ASEAN Fiscal and Taxation Policy: Comparative Studies between Malaysian Taxation System and Selected ASEAN Countries towards a Sustainable Economic Development

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Abstract: - **In general taxes play a repressing role in an economy. Any new forms of taxation, changes in tax regime or rates results in greater economic activities, change consumption pattern, influence jobs market and therefore effect on economic growth. In most ASEAN countries the element of competition among member countries are visible by lowering corporate tax rates and each try to attract FDI in boosting economic growth. On the other hand ASEAN member countries are also trying to make personal tax rates lower in order to fulfill their political agenda at home. It is evident that in most ASEAN countries having lower tax rates have better prospects for economic growth. However, small tax revenue is limiting governmental spending and might cause imbalances in the economy. In the contact of Malaysian taxation system taxes play a very important factors for a sustainable growth of the economy. Thus, there is a positive relationship between taxation and economic development. This conceptual paper aimed to review the efficiency of taxation in terms of sustainable economic development and to discuss the factors that contribute to economic growth. This paper is also attempt to do comparative analysis among Malaysia and selected ASEAN countries how tax system have impacted the growth particularly on GDP. In general the results suggest that the tax rates implemented as well as tax revenue collected in the past years could have impacted the growth and synergized the phase of development.**

Key words: **taxation, ASEAN, economic sustainability, development, fiscal policy**

I. INTRODUCTION

Taxation refers to the practice of government collecting money from its citizens to finance for public services. Without *taxation*, there would be no public amenities such as schools, hospitals, roads, bridges, and others. Taxation system is a means by which governments finance their expenditure by imposing charges on citizens and corporate entities. Governments use taxation to encourage or discourage certain economic decisions. For example, reduction in taxable personal (or household) income by the amount paid as interest on home mortgage loans results and promote construction activity thus generates more jobs opportunities.

In general, fiscal policy is considered one of the most important economic tools for economic growth. Major functions of this policy are related to allocation, stabilization and redistribution of resources. Fiscal policy is commonly associated with the structure of government spending and taxes (Kotlán, Machová and Janíčková, 2011; Macek, 2014; Gemmel *et al*., 2011). According to F.R.Glahe (1985), "By fiscal policy is meant the regulation of the level of government expenditure and taxation to achieve full employment without inflation in the economy"

II. LITERATURE REVIEW

Jonė Kalendienė *et al*., (2011) testing the efficiency of taxation in various EU countries in terms of the sustainability of economy. The study found that economic sustainability is understood as sustainable public finance when there is no downturn risk for the public budget and the entire economy. Rudolf Macek *et al.,* (2015) study the impact of taxation on economic growth is more negative in the countries with lower fiscal transparency. This result can be connected with institutional conditions (chaotic and non-transparent tax system) and different economic level (more negative impact of income taxes in countries with more productive capital accumulation).For future research the using of World Tax Index as an effective approximator of taxation is necessary. Tax quota is characteristic by many shortages and therefore some results can be distorted.

Iqbal (1995) examined macroeconomic constraint upon Pakistan economy. They observed that foreign demand real devaluation and capacity utilization exerted an accelerated pressure on economic growth rate of real GDP in Pakistan. Khilji and Mahmood (1997), observed that expenditures are negatively related to GDP growth. Shabbir and Mahmood (1992), proved that foreign private investment has significant positive effects on the rate of growth of real GNP, while three other explanatory variables namely, exports, loans and external grants have a positive but statistically insignificant impact on real GNP growth.

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Hsiao Chink Tang *et al.,* (2010) investigates the effectiveness of fiscal policy in five Association of SouthEast Asian Nations (ASEAN) of Indonesia, Malaysia, the Philippines, Singapore and Thailand. Through a structural vector auto regression (VAR) model, government spending is found to have weak and largely insignificant impact on output, while taxes are found to have outcomes contrary to conventional theory. The impact fiscal multiplier is very much less than one and statistically insignificant. This is true in all ASEAN5. It is evident that, most of the ASEAN government must explore ways to leverage fiscal policy for sustainable growth. Sustaining growth is a key objective of fiscal policy, making sustained growth more inclusive and should be an important additional consideration (Nur Arifah Binti Saidin*et al*., 2016).

