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Consumers Association of Penang
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Press Statement **5 September 2017**

Re-introduce inheritance tax and adjust certain existing taxes to help bridge the gap between the haves and the have-nots

The Consumers Association of Penang (CAP) would like to address concerns aired over a recent rumour on the possible introduction of inheritance tax *(NST, 29 Aug 2017: MOF deny rumours of inheritance tax in BUDGET 2018).*

Implemented properly, inheritance tax (as well as other relevant forms of taxation like wealth tax, capital gains tax and gift tax) provides important revenue for state coffers from the highly rich, and not from those in lower income brackets.

Inheritance tax (similar to estate duty or estate tax) is assessed on the net worth of an individual at death. Not all estates are subject to the tax. Only those estates of and above a certain value are included.

Amid the current economic slowdown that Malaysia is facing, particularly with a depreciated ringgit and rising prices of goods, the biggest sufferers are those in the low-income and middle-income categories.

Unlike those who have high salaries and high business revenue, this section of society is acutely hit due to heightened difficulty in buying basic items – food, housing, transportation , education, medical treatment, etc – in the present financial scenario.

CAP has consistently called for stringent measures to bridge this gap between the haves and the have-nots. The best way to tackle wealth inequality is through the use of taxation, especially that of inheritance tax.

The growing disparity between the haves and the have-nots is not acceptable. People who work hard and toil over long hours pay taxes, while those who gain in fortunes by not doing the same kind of work and instead merely inherit from someone else do not have to pay tax. This is in principle unfair and unjust.

Inheritance tax in other countries and in Malaysia previously

Some of the countries with inheritance tax (or its equivalent) are the United Kingdom, France, United States of America, Japan and Germany.

According to the US-based The Tax Foundation, as of 2015, the estate or inheritance tax to lineal heirs in Japan was 55%, South Korea was 50%, France 45%, United Kingdom 40%, United States 40%, Spain, 34% and Ireland 33%, while Belgium and Germany both had 30%.

In ASEAN, Thailand re-introduced inheritance tax on Feb 1, 2016, after 72 years, with the government citing the purpose of the law as being important to increase the tax base for revenue generation to develop the country and upgrade the living of underprivileged people.

Malaysia abolished estate duty in 1991. Prior to that move, estate duty was applicable only if the net worth of the estate exceeded RM2 million. The rates were 5% on estates worth RM2.4 million, and 10% on everything above that.

But before that, it used to be that the estate duties were more progressive with various tax rates for different bands of valuation of the estate, something like our income tax.

In the present context, the inheritance tax rate for Malaysia should now be at least 50% for estates valued at between RM2 million and RM3 million, with progressive increase as the inheritance amount gets higher.

CAP hopes this issue will be addressed in the upcoming National Budget 2018 when it is tabled around October. We have been calling for the reintroduction of inheritance tax since 2001.

We have asserted before that the average Malaysian should not fear the inheritance tax. This is because they do not have to pay a single sen in inheritance tax unless they happen to have assets worth millions. Inheritance tax hits the super-rich not the ordinary citizens.

According to Khazanah Nasional Bhd's book 'The State of Households', it is wealth inequality that really counts. And the best way to tackle the problem of wealth inequality is through the use of taxation, especially that of inheritance tax.

Other forms of taxation to help the poor

Indeed, taxation should be one of the preferred choices in the urgent need to tackle social equity, social stability and economic growth. It not only bridges the wealth gap but it also raises money needed to fund programmes on social transfers, health and education that will help the lower income groups.

CAP also calls for a higher GST rate (Goods and Services Tax) for all luxury goods sold in Malaysia. The rate should be at least 20%. This would include items like jewellery, luxury road vehicles, private airplanes, designer watches and non-essential accessories like designer handbags.

By imposing a higher tax on such items, the government is assured of increased revenue from taxation, and it would also help reduce the regressive nature of GST.

A higher tax rate should also be implemented on products that are damaging to health and well-being, such as cigarettes and alcohol. The move can help in discouraging the purchases and consumption of these items.

On this matter, the government should also seriously consider removing cigarettes and alcohol as duty-free items in Langkawi which enjoys duty-free status. By eliminating these products which are known to have detrimental effect physically and socially, the country would not lose any significant tourism-related revenue in Langkawi.

Indeed, other resort islands in the region like Bali, Phuket and Mactan are not known to have such duty-free incentives for the sake of tourism. It is highly unlikely that the flow of tourists to the island would be significantly lowered just because the duties on these items are reinstated.

In fact Malaysia's economic coffers stand to gain with these duties that can be charged on cigarettes and alcohol, while the money can be ploughed into beneficial programmes and projects for the public.

CAP also urges the government to look into how other forms of taxation – especially wealth tax, capital gains tax and gift tax – can be used to enhance state revenue, while also helping to bridge the gulf between the haves and the have-nots.

Wealth tax, as a tax on one's net worth or capital, allows the government to levy the assets of an individual, whether this be a person or a corporate entity. The assets include real estate, bank deposits, stocks and unit trusts. By taxing these, a government can potentially generate billions in revenue. It is said that what wealth tax also does is to tax capital that is inert or dormant, thereby spurring these to be productively used.

Capital gains tax is imposed on profits accrued from selling an asset whose value has risen. It allows taxes to be charged on the gains made through the sale, and not on the total amount paid to the seller. It would cover specified personal possessions of a certain minimum value, vehicles, real estate other than one's main house, antiques, business assets and so on.

Gift tax is levied based on a certain specified minimum worth of a "gift" which is transferred from one owner to another without the latter paying for it. The tax would be paid by the gift's contributor and not the beneficiary. It also helps to prevent people who want to bequeath their wealth to someone else before in their will from circumventing estate tax. Gifts for certain recipients for purposes like medical treatment, charity and education can be exempted from the tax.

CAP has consistently been of the opinion that that the best way to tackle the problem of wealth inequality is through the use of taxation, especially that of inheritance tax. As billionaire Warren Buffet has said: "Without the estate tax, you will in effect have the aristocracy of wealth, which means you pass down the ability to command the resources of the nation based on heredity rather than merit."

It is impossible to narrow the growing gap between the rich and poor if the issue of wealth inequality is not urgently addressed. We urge the Government to seriously consider implementing inheritance tax while implementing much-needed changes to the specific existing taxes mentioned.

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