



SALIHIN

MALAYSIAN TAX CONFERENCE 2014

SUSTAINABLE TAX SYSTEM

3-4 June 2014, Grand Ballroom, Hotel Sunway Putra, Jalan Putra, KL

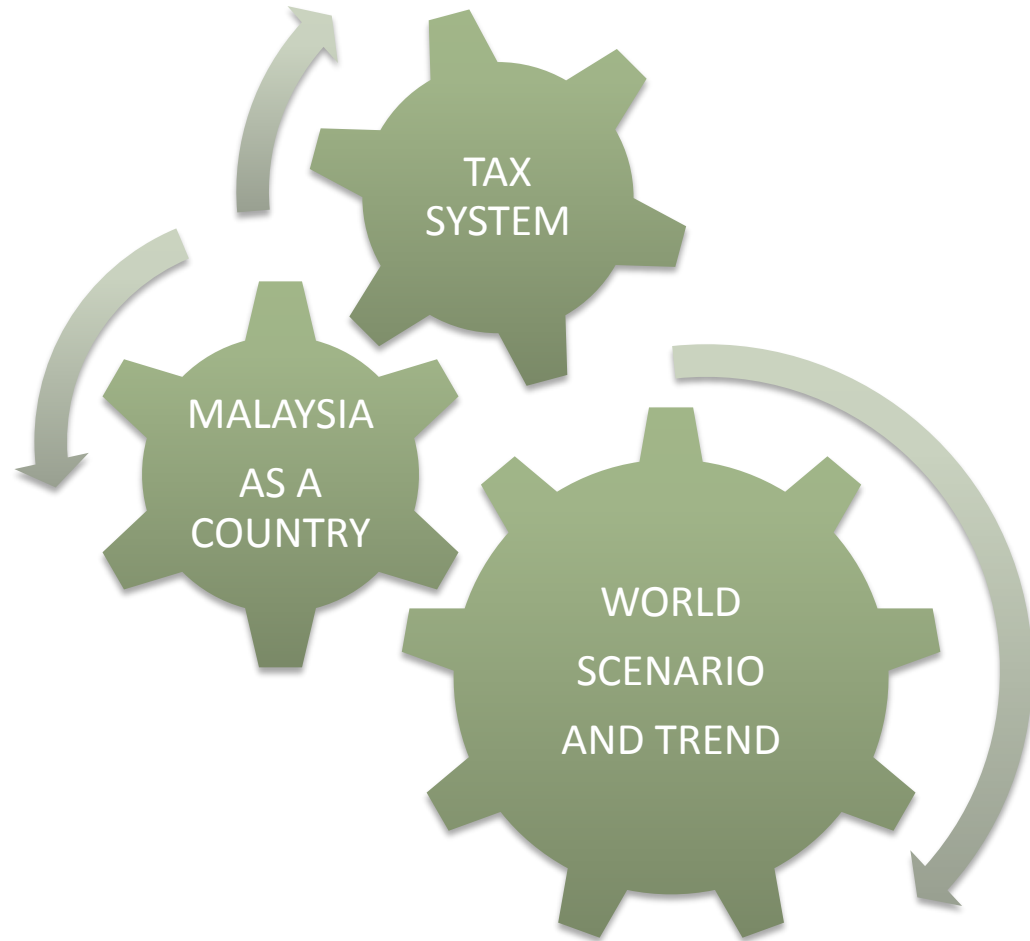
Dialogue Session 8:

Sustaining the Taxation System Towards a Sustainable Economy

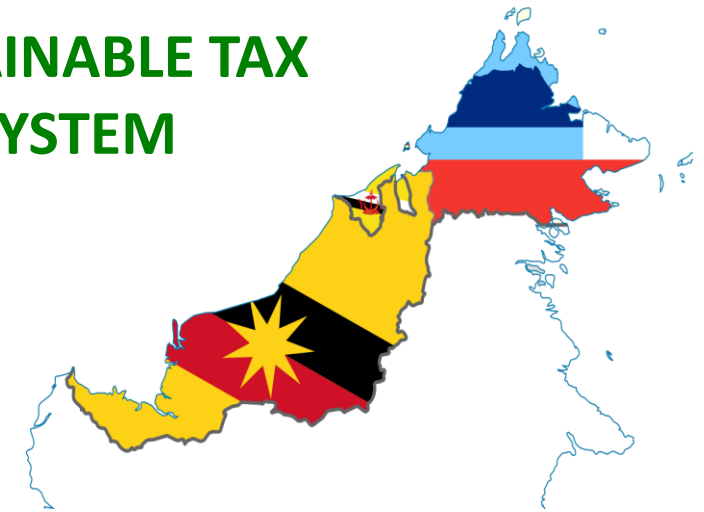
En. SALIHIN ABANG



PRESENTATION FLOW



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



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



Sustainable World Initiative

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)

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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



OVERALL RANKING	
US	1
Japan	2
UK	3
France	4
South Korea	5
China	6
Ireland	7
Netherlands	8

TAX INCENTIVES ONLY	
US	1
South Korea	2
China	3
India	4
UK	5
Canada	6
Netherlands	6
Japan	8

TAX PENALTIES ONLY	
France	1
Japan	2
UK	3
Finland	4
China	5
Ireland	6
Spain	6
Australia	6

Source: The KPMG Green Tax Index 2013

Some Recent Tax Policies: Paying Taxes 2014



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

Source: pwc & Doing Business (2014)

Some Recent Tax Policies: US- 2015 Budget



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

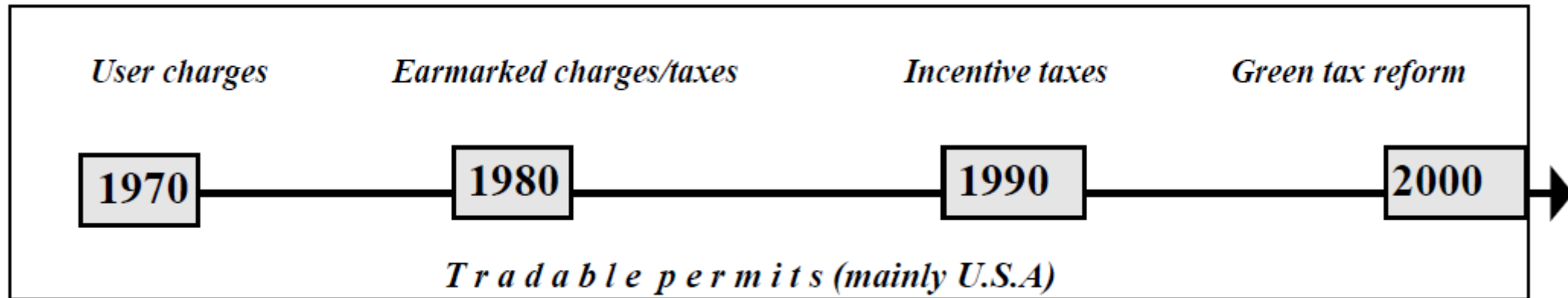


- Introduction of carbon emissions tax
- Petroleum and coal tax to the shipment of crude petroleum, gaseous hydrocarbons or coal from extracting stations or bonded areas
- Tax Credits for Job Creation
- Tax Credits for Salary Growth
- R&D tax credits
- Fossil fuels taxes: oil and gas tax, diesel oil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

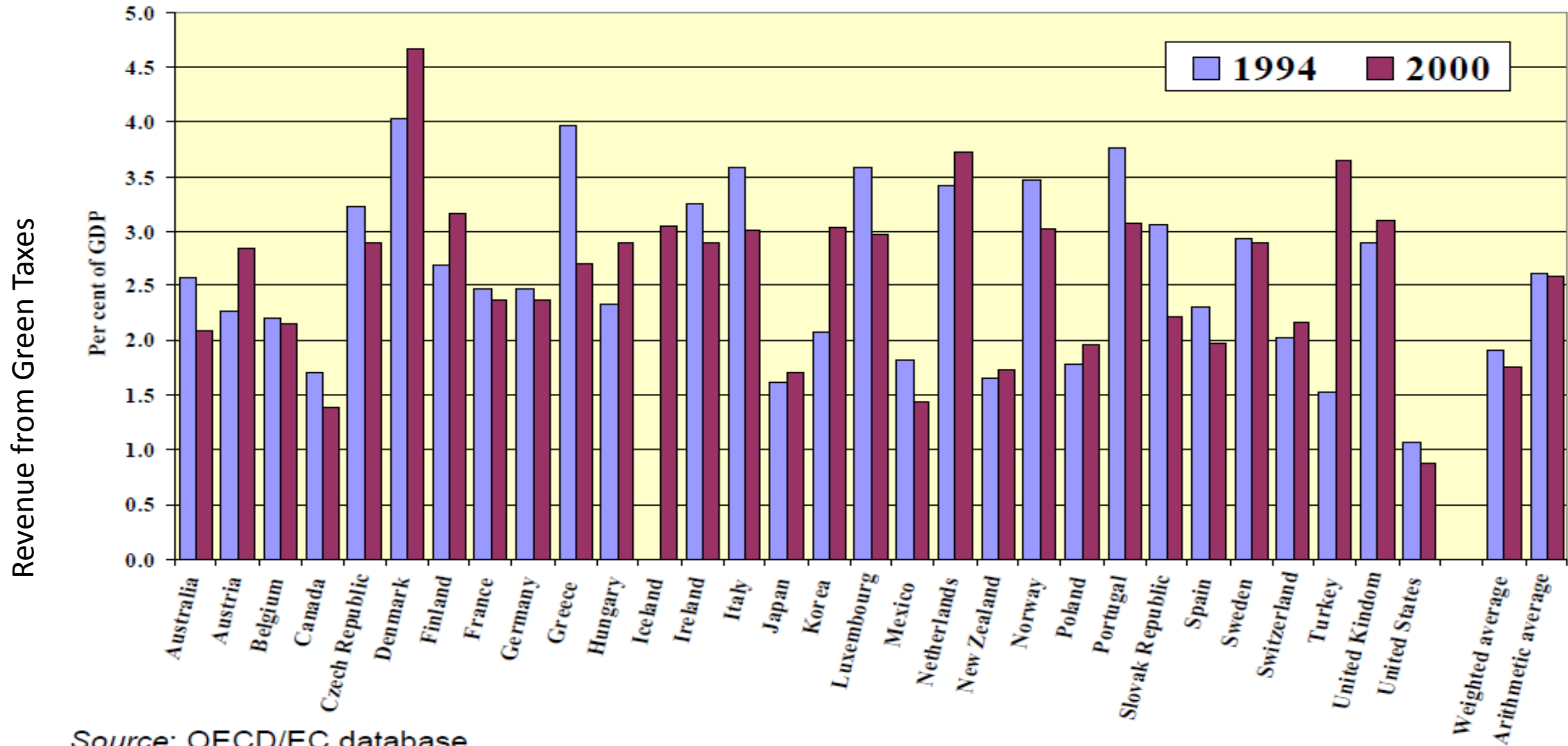
Some Recent Tax Policies: OECD Countries