III. TAXATION IN MALAYSIA

In the Malaysian perspective, this country has its own taxation system. Under the Income Tax Ordinance 1947, Malaysia started to collect income tax on January 1, 1948. Historically the earliest tax collections recorded in 1950 showed tax revenue collected of 47.5 billion dollars in 1950. In the early Malayan independence of 1957and followed by the formation of Malaysia in 1963, Malaysia similar with most developing countries relied heavily on indirect taxes accounted for 76.7% (Kasipillai, 2006).

Malaysia's taxes are assessed on a current year basis and currently are under the self-assessment or e-filing system for all taxpayers. Currently self-assessment method of e-filing is becoming popular among taxpayers for its simplicity and user-friendliness.All income accrued in, derived from, or remitted to Malaysia is liable to taxincluding gains from employment or business activities and dividends. Income of any person (other than a resident company carrying on the business of banking, insurance or sea or air transport) derived from sources outside Malaysia and received in Malaysia is exempted from tax. Malaysia imposes different type of taxes such as corporate income tax, real property gains tax, goods and services tax/ sales and service tax (GST/SST), petroleum income taxes, stamp duties, tourism tax, property tax, wealth tax, tobacco tax **(**Cigarette Tax**)**, inheritance tax, soda tax and other taxes. Direct taxes will be collected by Inland Revenue Board of Malaysia (IRB). As for indirect taxes such as service tax, import duties and sale tax will be collected by custom. One thing worth mentioning is Malaysia has an extensive number of double tax treaties available for the avoidance of Double Taxation.

IV. CORPORATE INCOME TAX

In Malaysia, corporations are subject to corporate income tax, real property gains tax, goods and services tax/ sales and service tax (GST/SST), withholding tax and other taxes. In other words, resident and non-resident organizations doing business and generating taxable income in Malaysia will be taxed on income accrued in or derived from Malaysia. Resident organizations carrying out business of air/sea transport, banking and insurance are taxable on their global income. As for GST, the newly formed government has abolished the goods and services tax (GST) with effect on 1 September 2018 and return to a sales and service tax (SST) regime. GST was introduced only for a period of three years is not only significant in terms of changing the tax landscape, but also in terms of providing useful and critical lessons when significant tax reforms are contemplated in the future (Sim Kwang Gek, 2018).

TAX COLLECTION AT A GLANCE...

Corporate income tax
RM63.68 bil collected in 2015 or **29.1%** of government revenue
RM63.19 bil collected in 2016 or **29.7%** of government revenue
RM69.19 bil estimated for 2017 or **31.5%** of government revenue

Individual income tax
RM26.32 bil collected in 2015 or **12%** of government revenue
RM28.16 bil collected in 2016 or **13.2%** of government revenue
RM29.85 bil estimated for 2017 or **13.6%** of government revenue

Goods and Services Tax (GST)
RM27.01 bil collected in 9M2015
RM38.5 bil collected in 2016 or **18.1%** of government revenue
RM40 bil estimated for 2017 or **18.2%** of government revenue

Total direct tax collection
RM111.77 bil in 2015 or **51%** of government revenue
RM110.5 bil in 2016 or **52%** of government revenue
RM120.74 bil estimated for 2017 or **54.9%** of government revenue

Federal government's total tax revenue (direct + indirect)
RM165.44 bil in 2015 or **75.5%** of government revenue
RM167.1 bil in 2016 or **78.6%** of government revenue
RM180.58 bil estimated for 2017 or **82.2%** of government revenue

The Inland Revenue Board (IRB) Malaysia collected a total of RM123.33bil in 2017, an 8.15% or RM9bil increase compared to the same period in 2016. The IRB is targeting RM134.713bil in tax collections, a6.1% increase from the previous year. Direct tax is the largest component of the country's revenue, contributing more than 50 per cent annually.

V. ASEAN: ECONOMIC BACKGROUND

The establishment of ASEAN is a major milestone in the regional economic integration agenda in South East Asia. ASEAN offers magnificent opportunities in the form of a huge market of US$2.6 trillion and over 622 million people. In 2014, ASEAN was collectively the third largest economy in Asia and the seventh largest in the world.

