midf RESEARCH

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ECONOMIC REPORT | Fiscal Policy

Filling the Gap - Assessment on Tax Regimes and Government Revenues

- *SST would support but not enough for government's coffer. On a rough estimate, SST is expected to contribute RM24bn, which is slightly less than half of GST's collection of RM44bn. With the cancellation of GST, we can expect share of indirect tax to fall below 20%, similar to pre-GST years.*
- *SST will give minimal impact on domestic consumption. Re-implementation of SST will not deter domestic consumption in Malaysia. As compared to GST, SST does not affect consumers directly, in which via manufacturer and service provider. Solid economic fundamentals in the Malaysian economy particularly stable labor market, moderating inflationary pressure and upbeat industrial activity will continue to support the domestic demand.*
- *Alternative ways to increase government revenue. In addition to the SST, we reckon that there are other avenues for the government to collect revenue which may include; Capital Gains Tax (CGT) and Inheritance Tax. Both types of taxes have presence in developed countries such as Australia, the U.K and the U.S.*

Sales Tax and Service Tax (SST) are two separate tax frameworks that were in operation for approximately 40 years in Malaysia prior to the introduction of Good and Service Tax (GST) in 2015. The Sales tax is imposed on all goods manufactured in Malaysia or imported into Malaysia, unless specifically exempted by the Minister of Finance. Sometimes known as the 'manufacturer's tax', sales tax is a single stage tax system as the tax was collected only from manufacturers and importers. In regards to service tax, it imposed to end consumers who utilise taxable services.

Criticism on SST. Under the previous tax regime, there were circumstances under which the price of goods was inflated as the sales tax being charged at manufacturer's level was regarded as part as cost of production. As few manufacturers will sell their final product direct to consumers, the cost of the sales tax is compounded as the goods are sold through the supply chain. Due to this, the real cost of the sales tax was hidden from final consumer. In addition, the government is deprived of tax revenue as tax collection is only made on the production cost at the initial stage of the supply chain whilst most manufacturers get to retain their profit if they are able to cascade down the full cost of sales tax.

Criticism on GST. GST was implemented in April 2015 to replace SST. It is a tax on most products and services for domestic consumption at every level along the supply chain. For manufacturers and traders, GST paid on input materials can be claimed from the government as input tax as long as their revenue is above RM500k per annum. In reality, however, GST claim back on tax has been difficult and can be declined. Hence, prolong the refund process significantly longer than the 14 days stipulated period. It is also worth noting that businesses with annual sales of less than RM500k cannot claim the GST paid and hence, had to treat the GST paid as part of their cost. There are also middle men who take advantage of GST to raise prices and use the tax as a convenient reason to make more money.

SST 2.0. Despite the criticism on GST, without a doubt, it has made the implementation of a better version of SST possible. For instance, more businesses have come forward to register during the GST regime to enable them to claim input tax. In a way, this has allowed the government to track businesses which previously were in the shadow economy. Hence, better assessment can be done on implementing a new SST that can benefit both businesses and final consumers.

Table 1: Basic framework under different indirect tax regime

SST 1.0	GST	SST 2.0
Single-stage tax (imposed at manufacturer's level only)	Multi-stage tax	Same as SST 1.0
Imposed on all goods manufactured in Malaysia or imported into Malaysia, unless specifically exempted and certain prescribed taxable services	Imposed on all goods and services including imports unless specifically excluded	Same as SST 1.0
Sales tax - 5%, 10% or a specified rate Service tax - 6%	Standard rate of tax - 6%	Sales tax - 5%, 10% or a specified rate
Sales tax: tax was collected only from manufacturers with an annual turnover of RM100,000 or more, and importers of taxable goods Service tax: a range of registration thresholds from nil to RM3 million depending on the type of service offered	Mandatory registration upon reaching threshold of RM500,000 (voluntary registration is also possible)	Sales tax - tax to be collected from manufacturers with annual turnover of RM500,000 per annum or more, and importers of taxable goods Service tax - a service provider who provides taxable service for 12 months that exceeds a threshold of RM500,000 per annum or more
No tax credit mechanism	Input tax can be offset against output tax	Same as SST 1.0

Source: IRB, MIDFR

SST would support but not enough for government's coffer. On a rough estimate, SST is expected to contribute RM24bn, which is slightly less than half of GST's collection of RM44bn. With the cancellation of GST, we can expect share of indirect tax to fall below 20%, similar to pre-GST years. As guided by Pakatan Harapan's manifesto, the government would need to squeeze other income sources to cover the GST loss and also to finance subsidy-type expenditures. For instance, stabilizing retail fuel prices, RON95 and diesel will push up expenditure on subsidies and social assistances. Nevertheless, in the short term, thanks to solid and sound macroeconomic environment, Malaysian government is predicted to gain extra revenue via higher corporate & individual income tax as well as from oil-related revenues.