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



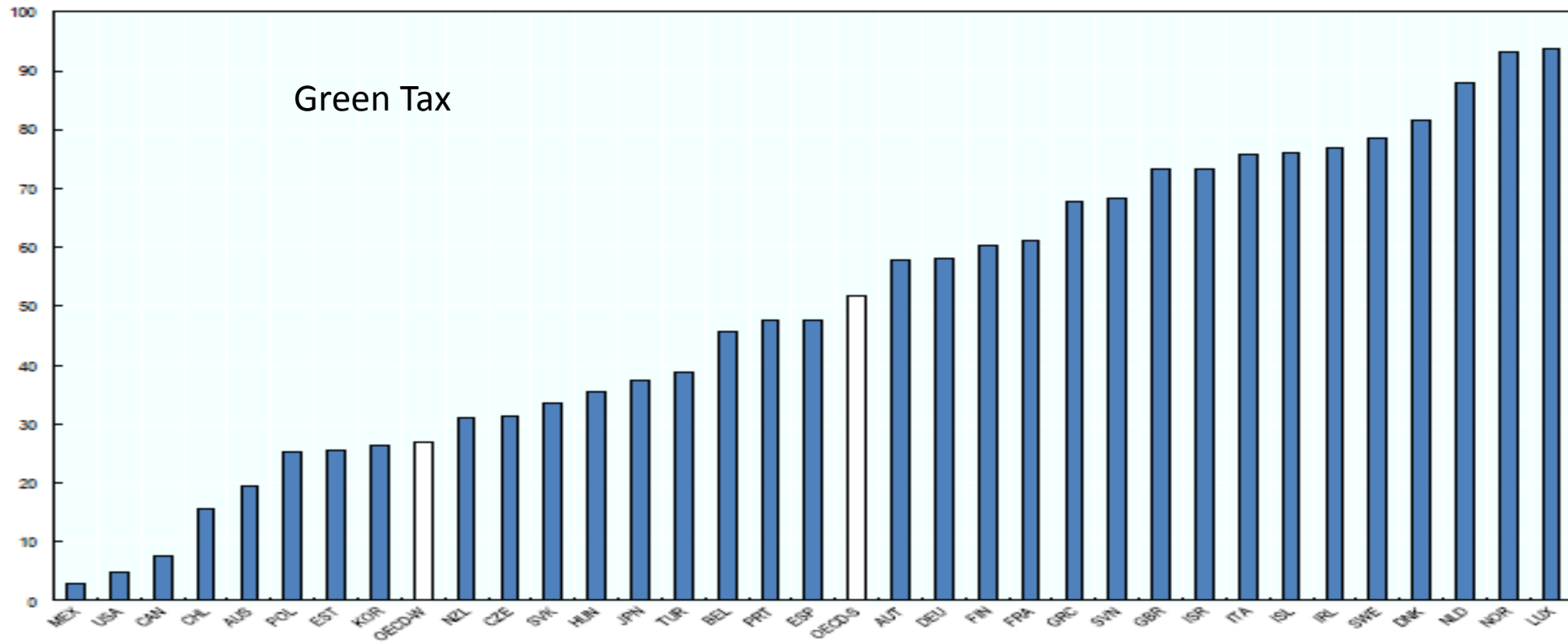
Some Recent Tax Policies: OECD Countries



Some Recent Tax Policies: OECD Countries



Average Effective Tax Rates on CO2 Emissions Euro per tonne



Source: 'Taxing Energy Use'. OECD (2013)

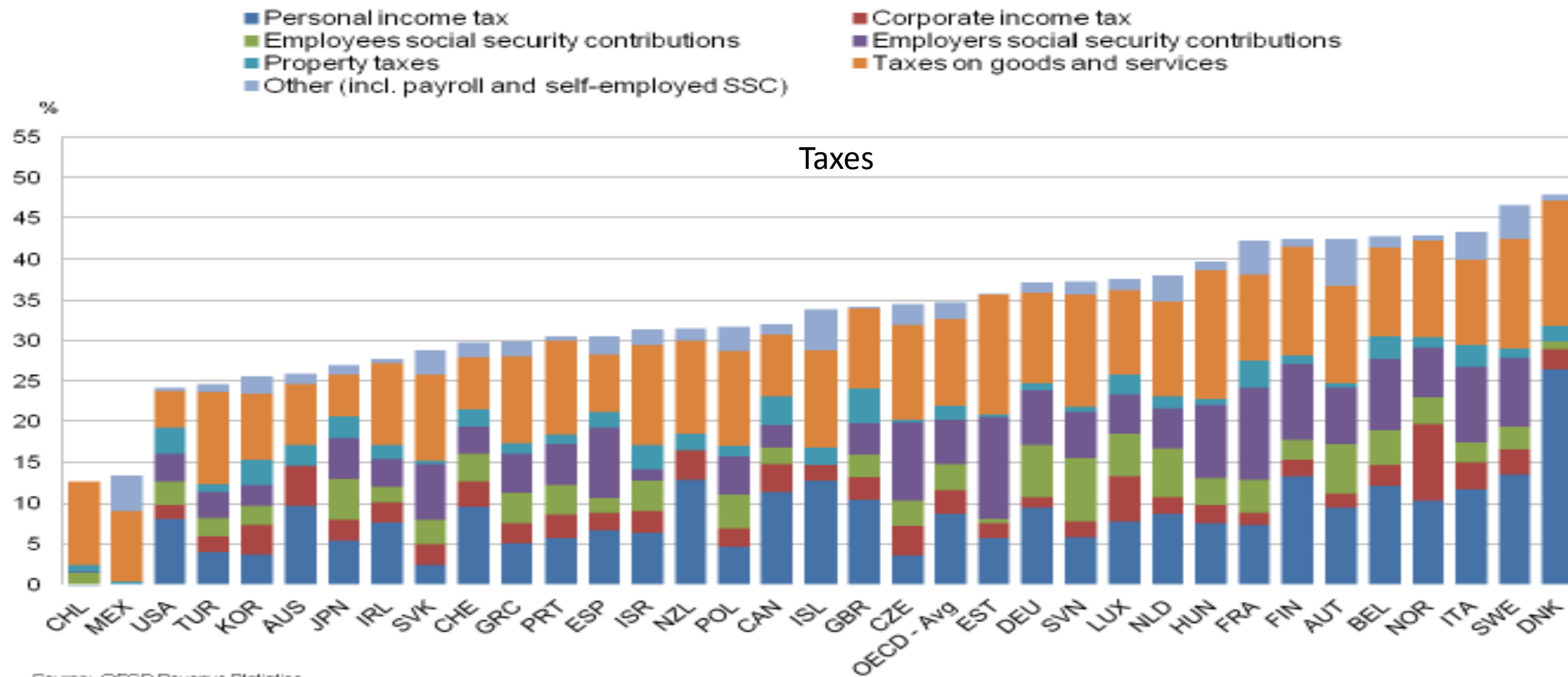
Some Recent Tax Policies: OECD Countries



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



Some Recent Tax Policies- OECD Countries



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

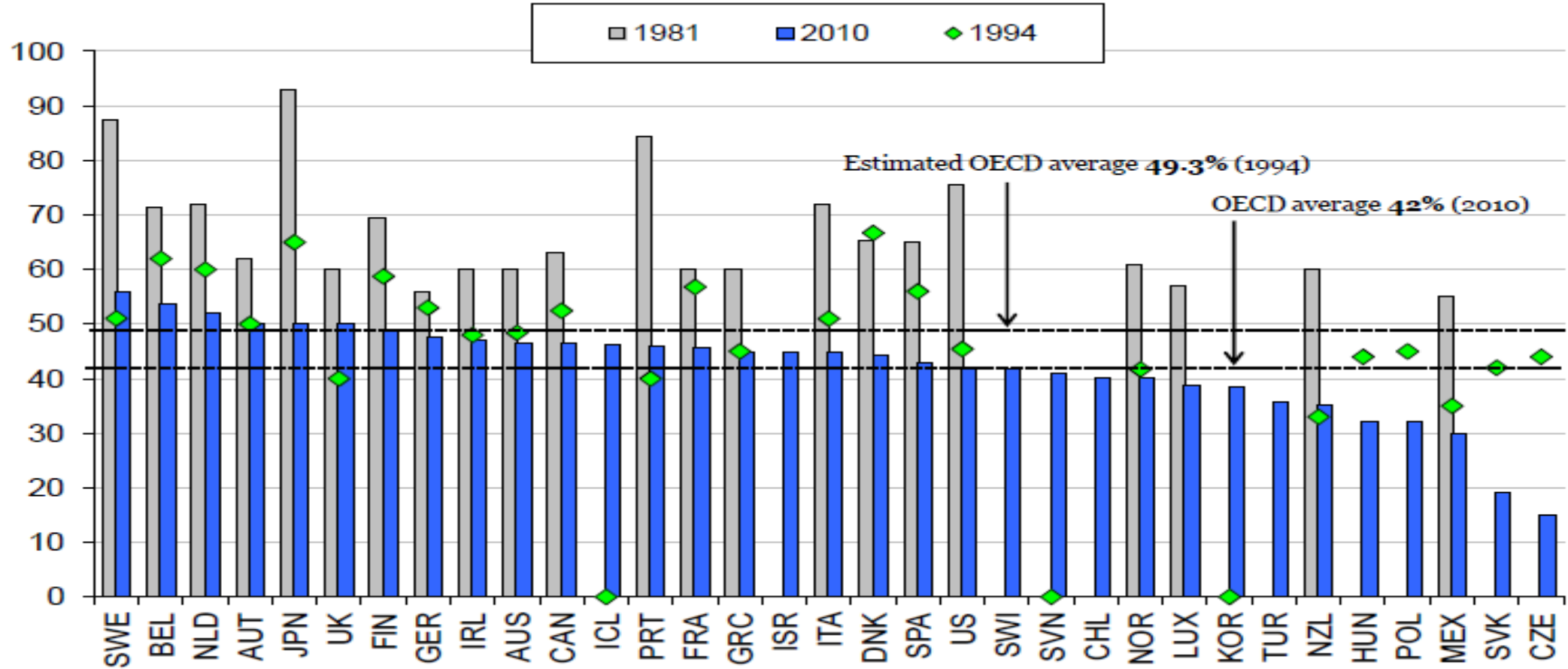
	Total	PIT +CIT	SSCs	Property	Consumption
Austria	0.3	-0.4	0.7	-0.1	0.2
France	0.5	-0.4	0.7	0.3	0.1
Germany	1.0	-0.3	1.0	0.0	0.3
Italy	-0.3	-0.8	0.5	0.1	0.4
Spain	-5.7	-3.3	-0.2	-1.1	-1.1
UK	-0.3	-1.2	0.1	-0.4	1.2
US	-2.8	-1.8	-0.8	-0.1	-0.1
OECD	-1.2	-1.2	0.2	-0.1	0.0