VI. ASEAN: TRENDS IN PERSONAL AND CORPORATE TAXATION

As far as taxation is concerned there is a wide variation among its 10 member countries namely, Brunei, Laos, Cambodia, Indonesia, Myanmar, Malaysia, Philippines, Singapore, Thailand, and Vietnam. In terms of taxation system, ASEAN in general have not experiencing personal income taxation fluctuations as pronounced as those of CIT (corporate income tax). The individual income tax rates of ASEAN have for the most part also been experiencing a downward turn in recent years. Vietnam, Malaysia, and Indonesia, for instance, have all marginally lowered their PIT rates since the turn of the century. To make up for this revenue, however, many countries have increased taxation in upper tax brackets. For many of ASEAN's economies experiencing rapid growth, there has been a drive to create new tax brackets to accommodate rising incomes. Myanmar, most recently, created an income band for top earners which currently levies a 30 percent tax (Dezan Shira. 2017).

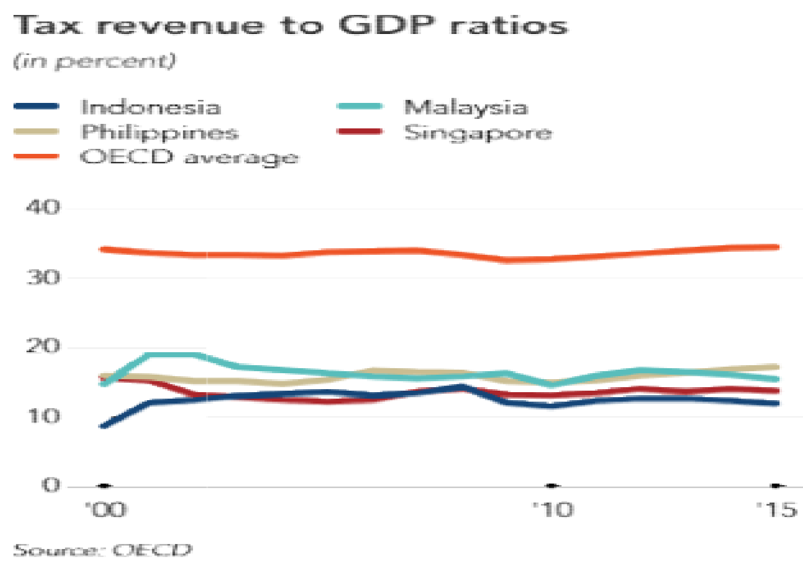
CIT rate in ASEAN-6 period of 2007–2016

Year/ ASEAN-6	Singapore	Thailand	Vietnam	Malaysia	Indonesia	Philippines
2007	20	30	28	27	30	35
2008	18	30	28	26	30	35
2009	18	30	25	25	28	30
2010	17	30	25	25	25	30
2011	17	30	25	25	25	30
2012	17	23	25	25	25	30
2013	17	20	25	25	25	30
2014	17	20	22	25	25	30
2015	17	20	22	25	25	30
2016	17	20	20	24	25	30
Change	–15.0%	–33.3%	–28.6%	–11.1%	–16.7%	–14.3%

Average ASEAN-6 of Change –19.8% Average EU-27 –6.12%

Source: Tobing and Mukarromah (2015), Delloite and KPMG.

Table above shows the downward trend in corporate income tax rates in ASEAN. According to Haris Fajar Afrianto (2018) the reduction in CIT is worrisome and alarming. Competition among ASEAN member countries to attract FDI through tax exemptions and incentives has proven "damaging" to their national revenues (Erwida Maulia, 2017). The rate of decline in the period 1998–2006 only 6.6%, while the rate of decline in the period 2007 to 2016 tripled compared to the period from 1998 to 2006 reached 19.83% (Hayes, 2008). Meanwhile, rate of CIT rate decline ASEAN-6 1998–2016 reached more than 25% (KPMG, 2016). CIT rate reduction among ASEAN-6 countries is seen as tax competition even though the ultimate aim is to attract foreign direct investment. Thus, tax CIT reduction has some negative implication and it is expected to erode corporate income tax revenue in the long run. However according to Erwida Maulia,(2017)Singapore is seen as benefiting from its low CIT, which has attracted regional and international companies to build their business activities in the city-state.