Higher revenue as economic growth continues. In line with the expansion in domestic economy, revenue to the government is expected to grow higher this year and stay on upward trajectory until 2020. The increase in revenue is expected to derive from various sources, including corporate and individual income taxes amid of improving economic activities. Moving forward, we forecast the government revenue to increase by 6.4% in 2018, in tandem with expectant of GDP growth of 5.2%. However, the PH government may need to introduce new revenue-generating measures to cover the loss of GST and finance the huge government expenditure particularly operating spending.

Stabilising oil price to benefit the economy. For the first half of 2018, Brent oil price averaged at $71.2 with average growth 35.2%yoy. The current price level is way higher than the government's budget assumption of $52 per barrel. According to the Ministry of Finance Malaysia, every $1 increase in average crude oil price will translate into an increase of RM300 million to the government's coffer. In simple estimates, the increase in average oil price at the current level will give additional RM5.7bn to the government's revenue. Petroleum tax, royalties and dividend from oil & gas activities are expected to increase in tandem with the upward price trends. Hence, improvement in the oil prices will give significant booster towards overall Malaysia's economic activity via output, employment and income given that the oil & gas industry has strong value-added multiplier effects and efficient economic linkages.

Table 2: Government Finance (RM Billion)

	2011	2012	2013	2014	2015	2016	2017	2018e
Govt. Revenue	185.4	207.9	213.4	220.6	219.1	212.4	220.4	239.9
Govt. Expenditure	229.0	252.5	253.5	259.1	257.8	252.2	262.6	280.3
Operating Expenditure	182.6	205.5	211.3	219.6	217.0	210.2	217.7	234.3
Development Expenditure	46.4	46.9	42.2	39.5	40.8	42.0	44.9	46.0
Budget Deficits	(43.6)	(44.6)	(40.1)	(38.5)	(38.7)	(39.7)	(42.2)	(40.4)
Budget Balance to GDP %	-4.8%	-4.6%	-3.9%	-3.5%	-3.3%	-3.2%	-3.1%	-2.8%

Source: CEIC, MIDFR
*1Q18 Total Rev.: RM54.3bn (Estimated RM60bn per quarter)
*1Q18 Ope. Exp. : RM54.1bn (Estimated RM58.6bn per quarter)
*1Q18 Dev. Exp. : RM10.9bn (Estimated 11.5bn per quarter)

Table 3: Government Revenue Performances

	2014	2015	2016	2017	2014	2015	2016	2017
	Share %				YoY%			
Total Govt. Revenue	-	-	-	-	4.0	(0.3)	(3.1)	3.5
Tax Revenue	74.3	75.4	79.7	77.9	5.1	1.2	2.4	4.5
Direct Tax	57.4	51.1	51.6	50.3	4.9	(10.8)	(2.1)	5.0
Indirect Tax	17.0	24.4	28.0	27.5	5.8	42.4	14.9	4.2
Non Tax & Receipts	25.7	24.6	20.3	22.1	7.0	(3.9)	(19.0)	(1.3)

Source: CEIC, MIDFR

Table 4: Tax Revenue Performances

	2014	2015	2016	2017	2014	2015	2016	2017
	Share %				YoY%			
Tax Revenue	**74.3**	**75.4**	**79.7**	**77.9**	**5.1**	**1.2**	**2.4**	**4.5**
Direct Tax	**57.4**	**51.1**	**51.6**	**50.3**	**4.9**	**(10.8)**	**(2.1)**	**5.0**
Corporate	28.9	29.0	29.9	27.6	28.3	10.7	(0.5)	6.4
Petroleum	12.2	5.3	3.9	2.6	(1.6)	(55.7)	(25.1)	30.2
Personal	11.7	12.1	13.1	15.1	(57.7)	(392.6)	2.8	58.2
Others: Incl Stamp Duties	4.6	4.7	4.7	5.0	9.3	2.1	(2.4)	9.3
Others: Stamp Duties	2.9	2.7	2.7	2.6	2.3	(7.4)	(4.9)	0.2
Others: Excl Stamp Duties	1.6	1.9	2.1	2.4	36.3	23.1	0.5	25.7
Indirect Tax	**17.0**	**24.4**	**28.0**	**27.5**	**5.8**	**42.4**	**14.9**	**4.2**
Export Duties	0.9	0.5	0.5	0.6	1.7	(43.6)	1.2	47.0
Import Duties	1.2	1.2	1.4	1.3	5.7	2.7	6.7	(4.0)
Excise Duties	5.9	5.4	5.5	4.9	5.9	(7.5)	(1.3)	(13.3)
GST	0.0	12.1	19.2	19.2	-	-	13.2	10.1
Sales	4.9	2.5	0.1	0.0	9.3	(43.4)	(95.1)	(31.9)
Others: Incl Service Tax	4.1	2.7	1.3	1.5	3.9	(34.6)	(38.5)	7.5
Others: Service Tax	2.8	1.4	0.0	0.0	6.1	(48.2)	(87.4)	(76.9)
Others: Excl Service Tax	1.3	1.2	1.3	1.5	(0.4)	(0.8)	0.0	11.0