Source: OECD Revenue Statistics

Some Recent Tax Policies- OECD Countries



Personal Income Tax Trend

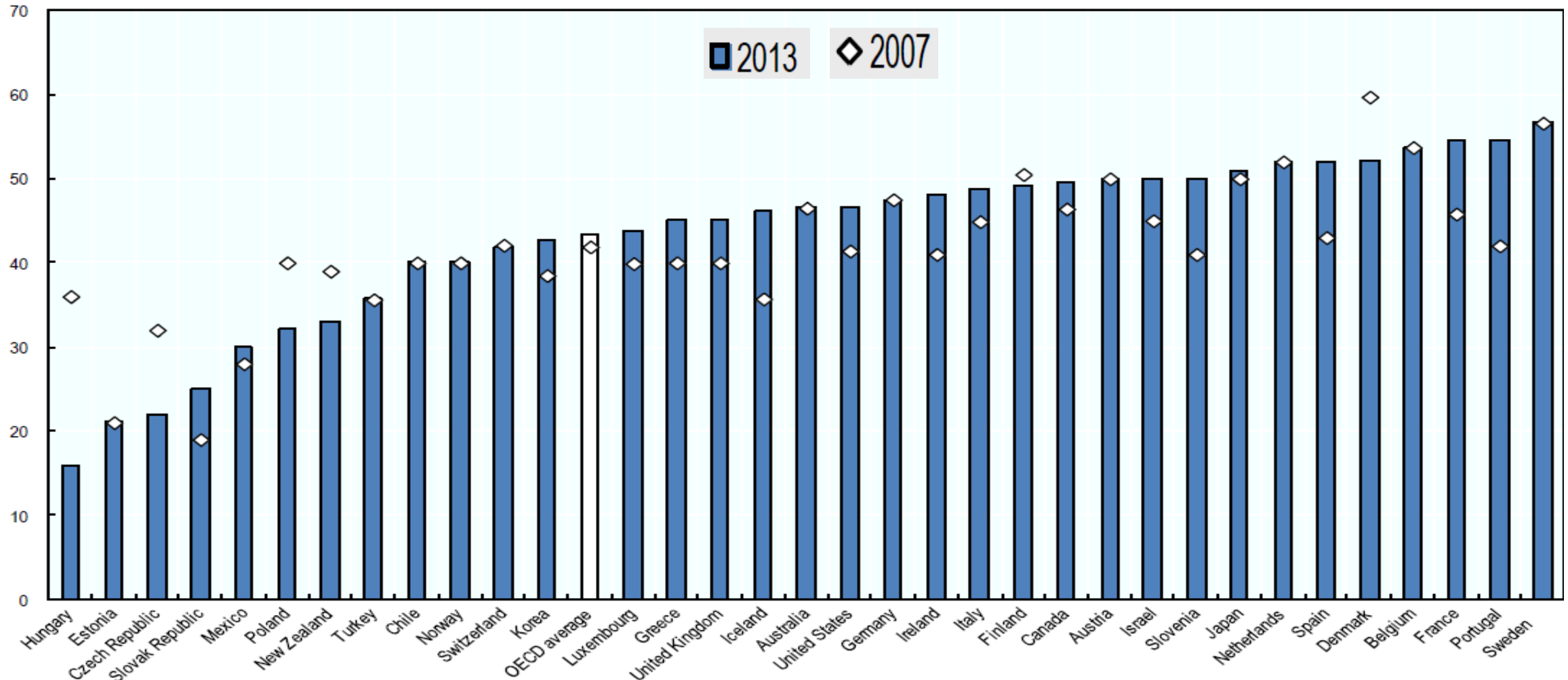


Source: Matthews (2013)

Some Recent Tax Policies- OECD Countries



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

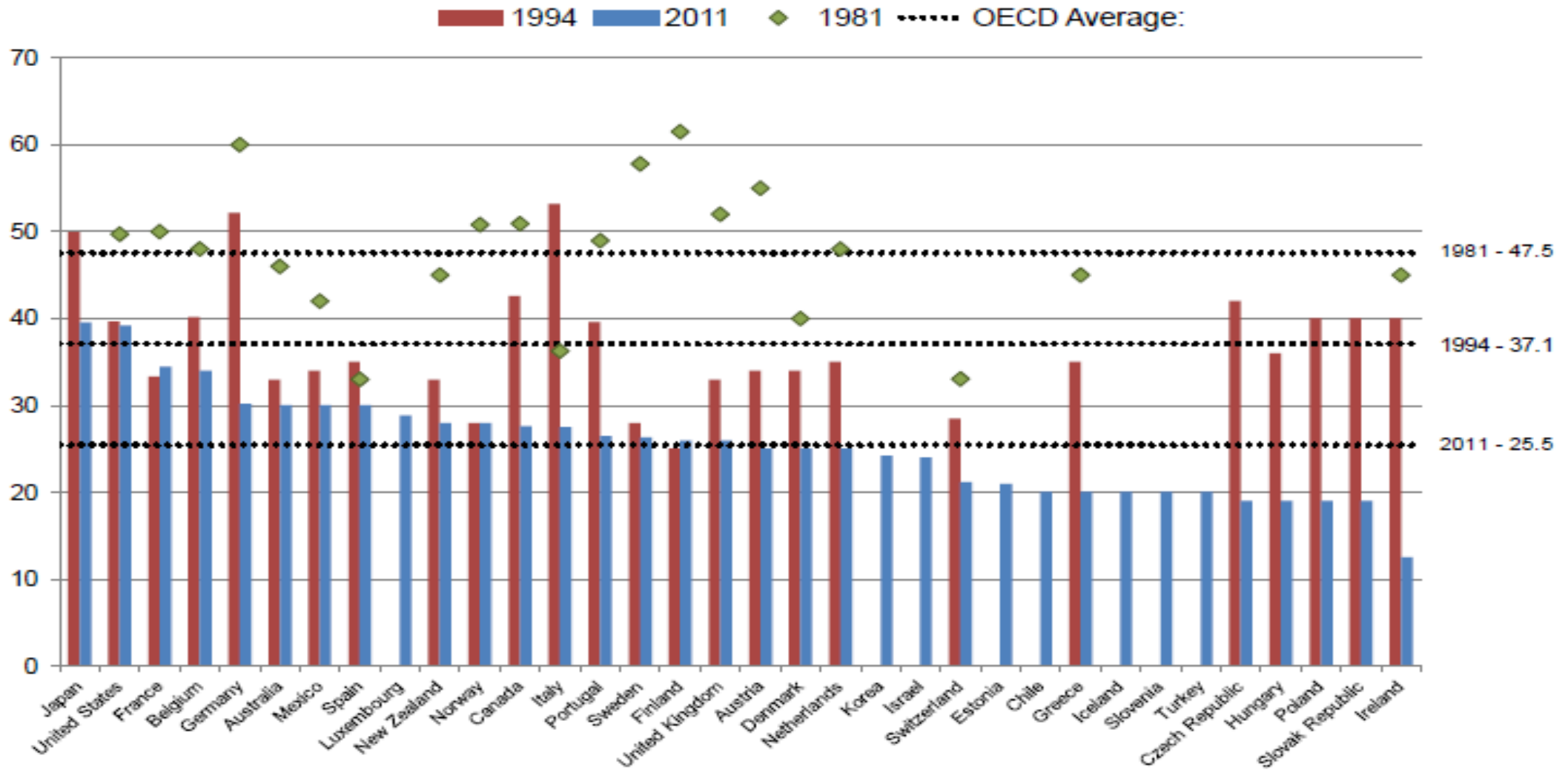


Sources: The Tax Policy Landscape Five Years after the Crisis, OECD Tax Working Paper No. 17 & Matthews (2013)