The trend as shown above poses a significant problem for Southeast Asian governments who need to mobilize revenue to fund public services. Reported by Organization for Economic Cooperation and Development (OECD) in a recent report that Indonesia, Singapore, Malaysia and the Philippines recorded tax-to-GDP ratios of 11.8%, 13.6%, 15.3% and 17.0%, respectively. While in OECD, Korea and Japan recorded tax-to GDPratios of 34.3%, 25.3% and 32.0% respectively (data for Japan is for 2014 due to data unavailability).As shown in the following figure in most leading economic performance of ASEAN countries were the tax revenue with respect to GDP ratios are relatively about the samebelow 18%. Compared to OECD average Japan and Korea, ASEAN countries are still lag behind the global average in terms of tax revenues collected as a proportion of gross domestic product (Shotaro Tani, 2017).

Tax-to-GDP ratios in Asian countries, Japan and Korea (data for Japan is for 2014 due to data unavailability).

Country	Total tax revenue, % of GDP,2015	Taxes on income & profits, % of GDP, 2015	Taxes on goods & services, % of GDP, 2015	Social security contributions, of GDP, 2015
OECD	34.3	11.6	–	–
Korea	25.3	7.6	7.1	6.7
Philippines	17	6.9	6.6	2.4
Kazakhstan	15.5	6	7.2	0.6
Malaysia	15.3	9.1	4.9	0.3
Singapore	13.6	6.1	4.3	0
Indonesia	11.8	5.2	5.2	–
Japan	32.0	10.4	6.8	–

Since the establishment of the ASEAN Economic Community (AEC), investment activities within member countries as well as FDI within AEC Nations have never been encouraging. Even though reductions in trade barriers have been mutually implemented, the resulting equity in ASEAN's trading environment has placed increasing pressure on members to differentiate themselves from one another through alternative means. Taxation, having been left out of regional integration accords, has rapidly emerged as a centerpiece of many national competitiveness strategies. The resulting drive to attract investment through adjustments in rates of taxation, in addition to creating a stimulating environment for foreign investors, has also had the added effect of slowly bringing regional taxation regimes into sync.

However ASEAN continues its process towards full integration with AEC. Thus, those companies able to assess taxation and implement investment strategies accordingly will be well positioned to take advantage of the opportunities offered by the 10 nation bloc. Any foreign investors keen to invest in AEC tax systems of these countries have to be understood in order to take advantage of ASEAN newest growth markets.

GDP and GDP per capita data are according to International Monetary Fund's October 2018 estimates

Rank	Country	Population in million	GDP Nominal millions of USD	GDP Nominal per capita USD	GDP (PPP) millions of USD	GDP (PPP) per capita USD
1	Indonesia	265.316	1,005,268	3,788	3,495,920	13,176
2	Thailand	69.182	490,120	7,084	1,323,209	19,126
3	**Malaysia**	**32.446**	**347,290**	**10,703**	**999,835**	**30,815**
4	Singapore	5.661	346,621	61,230	556,219	98,255
5	Philippines	107.018	331,678	3,099	956,030	8,933
6	Vietnam	94.575	241,434	2,552	707,620	7,482
7	Myanmar	52.832	71,543	1,354	359,107	6,797
8	Cambodia	16.253	24,141	1,485	70,265	4,323
9	Laos	6.777	18,230	2,690	53,912	7,955
10	Brunei	0.434	14,695	33,824	35,456	81,612

VII. TAX VS FDI

In general tax and foreign direct investment has a positive relationship. Today, the trend shows that tax system has been one of the mechanisms to attract global investment flows (Reuven S. Avi-Yonah, 2000). As reported by OECD that outward FDI contribution to Gross Domestic Product (GDP) dramatically increased from 10 percent in 1990 to 39 percent in 2009 meanwhile inward FDI increased from 8 percent to 31 percent (S. Matthews, 2011).Foreign investment is becoming major economic tools for many countries to boost up economic performances. Hence, member countries in ASEAN are no exception. In Asia, ASEAN is one of the economic regional areas actively compete for foreign direct investment (FDI) inflows especially from among ASEAN member countries and also from leading economic major players such as China, Japan, South Korea, United States of America, and Europe.