Source: CEIC, MIDFR

Expecting changes in government's spending. In the next 5 years, we expect share of development expenditure to increase hovering between 20%-25% while operating expenditure to experience adjustments especially on debt service charges, supplies & services and subsidies. Trimming down current government debt level is among major priorities under the PH government. Debt services charges to total expenditure ratio returned to above 10% after 10 years, 10.2% in 2006 and 10.6% in 2016. On a flip side, subsidy rationalisation plan which started in 2010 resulting drop from peak RM44.1bn in 2012 to RM22.4bn in 2017. Henceforth, we opine the expenditure of federal government is expected to face structural changes over the next 5-year period. The changes will be on gradual pace, with modest increase in subsidies, reduction in debt service charges and more weightage for development spending.

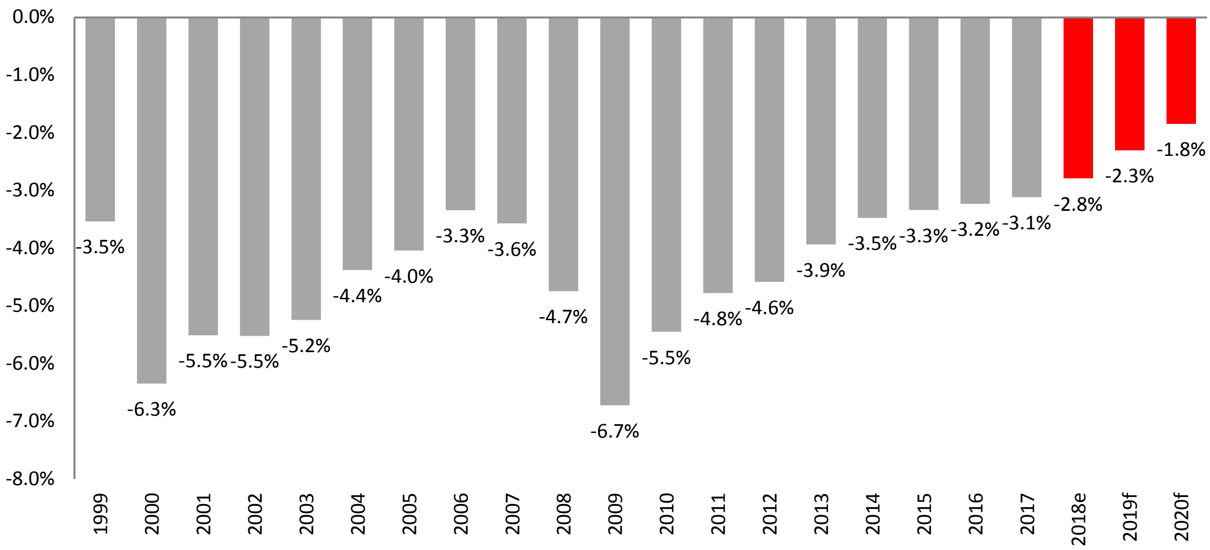
Table 5: Government Expenditure Performances