Some Recent Tax Policies- OECD Countries



Corporate Tax Rates Trend

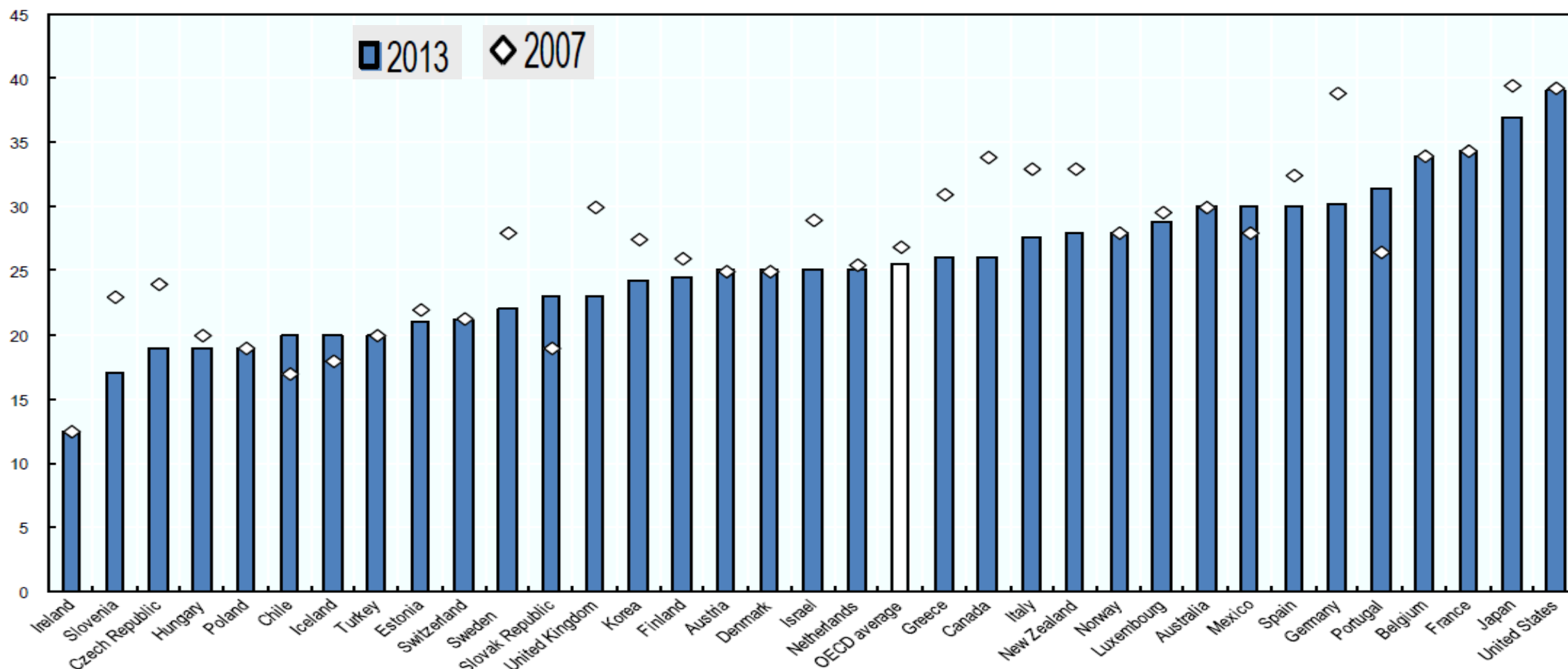


Source: Matthews (2013)

Some Recent Tax Policies- OECD Countries



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

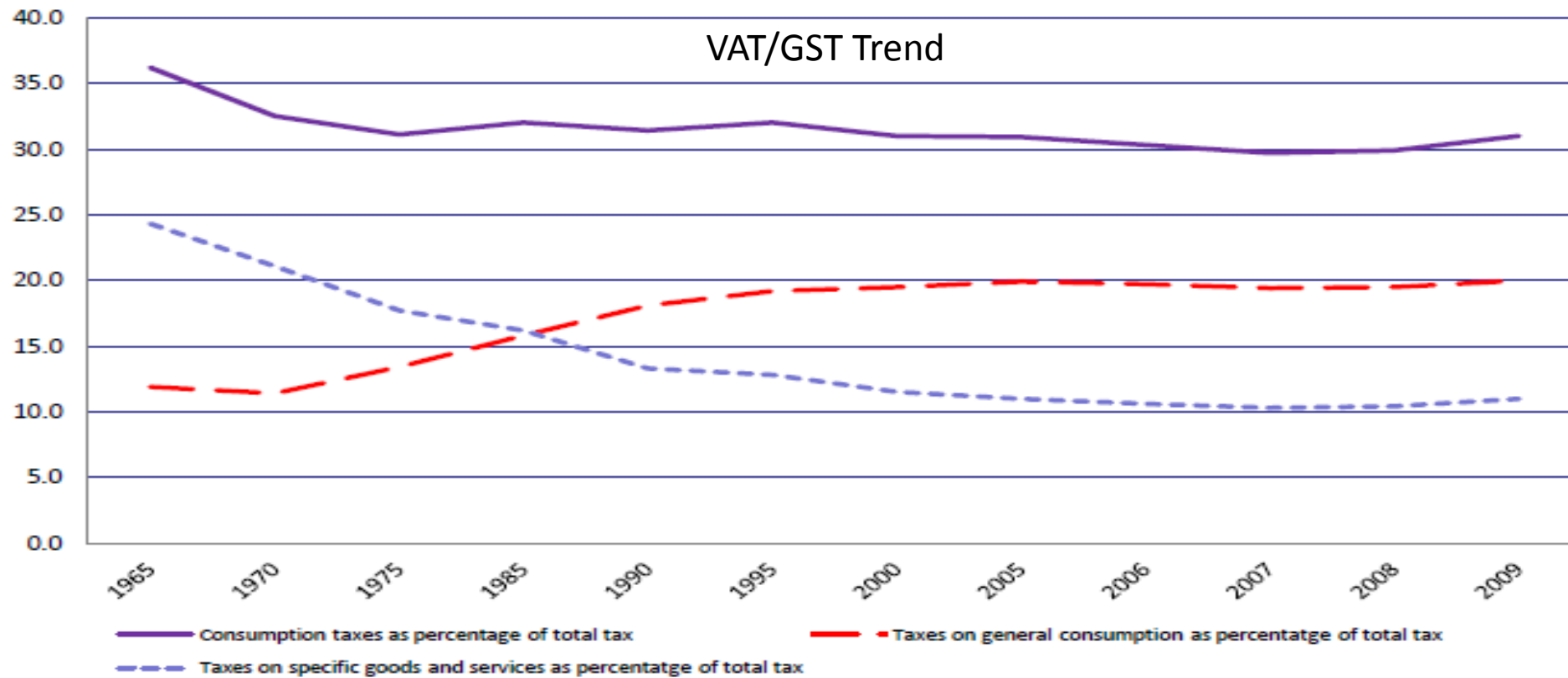


Sources: The Tax Policy Landscape Five Years after the Crisis, OECD Tax Working Paper No. 17 & Matthews (2013)

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_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 CO₂ 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 takes 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