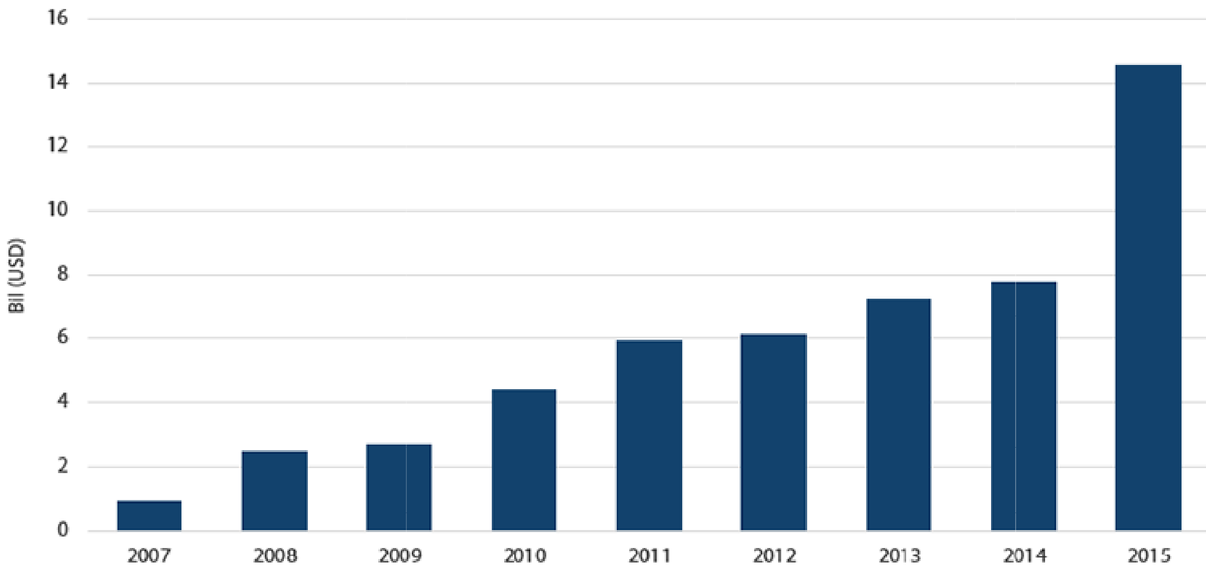
Intraregional investment flows have been continued the uptrend since 2003 until 2017. The rise in intra-ASEAN investment in the past years was driven by a two-thirds increase in investment in manufacturing and in finance. Intraregional investment from seven Member countries rose sharply. Singapore, Malaysia and Thailand dominated intra-ASEAN investment. Major factors behind the rise in intraregional investment are the growing financial strength and significant cash holdings of ASEAN firms and their increasing drive to internationalize to build competitiveness and to access markets, natural resources and strategic assets (ASEAN Investment Report, 2017).

Net Foreign Direct Investments Flows, ASEAN-6, in US$ millions, 2013 - Sept 2017

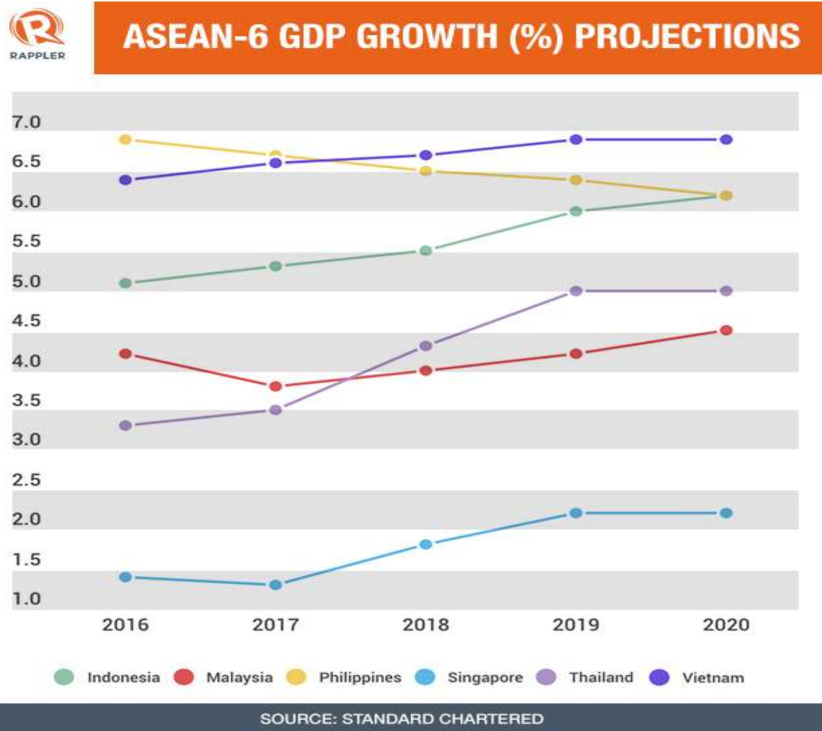
	2013	2014	2015	2016	2017 (Jan-Sept)
Philippines	$ 3,737	$ 5,740	$ 5,639	$ 8,280	$ 6,442
Malaysia	$ 11,295	$ 10,619	$ 9,857	$ 13,526	$ 7,672
Indonesia	$ 23,282	$ 25,121	$ 19,779	$ 4,469	$ 15,452
Thailand	$ 15,936	$ 4,975	$ 8,928	$ 3,063	$ 6,248
Singapore	$ 64,676	$ 73,993	$ 70,553	$ 61,632	$ 49,828
Vietnam	$ 8,900	$ 9,200	$ 11,800	$ 12,600	$ 10,140
Total	$ 127,826	$ 129,648	$ 126,556	$ 103,570	$ 95,782