	2014	2015	2016	2017	2014	2015	2016	2017
	Share %				YoY%			
Total Current Expenditure	85.2	84.5	83.4	83.0	3.9	(1.2)	(3.1)	3.6
Emoluments	26.1	27.4	29.1	31.0	9.7	4.6	4.4	5.4
Pension and Gratuities	7.1	7.4	8.4	9.3	22.7	3.6	11.4	8.4
Debt Service Charges	8.8	9.5	10.6	10.3	8.7	7.5	9.0	5.2
Supplies and Services	13.0	13.9	12.0	12.0	1.2	6.2	(17.3)	15.5
Subsidies	15.4	10.6	9.7	9.0	(8.4)	(31.3)	(9.5)	(9.5)
Asset Acquisition	0.6	0.6	0.3	0.1	27.4	(4.4)	(60.8)	(23.7)
Grants & Transfers	13.5	14.6	13.1	12.1	(0.6)	7.9	(11.0)	(5.6)
Other Expenditure	0.6	0.4	0.4	0.4	20.5	(25.3)	(17.6)	13.8
Total Development Expenditure	14.8	15.5	16.6	17.0	(6.4)	3.2	3.0	6.9
Defense and Security	1.6	1.8	1.9	1.8	(6.8)	9.7	1.7	10.4
Economic and Social	12.7	13.1	14.0	12.8	(4.8)	1.8	3.2	3.0
General Admin	0.5	0.6	0.6	1.1	2.2	(0.5)	(2.2)	4.1

Source: CEIC, MIDFR

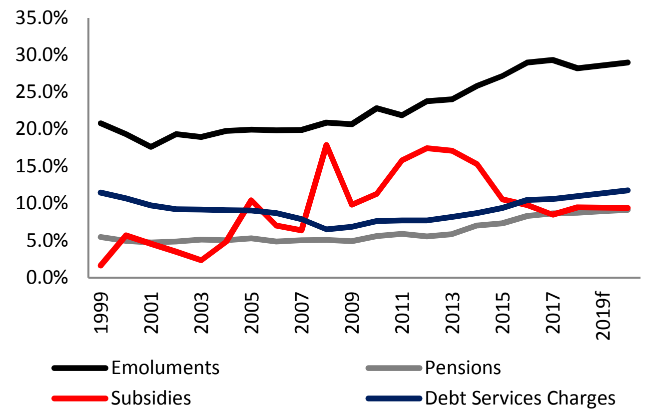
Moving towards balanced budget. The Government targets fiscal deficits in 2018 to hit -2.8%. Malaysia Government is still steadfast with the fiscal consolidation plan and our budget deficit has been in a gradual decline since 2009, from the height of -6.7% to -3.1% in 2017. It should be noted that as long as we are able to keep our fiscal deficit at less than -3.1% to GDP, we should not be seeing an increase in national debt to GDP level, in contingence there is no economic slowdown which caused the nominal GDP to grow less than 6.0%. Nevertheless, the prospect of achieving a balanced budget is indeed tougher but feasible looking at the uncertainty in regard to global economy.

Chart 1: Budget Deficit to GDP Ratio (%)



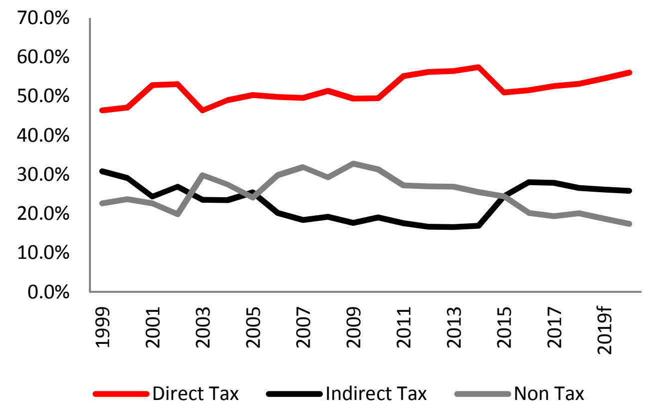
Source: CEIC, MIDFR

Chart 2: Govt. Expenditure Component's Share (%)



