction of carbon emissions tax
• Petroleum and coal tax to the shipment of crude petroleum, gaseous hydrocarbons or coal from extracting stations or bonded areas
• Tax Credits for Job Creation
• Tax Credits for Salary Growth
• R&D tax credits
• Fossil fuels taxes: oil and gas tax, diesel oil delivery tax and an aviation fuel tax
• Electric power-development promotion tax
• Social welfare benefits
• etc
Some Recent Tax Policies: OECD Countries

• Growing emphasis on the use of tax instruments to protect the environment in OECD countries

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>User charges</td>
<td>Earmarked charges/taxes</td>
<td>Incentive taxes</td>
<td>Green tax reform</td>
</tr>
</tbody>
</table>

 Tradable permits (mainly U.S.A.)
Some Recent Tax Policies: OECD Countries

Source: OECD/EC database
Some Recent Tax Policies: OECD Countries

Average Effective Tax Rates on CO2 Emissions
Euro per tonne

Source: "Taxing Energy Use". OECD (2013)
Some Recent Tax Policies: OECD Countries

Most OECD countries undertook significant (general) tax reforms since the end of the 1980s in three ways:

1. reducing tax rates in the higher income tax brackets and lowering corporate tax rates
2. broadening the tax base
3. Focusing on general consumption taxes
Some Recent Tax Policies: OECD Countries

Source: OECD Revenue Statistics
## Some Recent Tax Policies - OECD Countries

### Changes in Tax Revenues, 2007-2011, by Category of Tax, % of GDP

<table>
<thead>
<tr>
<th>Country</th>
<th>Total</th>
<th>PIT + CIT</th>
<th>SSCs</th>
<th>Property</th>
<th>Consumption</th>
</tr>
</thead>
<tbody>
<tr>
<td>Austria</td>
<td>0.3</td>
<td>-0.4</td>
<td>0.7</td>
<td>-0.1</td>
<td>0.2</td>
</tr>
<tr>
<td>France</td>
<td>0.5</td>
<td>-0.4</td>
<td>0.7</td>
<td>0.3</td>
<td>0.1</td>
</tr>
<tr>
<td>Germany</td>
<td>1.0</td>
<td>-0.3</td>
<td>1.0</td>
<td>0.0</td>
<td>0.3</td>
</tr>
<tr>
<td>Italy</td>
<td>-0.3</td>
<td>-0.8</td>
<td>0.5</td>
<td>0.1</td>
<td>0.4</td>
</tr>
<tr>
<td>Spain</td>
<td>-5.7</td>
<td>-3.3</td>
<td>-0.2</td>
<td>-1.1</td>
<td>-1.1</td>
</tr>
<tr>
<td>UK</td>
<td>-0.3</td>
<td>-1.2</td>
<td>0.1</td>
<td>-0.4</td>
<td>1.2</td>
</tr>
<tr>
<td>US</td>
<td>-2.8</td>
<td>-1.8</td>
<td>-0.8</td>
<td>-0.1</td>
<td>-0.1</td>
</tr>
<tr>
<td>OECD</td>
<td>-1.2</td>
<td>-1.2</td>
<td>0.2</td>
<td>-0.1</td>
<td>0.0</td>
</tr>
</tbody>
</table>

Source: OECD Revenue Statistics
Some Recent Tax Policies- OECD Countries

Personal Income Tax Trend

Source: Matthews (2013)
Some Recent Tax Policies - OECD Countries

Top Personal Income Tax Rates (%): 2007 & 2013

Some Recent Tax Policies- OECD Countries

Corporate Tax Rates Trend

Source: Matthews (2013)
Some Recent Tax Policies - OECD Countries

Top Statutory Corporate Tax Rates (%): 2007 & 2013

Some Recent Tax Policies - OECD Countries

Taxes on specific goods and services (excise & customs duties): from 24.3% of total tax down to 11% General consumption taxes (mainly VAT): share in total tax up to 20% in 2009 from 11.9% in 1965.

Source: OECD(2011), Revenue Statistics 2010
Some Recent Tax Policies- OECD Countries

In the early 1990s, a number of countries in the EU implemented “green tax reforms”, using three different ways:

1. reduction or elimination of environmentally harmful subsidies, including direct public expenditures, “market price support” and/or exemptions and other provisions in environmentally related taxes potentially harmful for the environment;

2. restructuring of existing taxes according to environmental criteria; and/or

3. introduction of new environmentally related taxes.
Some Recent Tax Policies- OECD Countries

In a recent study, the OECD found that placing a price on pollution creates opportunities for innovation as firms seek out cleaner alternatives.