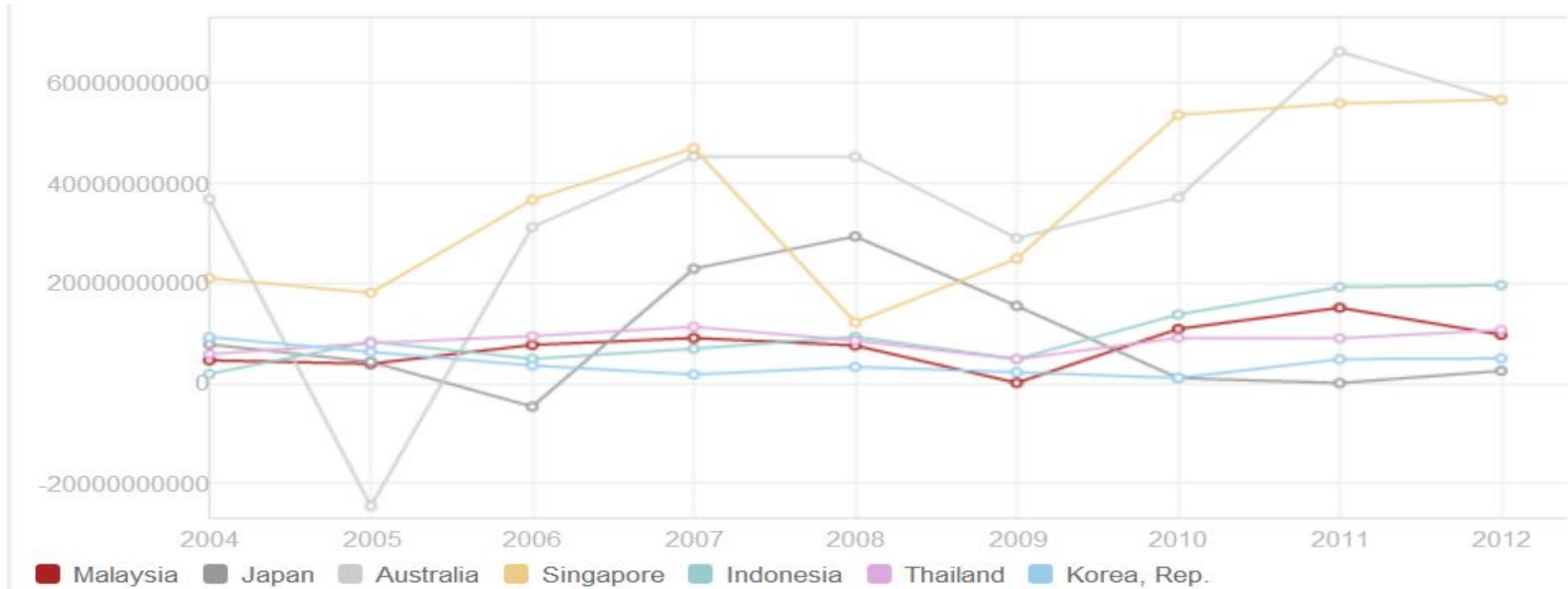
Competition for FDI- Selected Countries



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

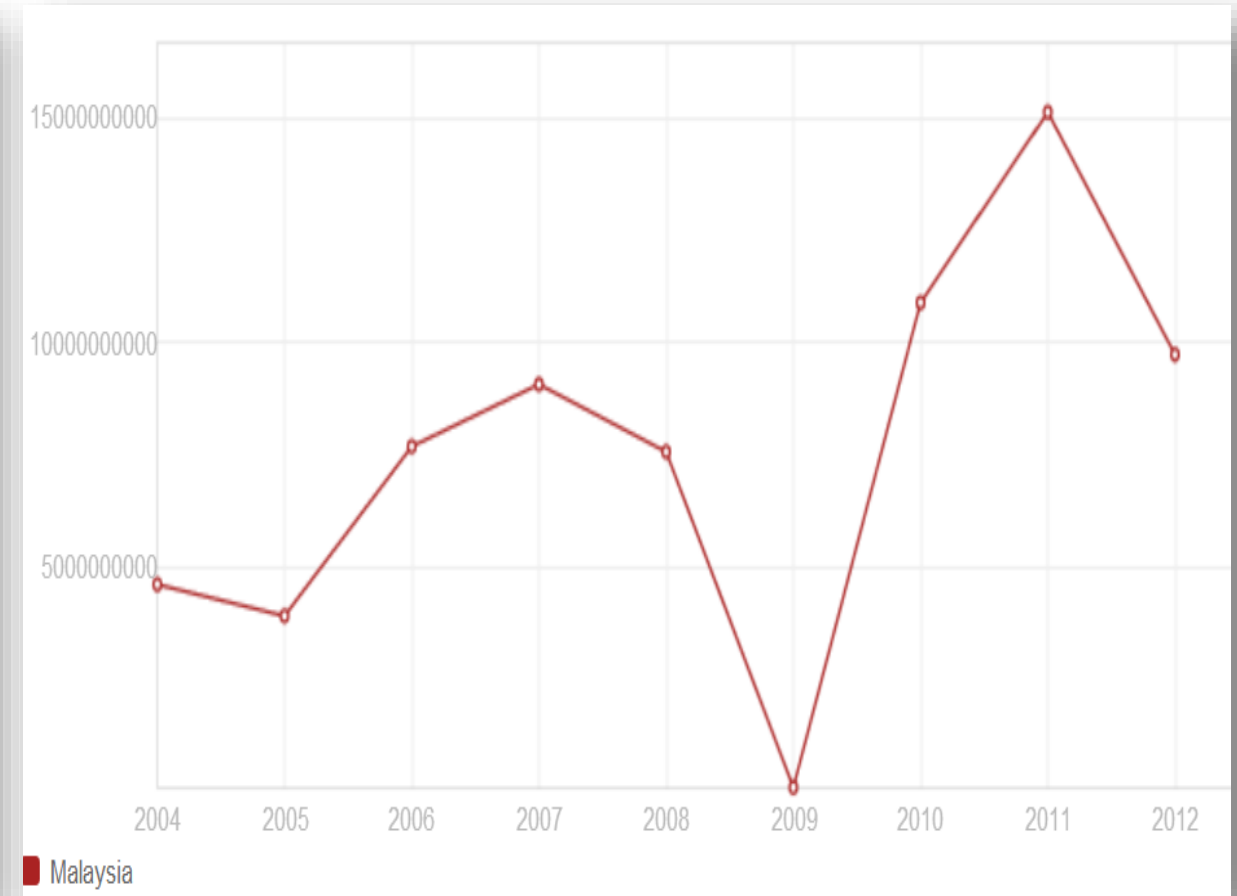
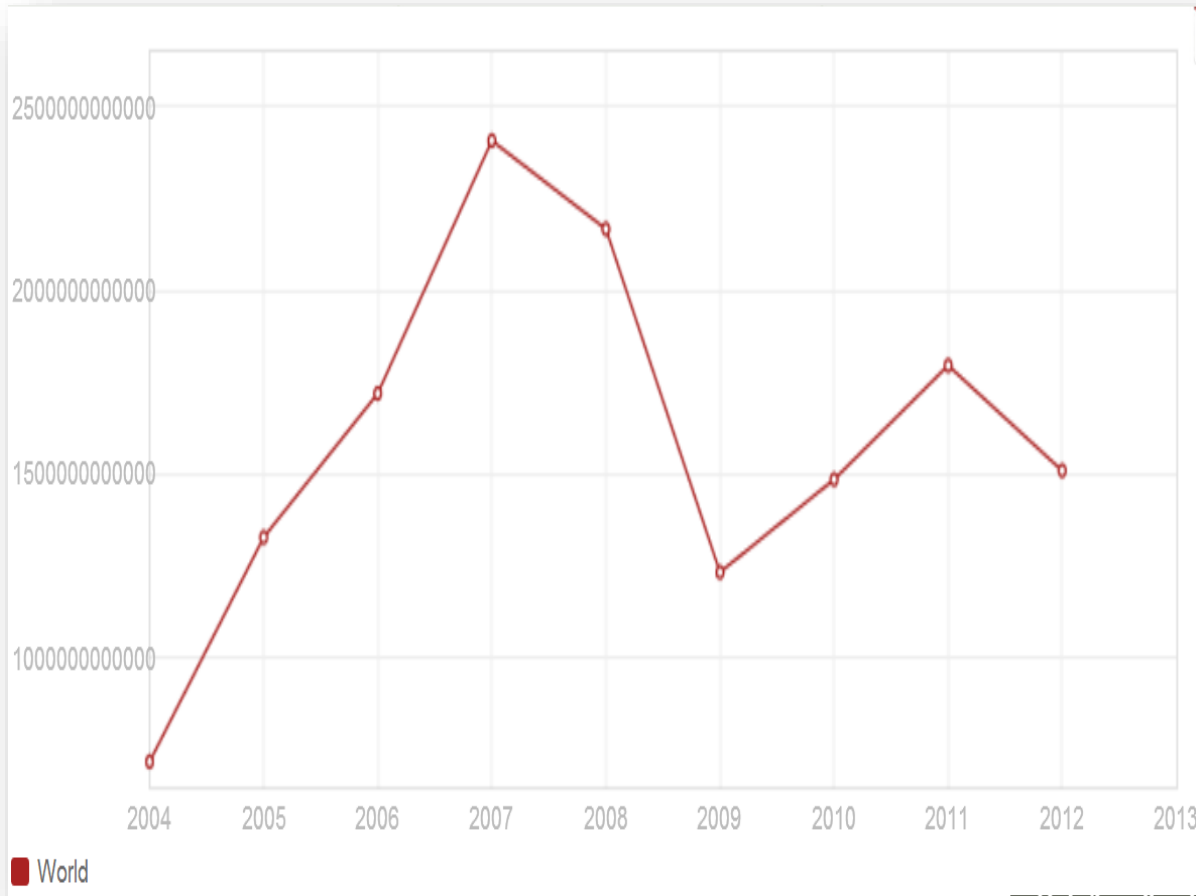
Source: World Bank Data

Competition for FDI- Selected Countries



Source: World Bank Data

Competition for FDI- Malaysia and World Trend



Source: World Bank Data

FEDERAL GOVERNMENT REVENUE SOURCES



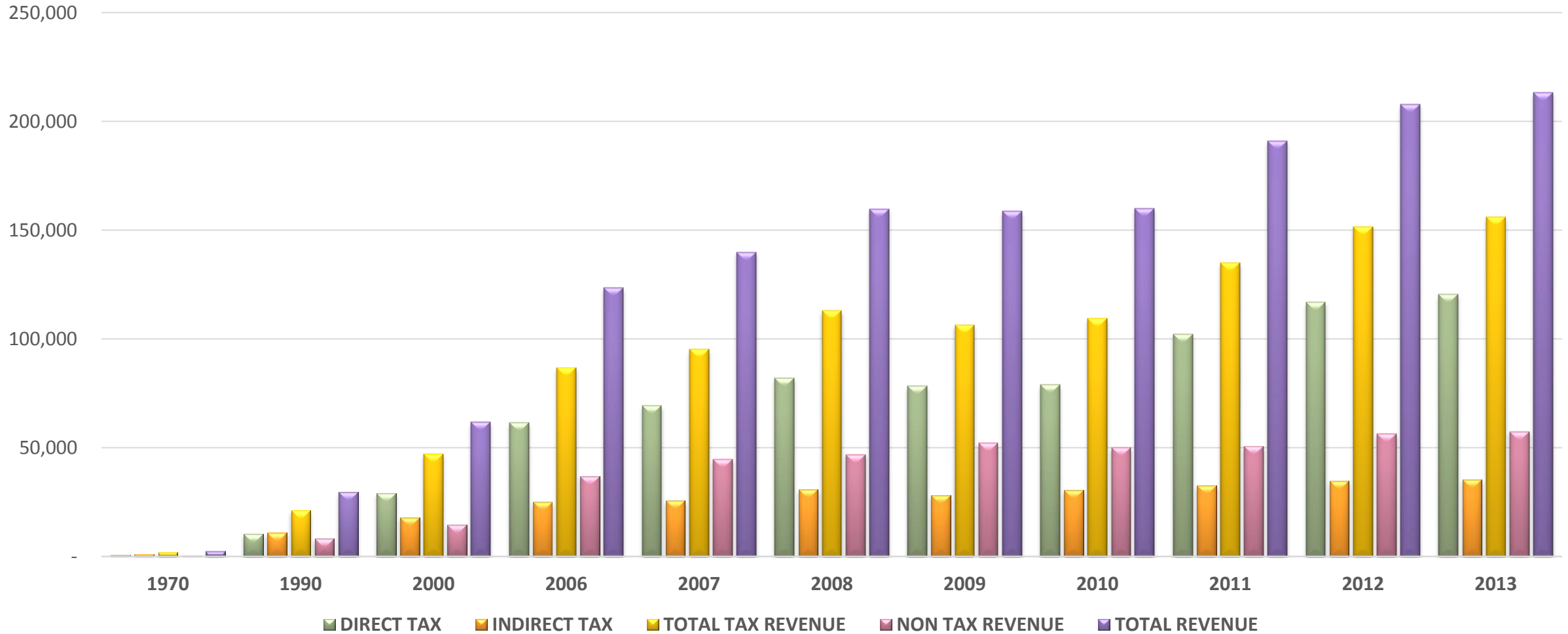
Year	Direct Tax		Indirect Tax		Total Tax Rev.		Non-Tax Rev.		Total FG Rev.
	RM (mil)	%	RM (mil)	%	RM (mil)	%	RM (mil)	%	RM (mil)
1970	685	37	1,155	63	1,840	77	560	23	2,400
1990	10,402	49	10,842	51	21,244	72	8,277	28	29,521
2000	29,156	62	18,017	38	47,173	76	14,691	24	61,864
2006	61,573	71	25,058	29	86,631	70	36,916	30	123,547
2007	69,396	73	25,772	27	95,168	68	44,717	32	139,885
2008	82,138	73	30,760	27	112,898	71	46,896	29	159,794
2009	78,375	74	28,129	26	106,504	67	52,135	33	158,639
2010	79,009	72	30,507	28	109,516	68	50,137	31	160,050
2011	102,242	76	32,643	24	134,885	71	50,534	26	191,154
2012	116,939	77	34,706	23	151,645	73	56,269	27	207,914
2013	120,523	77	35,429	23	155,952	73	57,418	27	213,370

Data Source: MoF

FEDERAL GOVERNMENT REVENUE SOURCES



(RM, Million)