Source: BSP

FDI flows from major source economies concentrated in the manufacturing and services sectors. For instance, Japanese companies invested strongly in manufacturing, where flows rose significantly, from $7.9 billion in 2015 to $23.8 billion in 2016, reflecting the growing expansion of Japanese manufacturing companies' activities in the region. More than 50 per cent of the $6.0 billion in FDI from the Republic of Korea in 2016 went to manufacturing; a majority of the investments were made in Vietnam. FDI from Hong Kong (China) rose, concentrating in finance, electricity, manufacturing and real estate activities. Chinese FDI went mainly to finance, wholesale and retail trade, transportation and real estate. Australian FDI in ASEAN concentrated in finance, with flows into that industry increasing from $568 million in 2015 to $5.3 billion in 2016. FDI from both the EU and the United States went predominately to services, particularly in finance. Intra-ASEAN investment remained the largest source of investment in agriculture and mining. ASEAN companies were the largest investors in real estate activities, reflecting the growing demand for real estate and growth in the region, in particular in the Cambodia, Laos, Myanmar and Vietnam (CLMV) Member States. In manufacturing, ASEAN was the second largest source of investment after Japan, with $8.0 billion in FDI in 2016.



In general FDI inflows to ASEAN in particular remained stable at $476 billion. As demonstrated above China in particular FDI outflows to ASEAN are upwards growth.The region regained its position as the largest FDI recipient in the world (World Investment Report, 2018). The region regained its position as the largest recipient of FDI in the world as its share in global inflows rose from 25% in 2016 to 33% in 2017.ASEAN receives around 16% of the world FDI. The largest economies in the region remain a major investment destination (Alex Cull & Kamen Parushev, 2017).



As demonstrated above The Philippines was recorded the fastest-growing economy in ASEAN-6 in 2016, however the country is expected to experience downward trend towards 2020. GDP growths in The Philippines are contributed by rising infrastructure spending and domestic demand. From 2018 to 2020, Vietnam is seen to outgrow the Philippines in terms of gross domestic product (GDP) growth in the ASEAN-6. Indonesia, Malaysia and Singapore will be having steady growth rate between 5 – 6% , 4.0 – 4.5% and 1.5% - 2% respectively.

VIII. CONCLUSION

In general taxation can affect growth. The size of the growth rate effect the development process depending on how much is the amount of revenue collected by the government. On the one hand, governments are competing on tax rates in order to attract foreign investments and business into the country and to promote economic growth. However competition among ASEAN countries to attract foreign investment through tax exemptions and incentives has proven "damaging" to their national revenues. Comparably, the tax revenue collected with respect to GDP ratios between ASEAN and OECD, Korea and Japan are large. Tax revenue to GDP ratio among ASEAN is on average about 18%, compared to OECD average, Japan and South Korea are in the range between 25 % to 35%. It shows that ASEAN countries are still lag behind the global average in terms of tax revenues collected as a proportion of gross domestic product. It is strongly recommended the ASEAN government must explore ways to leverage fiscal policy for sustainable growth. Sustaining growth is a key objective of fiscal policy, making sustained growth more inclusive should be an important additional consideration.

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