Source: CEIC, MIDFR

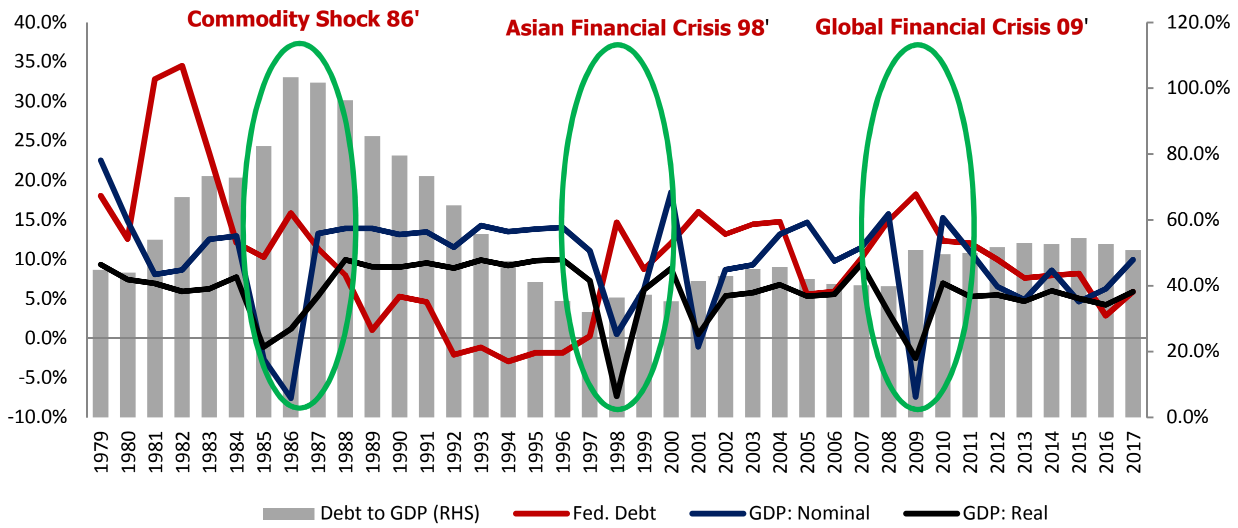
Chart 3: Govt. Revenue Component's Share (%)



Source: CEIC, MIDFR

Debt to GDP ratio is influenced by growth and inflation. The ratio is a relationship between nominator and denominator. Stagnant debt with solid economic expansion will lower down the ratio level and vice versa. For instance, the ratio hits record high in 1986 at 103.4% amid of huge contraction in Malaysia's nominal GDP by -7.6% while government debt was expanding at 15.9% during the year. Since the Commodity Shock 1986, Malaysia's government debt has been growing at moderating pace and in fact experiencing contractions during 1992-1996 as Malaysia had budget surplus during those years. At the moment, the debt-to-GDP ratio is at stable condition, below 55% ceiling level and reflecting resilient macroeconomic foundation for the country. Moving forward, we foresee the ratio will decline further underpin by tightening fiscal management and steady GDP growth.

Chart 4: Govt. Debt & GDP Performances (YoY%)

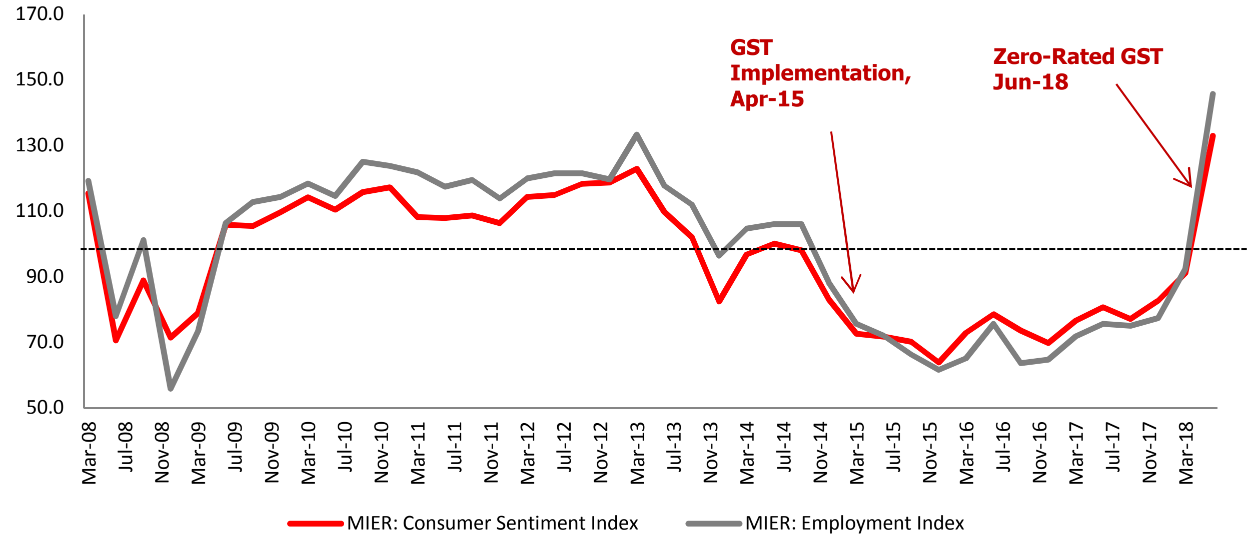


Source: CEIC, MIDFR

Consumer sentiment turns optimistic after 4-year. Since mid-14, consumer sentiment in Malaysia has been below optimistic level of 100 points. Main reasons were the effects of 2014's global oil-plunge and subsidy rationalization program. The impacts of GST to pressure down the sentiment for short period of time only. The sentiment is mainly dragged by slowdown in economic growth. As a result of GE14, the PH government cancelled the GST, along with sound macroeconomic environment, push up the sentiment to optimistic level at 132.9 point, highest in 21-year. Furthermore, a survey conducted by Nielsen Malaysia showed 82% of Malaysian consumers are optimistic about the country's economic outlook and perceive the zero-rated GST will benefit consumers. Apart from GST, stable retail fuel prices will keep inflationary pressure at low level and thus supporting domestic demand.

