



FINAL EXAMINATION
MARCH 2024

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| COURSE TITLE | TAX POLICY |
| COURSE CODE | ATAX4413 |
| DATE/DAY | 29 JUNE 2024 / SATURDAY |
| TIME/DURATION | 09:00 AM - 12:00 PM / 03 Hour(s) 00 Minute(s) |

INSTRUCTIONS TO CANDIDATES :

1. Please read the instruction under each section carefully.
2. Candidates are reminded not to bring into examination hall/room any form of written materials or electronic gadget except for stationery that is permitted by the Invigilator.
3. Students who are caught breaching the Examination Rules and Regulation will be charged with an academic dishonesty and if found guilty of the offence, the maximum penalty is expulsion from the University.

(This Question Paper consists of 5 Printed Pages including front page)

*****DO NOT OPEN THE QUESTION PAPER UNTIL YOU ARE TOLD TO DO SO*****

This question paper consists of FOUR (4) questions. Answer ALL questions in the answer booklet provided. **[80 MARKS]**

QUESTION 1

(20 Marks)

According to Malaysia's Fiscal Policy 2024, the Government revenue projection has been revised upward by 4% or RM11.7 billion to RM303.2 billion or 16.4% of GDP, compared with the initial estimates of RM291.5 billion. Tax revenue remains as the main contributor supported by higher collection of income taxes, continuous auditing activities and Budget 2023 tax measures implementation. Additionally, the non-tax revenue is also estimated to increase contributed by licenses and permits particularly from petroleum royalties.

Required:

- i. Discuss what are the primary objectives of tax policy in Malaysia? (10 marks)
- ii. How does Malaysia use tax policy to attract foreign direct investment (FDI) (10 marks)

QUESTION 2

(20 Marks)

Why abolishing GST was so wrong
29 Oct 2022, FMT Newsletter

The real problem was not with the goods and services tax itself but inefficiency in the administration and collection.

The question of abolishing the goods and services tax (GST) has never been answered with clarity or transparency by the parties that won the last general election (GE14).

There was absolutely no rationale for it other than it being part of the Pakatan Harapan's mandate after it defeated Barisan Nasional. It is hard to believe that PH and the people were rejoicing over the success of abolishing GST.

Those successes — or so they believed — were both unfounded and a miscarriage of the truth.

The International Monetary Fund reported that the revenue collection ratio to gross domestic product (GDP) for Malaysia had been declining but was never pursued by the government.

The real problem was not with the GST itself but the inefficiency in the administration and collection as well as the monetary leakage due to corruption which has become endemic in all echelons of the government.

Malaysia currently ranks number 62 in Transparency International's Corruption Perception Index. The scale of corruption, cronyism and abuse of power by leaders and high-ranking officials in the civil service for personal gain is unprecedented.

GST is a widely acknowledged progressive tax that casts its net on tax evaders who indulge in the cash economy.

Regrettably, the advisers to the then new PH government were out of their depth in economics when they advocated that the tax was regressive and hence should be abolished.

Here are the real causes for the failure in the implementation of the GST in Malaysia.

Economic perspective

When a tax is imposed, it raises the cost of a transaction. Consequently, as the price increases, the quantity of goods purchased decreases.

Imposing a tax like GST can result in inadequate or no gains due to the decline in demand for goods or services.

This is called "deadweight loss" and was first demonstrated by the English economist Alfred Marshall.

Basically, "deadweight loss" is the loss in the consumption of goods or services due to the imposition of a tax.

However, this deadweight drag can be avoided when the tax revenue is used for productive spending on externalities, such as infrastructure or subsidising industries.

So, the question is whether the government's pundits considered this. Apparently not so. The government's failures were dismissed as shortcomings of GST.

Some 150 countries cannot be wrong after having successfully implemented GST. It is therefore inappropriate to conclude that GST was a failure in Malaysia.