Data Source: MoF

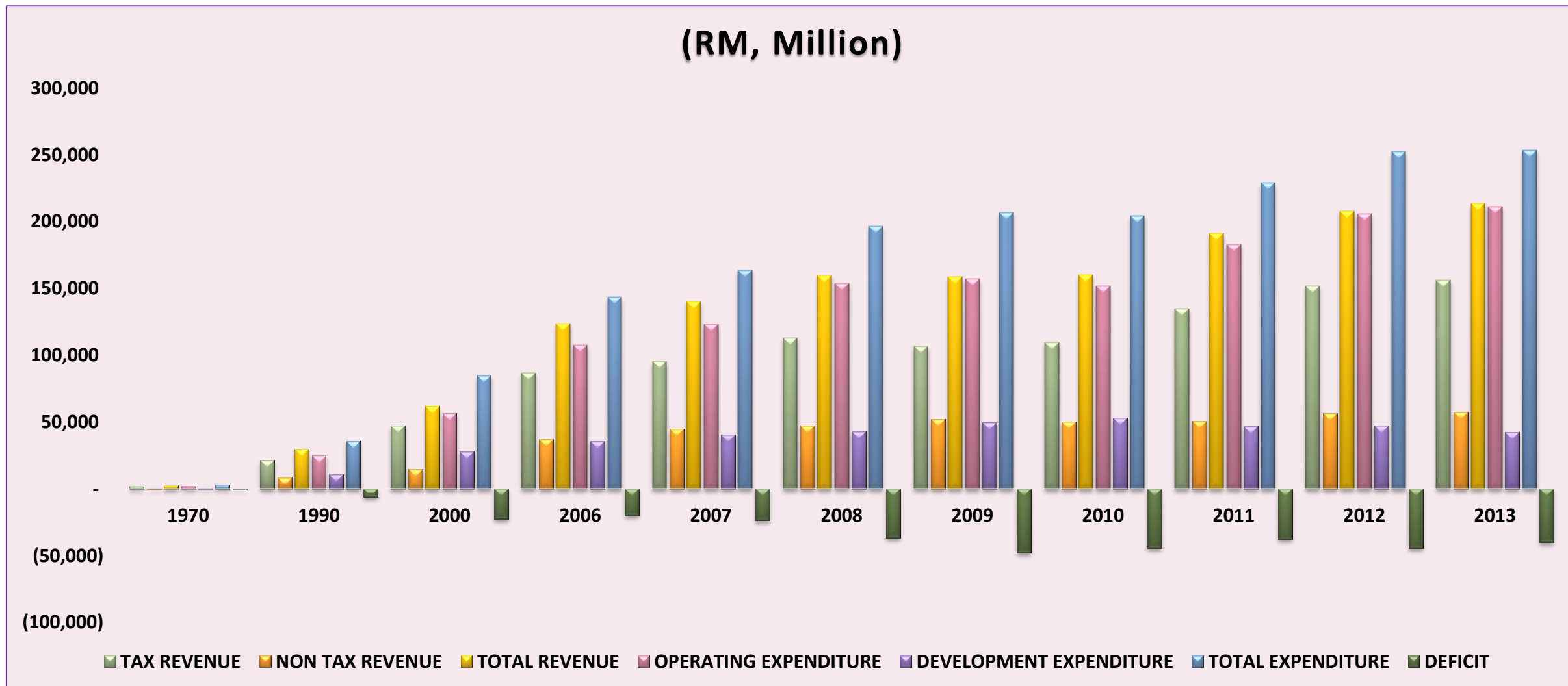
FEDERAL GOVERNMENT REVENUE & EXPENDITURE



YEAR	FEDERAL GOVERNMENT REVENUE					FEDERAL GOVERNMENT EXPENDITURE					DEFICIT
	Tax Rev.		Non-Tax Rev.		Total	Operating Exp.		Development Exp.		Total	
	RM (mil)	%	RM (mil)	%	RM (mil)	RM (mil)	%	RM (mil)	%	RM (mil)	
1970	1,840	77	560	23	2,400	2,163	75	725	25	2,888	(488)
1990	21,244	72	8,277	28	29,521	25,026	70	10,689	30	35,715	(6,194)
2000	47,173	76	14,691	24	61,864	56,547	67	27,941	33	84,488	(22,624)
2006	86,631	70	36,916	30	123,547	107,694	75	35,807	25	143,501	(19,954)
2007	95,168	68	44,717	32	139,885	123,084	75	40,564	25	163,648	(23,763)
2008	112,898	71	46,896	29	159,794	153,499	78	42,847	22	196,346	(36,552)
2009	106,504	67	52,135	33	158,639	157,067	76	49,515	24	206,582	(47,943)
2010	109,516	68	50,137	31	160,050	151,633	74	52,792	26	204,425	(44,375)
2011	134,885	71	50,534	26	191,154	182,594	80	46,416	20	229,010	(37,856)
2012	151,645	73	56,269	27	207,914	205,537	81	46,932	19	252,469	(44,555)
2013	155,952	73	57,418	27	213,370	211,270	83	42,210	17	253,480	(40,110)

Data Source: MoF

FEDERAL GOVERNMENT REVENUE & EXPENDITURE



Data Source: MoF

PUBLIC SECTOR REVENUE & EXPENDITURE



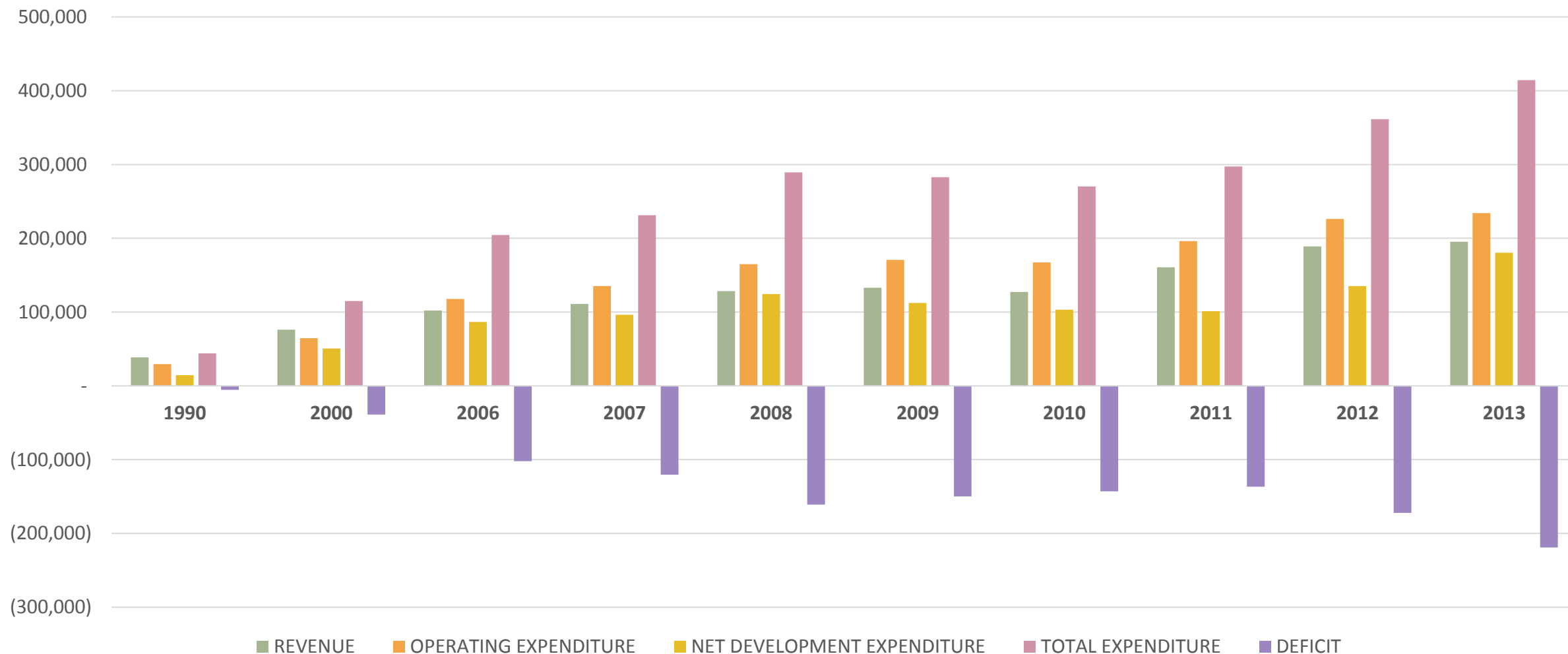
YEAR	TOTAL REVENUE	EXPENDITURE				DEFICIT	
		Operating Exp.		Development Exp.			Total
	RM (mil)	RM (mil)	%	RM (mil)	%		RM (mil)
1990	38,472	29,409	67	14,587	33	43,996	(5,524)
2000	76,002	64,445	56	50,439	44	114,884	(38,882)
2006	101,955	117,721	58	86,534	42	204,255	(102,300)
2007	110,733	135,049	58	96,310	42	231,359	(120,626)
2008	128,350	165,025	57	124,369	43	289,394	(161,044)
2009	132,871	170,594	60	112,200	40	282,794	(149,923)
2010	127,189	167,142	62	103,029	38	270,171	(142,982)
2011	160,657	196,126	66	101,256	34	297,382	(136,725)
2012	189,019	226,009	63	135,224	37	361,233	(172,214)
2013	195,113	234,106	56	180,244	44	414,350	(219,237)