SST will give minimal impact on domestic consumption. Re-implementation of SST will not deter domestic consumption in Malaysia. As compared to GST, SST does not affect consumers directly, in which via manufacturer and service provider. Solid economic fundamentals in the Malaysian economy particularly stable labor market, moderating inflationary pressure and upbeat industrial activity will continue support the domestic demand to stay robust.

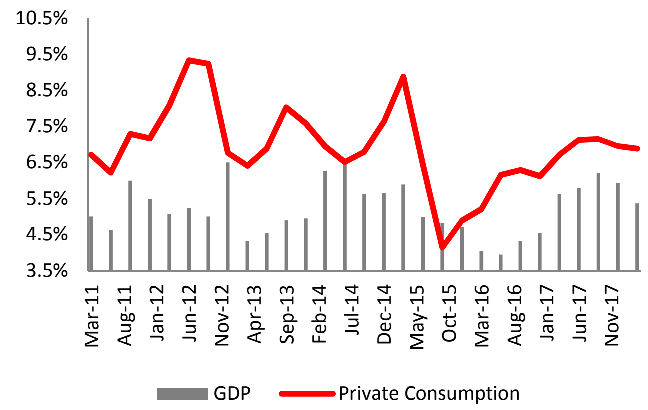
Chart 5: MIER's Consumer Sentiment (Points)



Source: CEIC, MIDFR
*Note: 100 Points is Threshold Line: Above is Optimistic, Below is Pessimistic

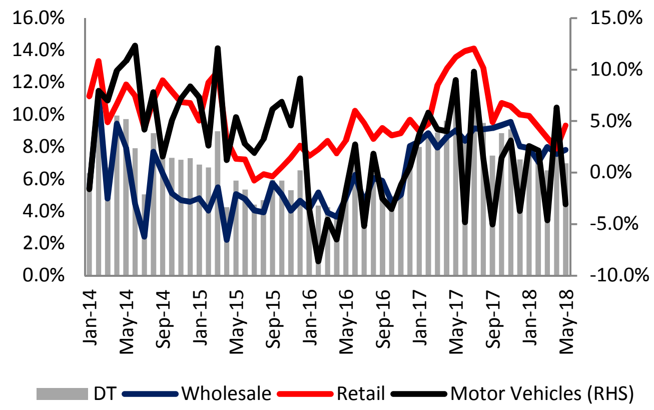
Strong domestic demand ahead. As GST first implemented in Apr-15, private consumption growth rate decelerated for 2-consecutive quarters in 2Q15 and 3Q15, 6.4%yoy and 4.1%yoy respectively. Nevertheless, the effects of GST is only one-off and domestic demand returns to steady speed once consumers get used to the new normal prices. For 2H18, we can expect domestic demand especially household expenditure to pick-up strongly amid of tax holiday period and optimistic consumer sentiment. We project private consumption to expand firmly by 6.5% in 2018.

Chart 6: GDP vs Private Consumption (YoY%)



Source: CEIC, MIDFR

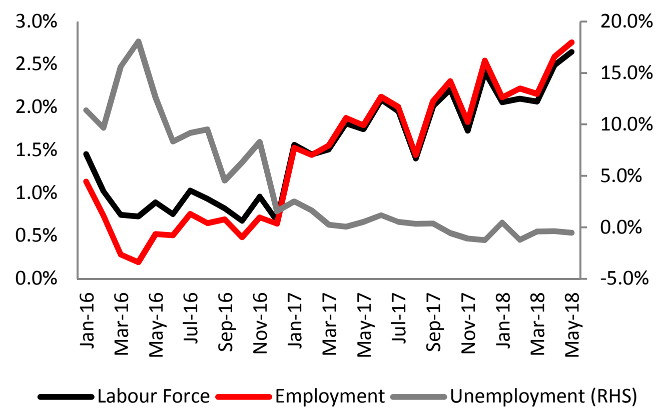
Chart 7: Distributive Trade Performance (YoY%)