For instance, in Sweden the introduction of a tax on NO\textsubscript{x} emissions led to a dramatic increase in the adoption of existing abatement technology – from 7 per cent of the firms adopting the technology prior to the tax to 62 per cent the following year.

The study also found that the design of the measure is of critical importance. Taxes that are levied closer to the source of pollution (e.g. taxes on CO\textsubscript{2} emissions versus taxes on motor vehicles) provide greater opportunities for innovation (OECD 2010b).
Trends and Lessons Learnt

• Taxes are transformed to meet sustainability objectives of the economy
• Tax policies take into account the ECONOMY, PEOPLE and ENVIRONMENT
• A sustainable tax system is:
  – Less complex, simple, efficient (administration and collection)
  – Less burdensome to the taxpayer and less costly to comply
  – Fair and just in bridging income inequality
  – Able to generate enough revenue to contain expenditure
The Challenges of the Malaysian Economy
Some Challenges

- Open Economy
- Depends on exports
- Uncertainties over the strength of its trading major trading partner - China
- Fiscal position - fiscal deficit
- Addressing climate and demographic changes
- Unemployment and rising cost of living
- Social and economic inequality
- Globalisation and urbanisation
## Competition for FDI - Selected Countries

<table>
<thead>
<tr>
<th>Countries</th>
<th>2009</th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
</tr>
</thead>
<tbody>
<tr>
<td>Singapore</td>
<td>24,939,245,829</td>
<td>53,622,774,583</td>
<td>55,922,840,687</td>
<td>56,651,074,727</td>
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<tr>
<td>Australia</td>
<td>29,002,397,768</td>
<td>37,098,104,596</td>
<td>66,271,163,219</td>
<td>56,595,431,544</td>
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<tr>
<td>Indonesia</td>
<td>4,877,369,178</td>
<td>13,770,580,771</td>
<td>19,241,252,762</td>
<td>19,618,049,398</td>
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<tr>
<td>Thailand</td>
<td>4,853,961,111</td>
<td>9,103,993,910</td>
<td>9,005,266,297</td>
<td>10,689,324,361</td>
</tr>
<tr>
<td>Malaysia</td>
<td>114,664,435</td>
<td>10,885,613,792</td>
<td>15,119,371,105</td>
<td>9,733,616,207</td>
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<tr>
<td>Korea, Rep.</td>
<td>2,249,000,000</td>
<td>1,094,100,000</td>
<td>4,836,500,000</td>
<td>4,999,000,000</td>
</tr>
</tbody>
</table>

Source: World Bank Data
Competition for FDI - Selected Countries

Source: World Bank Data
Competition for FDI - Malaysia and World Trend

Source: World Bank Data
## FEDERAL GOVERNMENT REVENUE SOURCES

<table>
<thead>
<tr>
<th>Year</th>
<th>Direct Tax</th>
<th>Indirect Tax</th>
<th>Total Tax Rev.</th>
<th>Non-Tax Rev.</th>
<th>Total FG Rev.</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>RM (mil)</td>
<td>%</td>
<td>RM (mil)</td>
<td>%</td>
<td>RM (mil)</td>
</tr>
<tr>
<td>1970</td>
<td>685</td>
<td>37</td>
<td>1,155</td>
<td>63</td>
<td>1,840</td>
</tr>
<tr>
<td>1990</td>
<td>10,402</td>
<td>49</td>
<td>10,842</td>
<td>51</td>
<td>21,244</td>
</tr>
<tr>
<td>2000</td>
<td>29,156</td>
<td>62</td>
<td>18,017</td>
<td>38</td>
<td>47,173</td>
</tr>
<tr>
<td>2006</td>
<td>61,573</td>
<td>71</td>
<td>25,058</td>
<td>29</td>
<td>86,631</td>
</tr>
<tr>
<td>2007</td>
<td>69,396</td>
<td>73</td>
<td>25,772</td>
<td>27</td>
<td>95,168</td>
</tr>
<tr>
<td>2008</td>
<td>82,138</td>
<td>73</td>
<td>30,760</td>
<td>27</td>
<td>112,898</td>
</tr>
<tr>
<td>2009</td>
<td>78,375</td>
<td>74</td>
<td>28,129</td>
<td>26</td>
<td>106,504</td>
</tr>
<tr>
<td>2010</td>
<td>79,009</td>
<td>72</td>
<td>30,507</td>
<td>28</td>
<td>109,516</td>
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<tr>
<td>2011</td>
<td>102,242</td>
<td>76</td>
<td>32,643</td>
<td>24</td>
<td>134,885</td>
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<tr>
<td>2012</td>
<td>116,939</td>
<td>77</td>
<td>34,706</td>
<td>23</td>
<td>151,645</td>
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<tr>
<td>2013</td>
<td>120,523</td>
<td>77</td>
<td>35,429</td>
<td>23</td>
<td>155,952</td>
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</tbody>
</table>