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

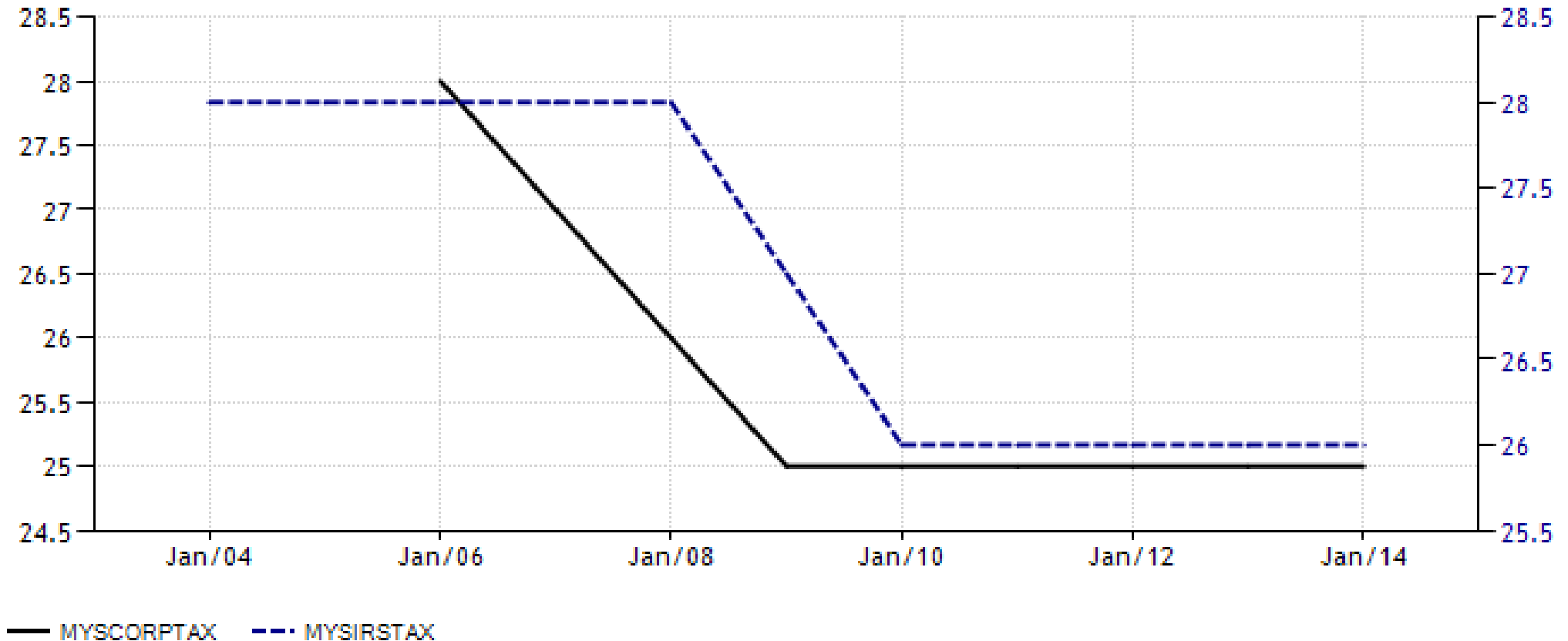


- Environmentally friendly
- Does little or no harm to the economy
- Promotes innovation
- Promotes green technology
- Promotes R&D in environmental friendly areas
- Attracts investment in eco-friendly related services, activities and products

Income Tax vs Corporate Tax



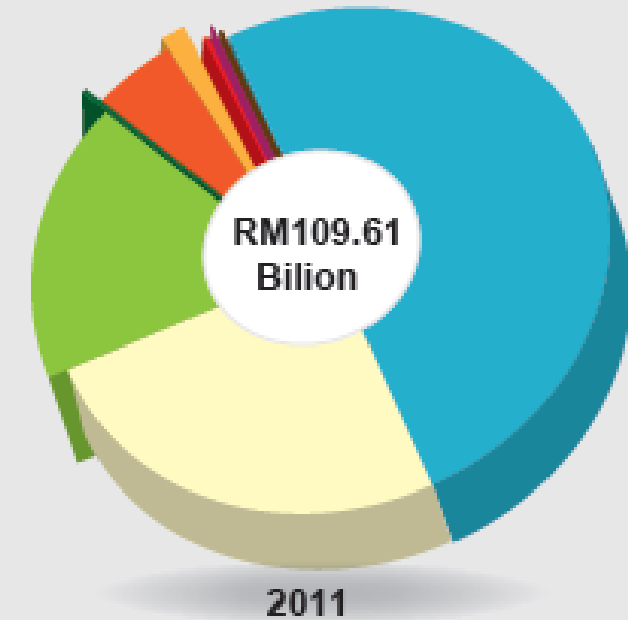
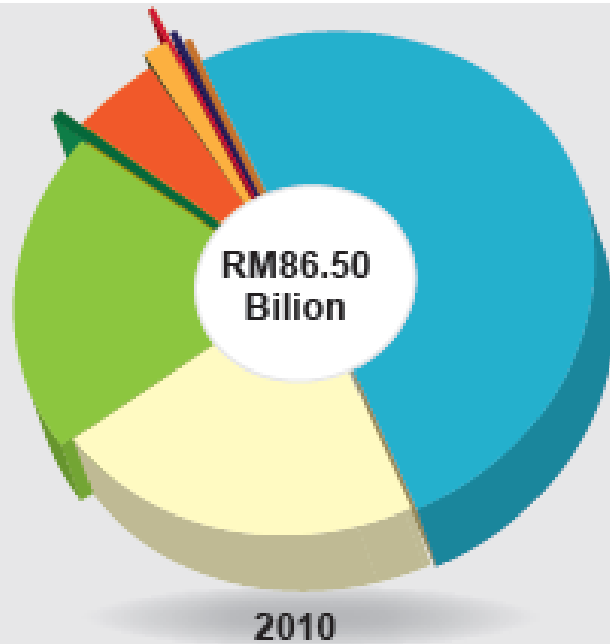
MALAYSIA CORPORATE TAX RATE | MALAYSIA PERSONAL INCOME TAX RATE