If the GST collected was used to subsidise the production of the goods and services, or at least if a percentage (say 25%) of GST collected was retained by each state, this would have funded the poorer states like Sabah, Sarawak, Terengganu, Kelantan and Perlis where the anger over GST was the highest.

This is what was done in Australia to contain this deadweight loss.

Administration and collection

The administration and collection of the GST were generally inefficient. There were backlogs in refunds because the GST collected was used elsewhere by the government and not channelled back to those in the M40 and B40 categories.

The tax rebate process was lengthy. Businesses suffered from cash flow because of the delay in refunds.

Lack of proper price surveillance

Many businesses increased prices arbitrarily, well above the standard 6% and when questioned, attributed it to the GST.

Unfortunately, the people swallowed it, became disgruntled, and began to detest GST. The profiteers were not totally to be blamed.

What were the authorities and enforcement officers from the domestic trade and consumer affairs ministry doing? If they had been vigilant in monitoring and penalising those vendors increasing prices unreasonably or incessantly, this problem could have been controlled.

Urging the public to report businesses that were overcharging could have also helped.

Grey or cash economy

There was an emergence of a “grey economy” (shadow or cash economy). This is part of the economy that is neither taxed nor monitored by the government to avoid GST.

Cash transactions became the dogma of the day. Small businesses offered to provide goods and services for cash — without an invoice, hence no GST accounted for.

Transactions were not reported to the government and, therefore, beyond the reach of tax collectors and regulators.

The shadow economy in Malaysia, as a percentage of the “official” GDP, was 31.4%.

Factors fostering the shadow economy include excessive tax burden, government over-regulation of business, and poor performance by government bodies (tax, judiciary, police and other authorities).

Conclusion

Irrespective of the government of the day, the GST should be the preferred tax regime to be adopted.

When the GST was introduced, the then Barisan Nasional government had a date with fate – one that was bound to make it short lived because of the callous way in which they flogged it to the people.

Prior to the introduction of the GST, I had proposed to the finance ministry the merits, viability and manner by which it should be implemented, administered and managed.

Alas, it fell on deaf ears.

In the words of Kamal Salih, founder of the Malaysian Institute of Economic Research (MIER), if the GST is to be reintroduced, the finance ministry needs to be more transparent on the sums collected and the rebate process should be improved compared with how it was done previously.

It is illogical for the government to consider collecting additional taxes from the people without first proving that the nation’s governance has improved.

The above article is written by Mr. Siva Nathan, a Chartered Accountant and Adjunct Professor at Taylor’s University He was previously director of tax and group compliance officer (Anti-bribery & Corruption) at WCT Holdings Berhad and has advised the Inland Revenue Board and Finance Ministry on the self-assessment tax system and GST in Malaysia.

Required:

- i. Based on the above article, discuss the reasons for the 'failure' of GST in Malaysia. (10 marks)
- ii. Discuss the impact of the Goods and Services Tax (GST) and its subsequent replacement with the Sales and Services Tax (SST) on Malaysia's economy. (10 marks)

QUESTION 3

(20 Marks)

Among criteria of good tax policy are efficiency and cost effective. To achieved this, Malaysia has changed from preceding year basis to current year basis with effect from year of assessment 2000. Malaysia also has adopted the self-assessment system with effect from year of assessment 2001 onwards.

In the context of criteria for good tax policy:

Required:

- i. Explain current year assessment, self-assessment and preceding year basis. (9 marks)
- ii. How these changes in tax policy help government achieving the efficiency in term of tax collection and tax submission. (11 marks)

QUESTION 4

(20 Marks)

The tax penalty regime in Malaysia is a critical component of the country's tax administration system. It serves as a deterrent against non-compliance and encourages taxpayers to adhere to tax laws and regulations.

Required:

- i. Discuss the primary objectives of tax penalty regimes in Malaysia. (10 marks)
- ii. Explain at least **FIVE (5)** tax offenses as legislated in the Income Tax Act, 1967. (10 marks)

***** END OF QUESTION PAPER *****