Source: CEIC, MIDFR

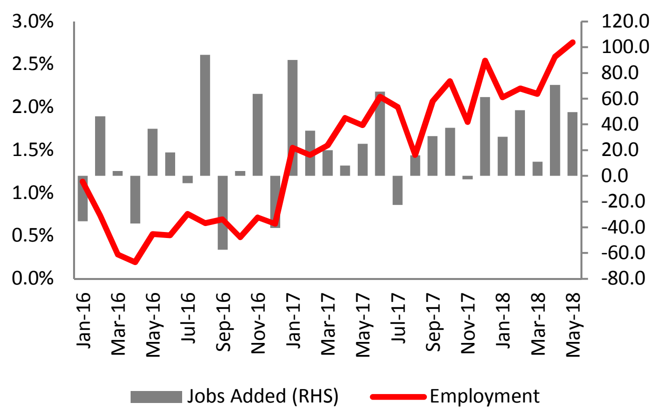
Employment grew at the highest pace ever recorded. Employment increased by 2.8%yoy, highest rate ever recorded to 14.9 million in May-18. Similarly, labour force grew by 2.6%yoy to 15.4 million. Jobs added in the economy registered at 49.5K during the month. As compared to 2017, monthly average of jobs added for 2018 is 42.5K while last year's 30.3K. Unemployment rate maintains at full-employment condition of 3.3%. So far in 2018, the average expansion rate of both labour force and employment are at record high, 2.3% and 2.4% respectively. As compared to 2017, both labour market indicators rose by 1.8% and 1.9% accordingly. As both domestic and external economic activities are on upbeat momentum, growths in both labour force and employment have been outpacing unemployment growth for the last 15 months since Feb-17.

Chart 8: Labour Market Performance (YoY%)



Source: CEIC, MIDFR

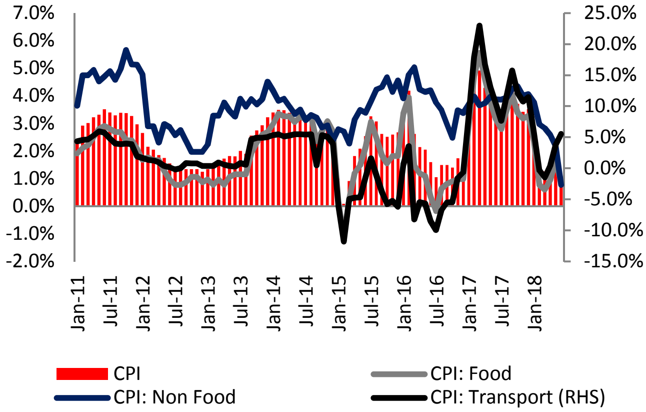
Chart 9: Employment Growth (YoY%)



Source: CEIC, MIDFR

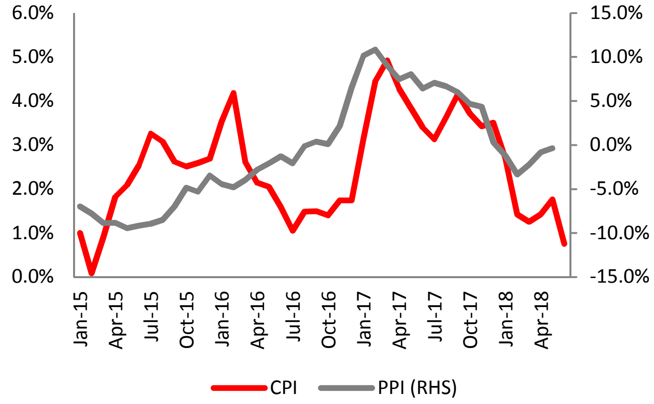
Moderating inflationary pressure amid of stable fuel prices. The first month of zero-rated GST saw headline inflation tumbled to 40-month low at 0.8%yoy. Inflation of food & non-alcoholic beverages slowed significantly to 0.8%yoy from 2.2%yoy recorded in the preceding month. Meanwhile, prices went down sharply for clothing & footwear, communication and recreation services & culture, among others. Core inflation registered its lowest point at 0.1%yoy. Looking ahead, we opine the stabilized retail fuel prices are significantly impactful in tapering down inflationary pressure. Transport price holds significant weightage in the CPI's basket, roughly 15%. We reduce our inflation forecast from 2.6% to 1.3% in 2018.