Data Source: MoF
FEDERAL GOVERNMENT REVENUE SOURCES

(RM, Million)

Data Source: MoF
<table>
<thead>
<tr>
<th>YEAR</th>
<th>FEDERAL GOVERNMENT REVENUE</th>
<th>FEDERAL GOVERNMENT EXPENDITURE</th>
<th>DEFICIT</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>RM (mil)</td>
<td>%</td>
<td>RM (mil)</td>
</tr>
<tr>
<td>1970</td>
<td>1,840</td>
<td>77</td>
<td>560</td>
</tr>
<tr>
<td>1990</td>
<td>21,244</td>
<td>72</td>
<td>8,277</td>
</tr>
<tr>
<td>2000</td>
<td>47,173</td>
<td>76</td>
<td>14,691</td>
</tr>
<tr>
<td>2006</td>
<td>86,631</td>
<td>70</td>
<td>36,916</td>
</tr>
<tr>
<td>2007</td>
<td>95,168</td>
<td>68</td>
<td>44,717</td>
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<tr>
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<td>112,898</td>
<td>71</td>
<td>46,896</td>
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<tr>
<td>2009</td>
<td>106,504</td>
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<tr>
<td>2010</td>
<td>109,516</td>
<td>68</td>
<td>50,137</td>
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<tr>
<td>2011</td>
<td>134,885</td>
<td>71</td>
<td>50,534</td>
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<tr>
<td>2012</td>
<td>151,645</td>
<td>73</td>
<td>56,269</td>
</tr>
<tr>
<td>2013</td>
<td>155,952</td>
<td>73</td>
<td>57,418</td>
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</tbody>
</table>

Data Source: MoF
# PUBLIC SECTOR REVENUE & EXPENDITURE

<table>
<thead>
<tr>
<th>YEAR</th>
<th>TOTAL REVENUE</th>
<th>EXPENDITURE</th>
<th>DEFICIT</th>
</tr>
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<tbody>
<tr>
<td></td>
<td></td>
<td>Operating Exp.</td>
<td>Development Exp.</td>
</tr>
<tr>
<td></td>
<td>RM (mil)</td>
<td>RM (mil)</td>
<td>%</td>
</tr>
<tr>
<td>1990</td>
<td>38,472</td>
<td>29,409</td>
<td>67</td>
</tr>
<tr>
<td>2000</td>
<td>76,002</td>
<td>64,445</td>
<td>56</td>
</tr>
<tr>
<td>2006</td>
<td>101,955</td>
<td>117,721</td>
<td>58</td>
</tr>
<tr>
<td>2007</td>
<td>110,733</td>
<td>135,049</td>
<td>58</td>
</tr>
<tr>
<td>2008</td>
<td>128,350</td>
<td>165,025</td>
<td>57</td>
</tr>
<tr>
<td>2009</td>
<td>132,871</td>
<td>170,594</td>
<td>60</td>
</tr>
<tr>
<td>2010</td>
<td>127,189</td>
<td>167,142</td>
<td>62</td>
</tr>
<tr>
<td>2011</td>
<td>160,657</td>
<td>196,126</td>
<td>66</td>
</tr>
<tr>
<td>2012</td>
<td>189,019</td>
<td>226,009</td>
<td>63</td>
</tr>
<tr>
<td>2013</td>
<td>195,113</td>
<td>234,106</td>
<td>56</td>
</tr>
</tbody>
</table>

Data Source: MoF
PUBLIC SECTOR REVENUE & EXPENDITURE

(RM, Million)

Data Source: MoF
The Role of Tax Policy

- Moving towards high income economy
- Promote holistic and sustainable development
- Ensuring wellbeing and enhancing quality of life of the people
- Promotion of trade and investment
- Supporting human capital development
- Environmental concern
- Enhancing competition
Our tax system must be economically, humanly, socially and environmentally friendly.
1. The Economic Perspective