Source: World Bank data



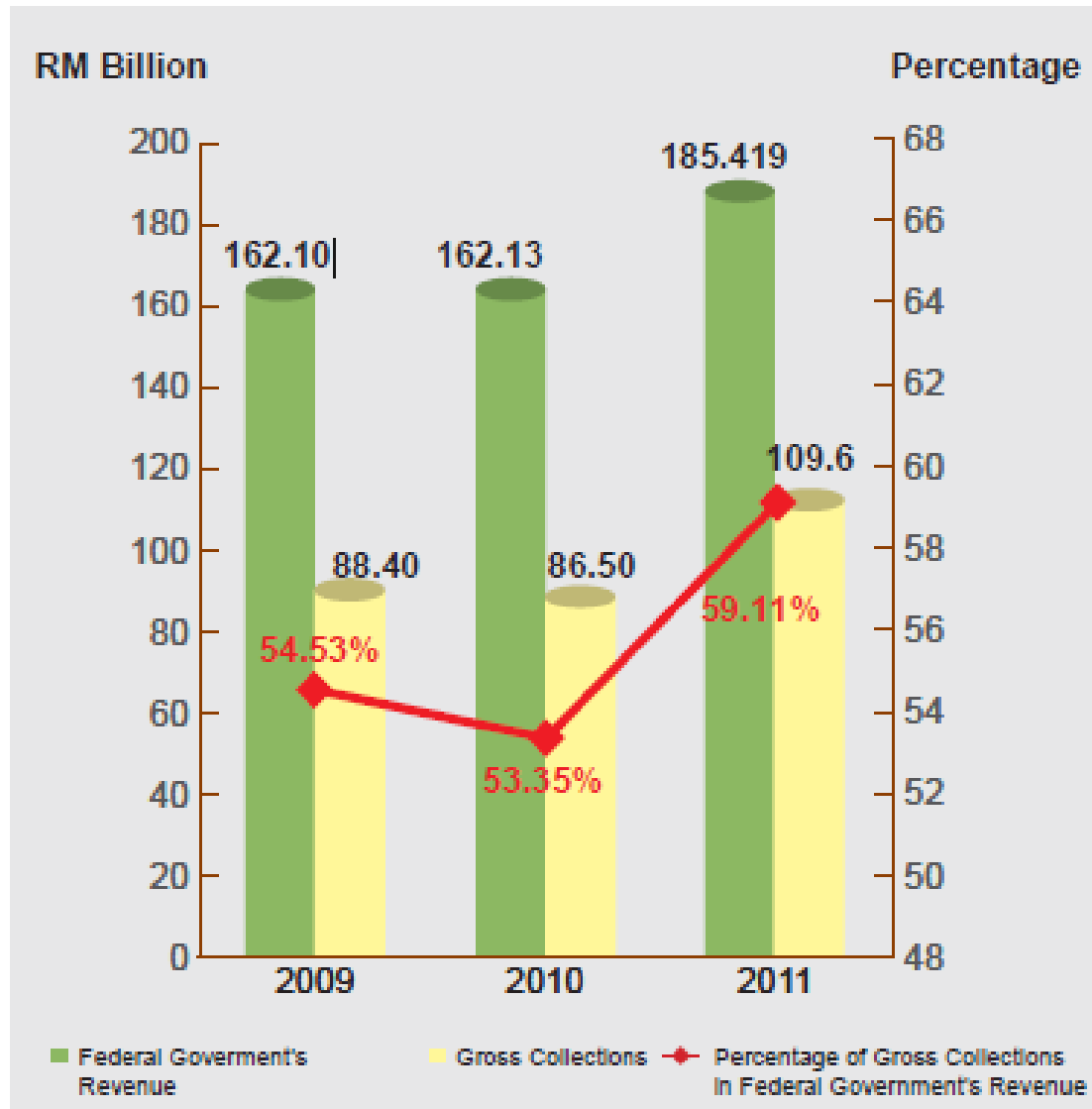
IRB Annual Report 2011



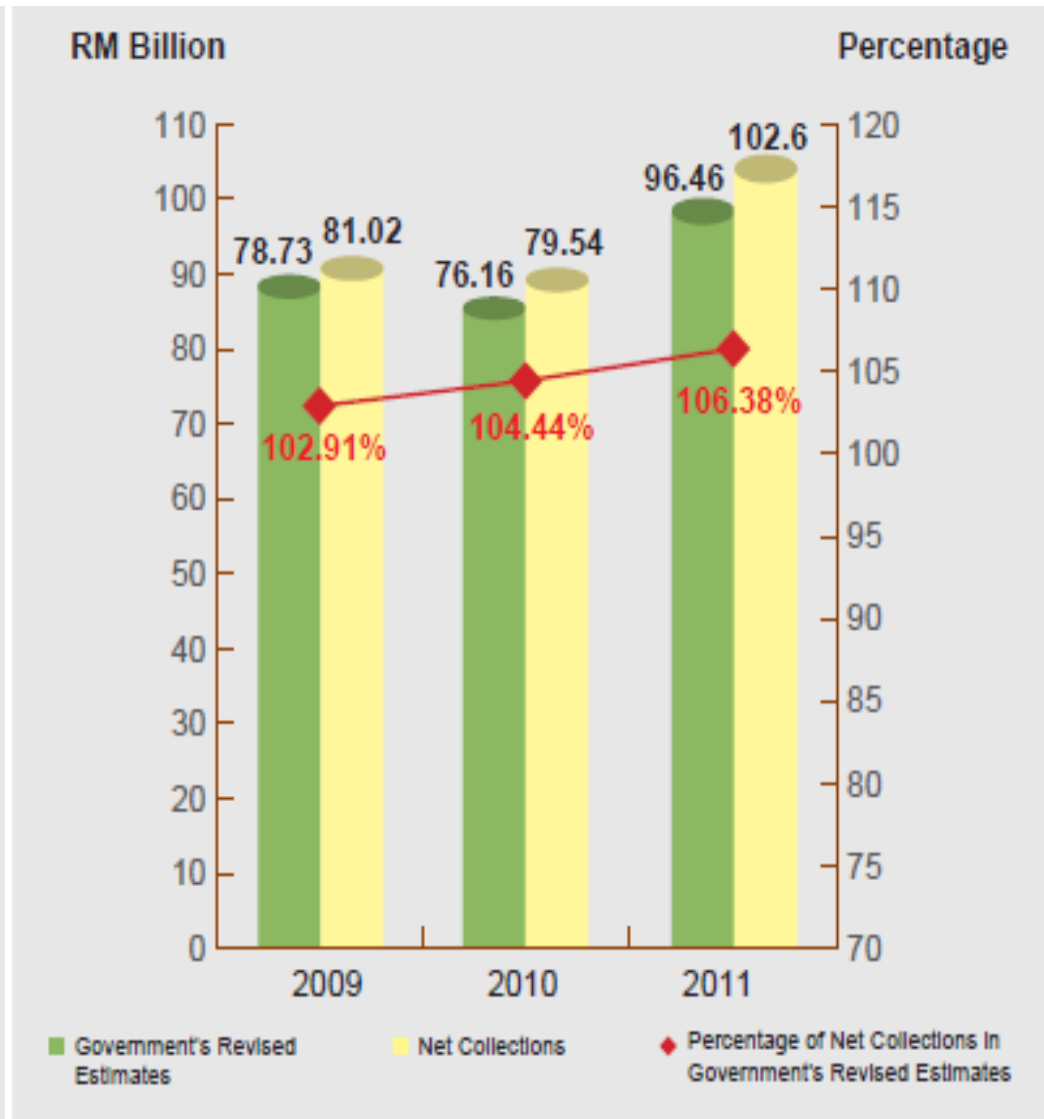
- Company RM 43.80 Billion (50.64%)
- Petroleum RM 18.71 Billion (21.63%)
- Individual RM 17.80 Billion (20.58%)
- Co-operative RM 0.38 (0.44%)
- Stamp Duty RM 4.20 Billion (4.86%)
- Withholding Tax RM 1.27 Billion (1.47%)
- RPGT RM 0.30 Billion (0.35%)
- IOFC RM 0.02 Billion (0.02%)
- Others RM 0.02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

- 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%)
- RPGT RM 0.54 Billion (0.49%)
- IOFC RM 0.02 Billion (0.02%)
- Others RM 0.02 Billion (0.02%)

DIRECT TAX COLLECTION BY COMPONENTS

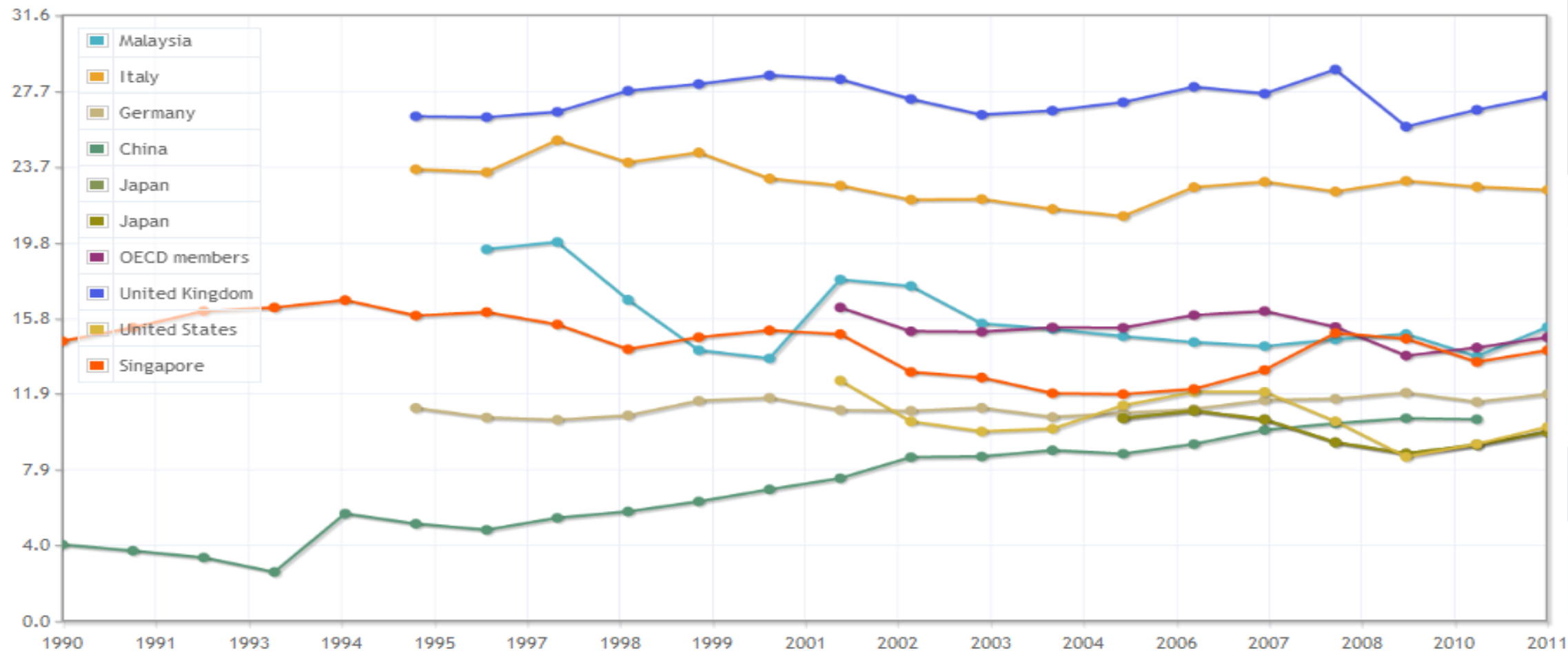


CONTRIBUTION OF DIRECT TAXES TO THE FEDERAL GOVERNMENT'S REVENUE



CONTRIBUTION OF NET DIRECT TAXES TO THE GOVERNMENT'S REVISE ESTIMATES

Tax Revenue as % of GDP



Data source: [World Bank, World Development Indicators](http://www.worldbank.org) - 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:
 - Renewable energy and energy conservation
 - Biotechnology
 - Research and development and its commercialization
 - Storage, treatment and disposal of toxic and hazardous wastes
 - Waste recycling activities
 - Green Building Index certificate
 - Accelerated capital allowance for environmental management
 - Purchase of green technology Equipment

Goods and Services Tax (GST)



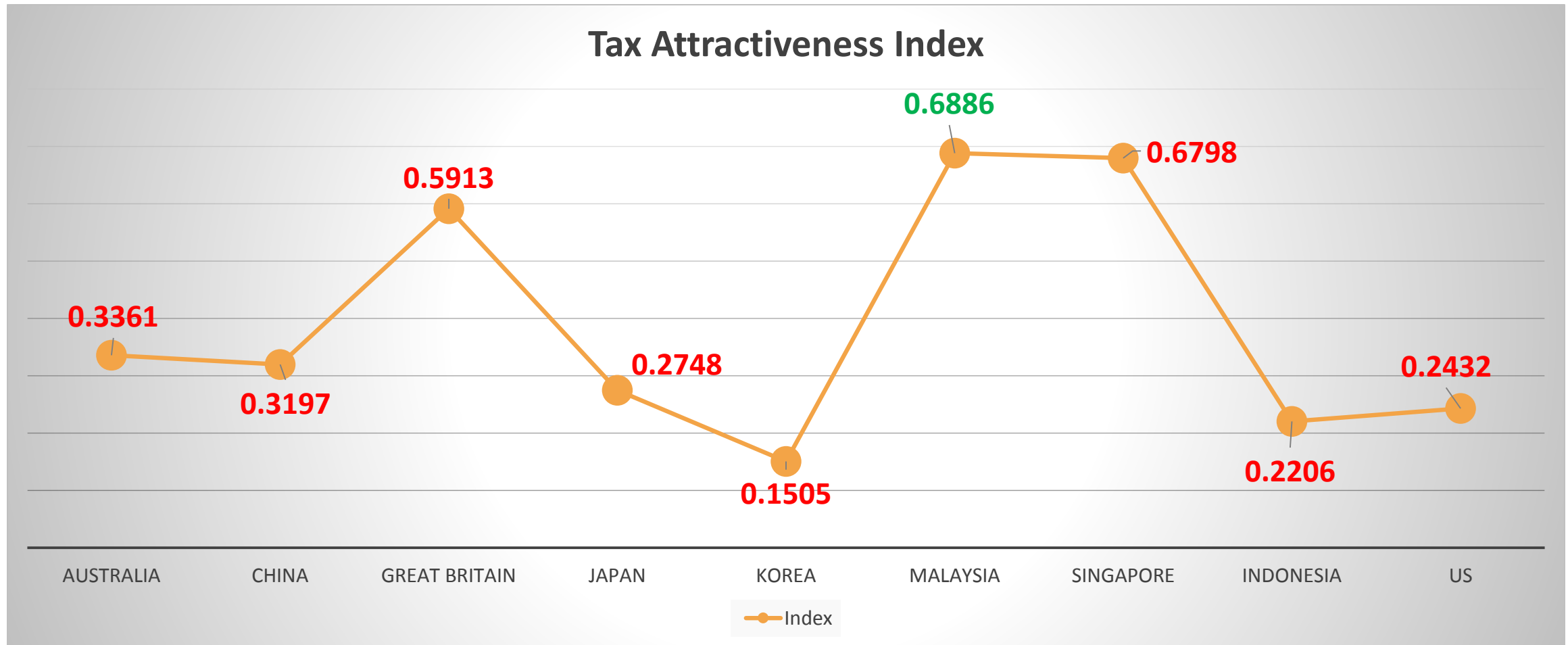
- Tax revenue underpins the government's ability to operate in all areas
- To generate sufficient revenue to finance and sustain the economy through sustainable development projects, the existing tax base has to be widened with the implementation of GST in April 2015.
- Indeed, a wider tax base yields 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



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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