• Fair transfer of resources from private to public use
• Raise enough revenue to sustain public expenditure
• Low administrative and revenue collection costs
• Horizontal equity across taxpayers
• Redistribution of income
2. The Human and Social Perspectives

- Aggressive vs regressive tax
- Personal Income tax
- Simple and easy to understand and comply
- Does not over burden the tax payer
- Promotes employment
- Tax effects on disposable income
- Supports social well-being
3. Sustainable Tax Policy- Environmental Perspective

- Environmentally friendly
- Does little or no harm to the economy
- Promotes innovation
- Promotes green technology
- Promotes R&D in environmental friendly areas
- Attracts investment in eco-friendly related services, activities and products
Income Tax vs Corporate Tax

Source: World Bank data
IRB Annual Report 2011

DIRECT TAX COLLECTION BY COMPONENTS

2010
- Company RM 43.80 Billion (50.64%)
- Petroleum RM 18.71 Billion (21.63%)
- Individual RM 17.80 Billion (20.58%)
- Co-operative RM 0.38 Billion (0.44%)
- Stamp Duty RM 4.20 Billion (4.86%)
- Withholding Tax RM 1.27 Billion (1.47%)
- RPPT RM 0.30 Billion (0.35%)
- IOFC RM 0.02 Billion (0.02%)
- Others RM 0.02 Billion (0.02%)

2011
- Company RM 55.08 Billion (50.25%)
- Petroleum RM 27.75 Billion (25.32%)
- Individual RM 19.38 Billion (17.68%)
- Co-operative RM 0.36 Billion (0.33%)
- Stamp Duty RM 4.94 Billion (4.51%)
- Withholding Tax RM 1.53 Billion (0.49%)
- RPPT RM 0.54 Billion (0.49%)
- IOFC RM 0.02 Billion (0.02%)
- Others RM 0.02 Billion (0.02%)
Tax Revenue as % of GDP

Data source: World Bank, World Development Indicators - Last updated April 23, 2013
Green Incentives

• Some forms of green taxes for environmental preservation to ensure sustainable economic development are provided.

• Incentives mainly cover:
  o Renewable energy and energy conservation
  o Biotechnology
  o Research and development and its commercialization
  o Storage, treatment and disposal of toxic and hazardous wastes
  o Waste recycling activities
  o Green Building Index certificate
  o Accelerated capital allowance for environmental management
  o Purchase of green technology Equipment
Goods and Services Tax (GST)

• Tax revenue underpins the government’s ability to operate in all areas
• To generate sufficient revenue to finance and sustain the economy through sustainable development projects, the existing tax base has to be widen with the implementation of GST in April 2015.
• Indeed, a wider tax base yields greater revenue. HOWEVER, whether GST will promote economic sustainability or not depends on how fraud risk is managed and how the proceeds are used.
People and Social Tax Incentives

- Reduction of income tax rate
- Special tax relief for middle income earners
- Incentive on private retirement scheme
- 1Malaysia Pension Scheme
- Zakat and Waqf
- Subsection 44(6) tax exemption
- Flexible Works Arrangement

- Incentive for implementation of minimum wages
- More list of goods or services categorized under exempt supply or zero rated
- Tax incentive in line of GST implementation
  - Tax deduction for secretarial fee & taxation fee
  - ICT equipment & software be given ACA
  - GST related training in accounting & ICT be given further deduction
Tax Attractiveness 2005 to 2009

Tax Attractiveness Index

Data Source: Keller et al. (2013)
Challenges/Issues of Tax Compliance

- Tax complexity
- Tax evasion
- Financial crisis
- Poor documentation and record keeping
- Creative tax planning
- Incentive claims
- Ecommerce
- Information technology/systems, etc
Enhancing Tax Compliance

• Tax education Programmes
• Customer Services
• Street surveys
• Pre-filling
• Tax audit and investigation
• Risk management
• Information technology- electronic systems
  – Mobile devices
Conclusion

• The design of tax systems is crucial if sustainable economy is to be attained in the face of challenges such as globalization, climate change and ageing populations, while supporting inclusive growth, high employment and an equitable income distribution.

• Sustainable tax systems should consider economic, social and environmental perspectives

• Malaysian tax system is generally following the world trend. However, some initiatives for example green taxes should include both incentives and penalties.
THANK YOU

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