Chart 10: Inflation Performance (YoY%)



Source: CEIC, MIDFR

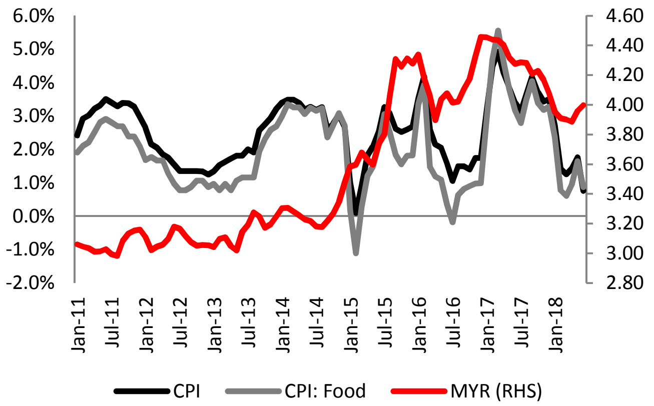
Chart 11: CPI vs PPI (YoY%)



Source: CEIC, MIDFR

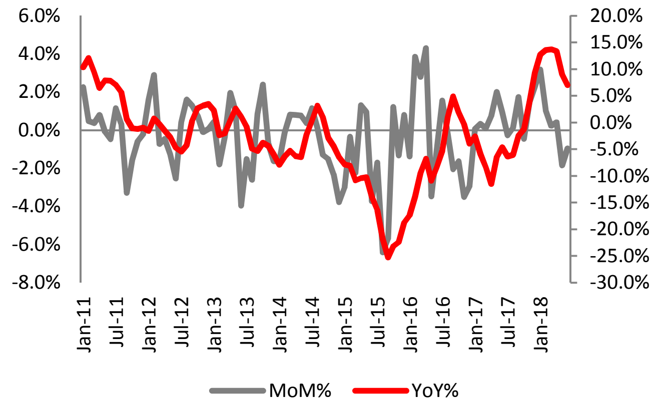
Ringgit to rebound by 4Q18. Looking at previous GE12 and GE13, the performance of MYR was on strengthening trends before and after the elections. Oil-price plunge during mid-14 was the main dragging factor depreciating MYR to hover 4.00 levels. Post GE-14, MYR continues to depreciate despite of better global demand and rising commodity prices. MYR is mainly impacted by the exodus of foreign fund flows amid weaker sentiments toward emerging markets. We view MYR to improve below 4.00 once clarity on government policy priority crystallizes. Upcoming Budget 2019 and Mid-Term Review of RMK-11 scheduled to be tabled in the parliament in early November will be the main event to watch. On the external side, we expect dollar to weaken amid better outcome from the trade dispute as well as stable and improve commodities prices. We maintain our MYR forecast of 4.00 on average and 3.95 at year-end.

Chart 12: CPI (YoY%) vs MYR (Per USD)



Source: CEIC, MIDFR

Chart 13: MYR Performance

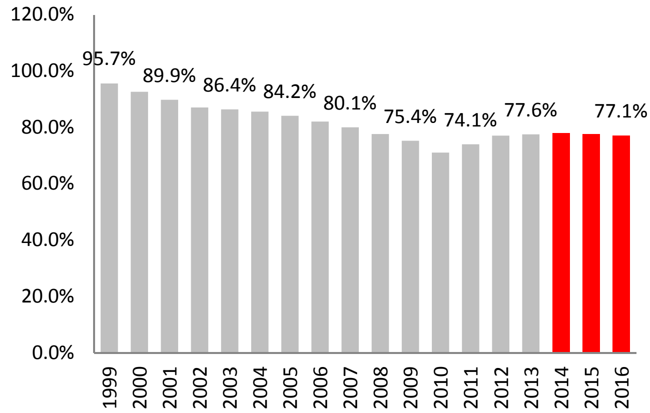


Source: CEIC, MIDFR

Highly-perceived rising cost of living. The latest Household Income & Expenditure Survey for 2016 saw expenditure-to-income ratio rose from 71.1% in 2010 to 77.1% in 2016. In a simple word, for every RM1 of income, 77 cents is spent for routine expenditures. Since 2010, we observe living cost pressure is piling up on urban household as the ratio rose from 66.9% to 75.1% in 2016. On a flip side, slight cooling off for rural given that the ratio declined to 78.5% from 79.9% in 2010. The surge in expenditure among others partly due to the implementation of GST, subsidy rationalization plan and increase of minimum wage from RM900 to RM1,000. The negative implications of raising minimum wage indirectly pose pressure on business cost and on the final round translate into higher prices for consumers.

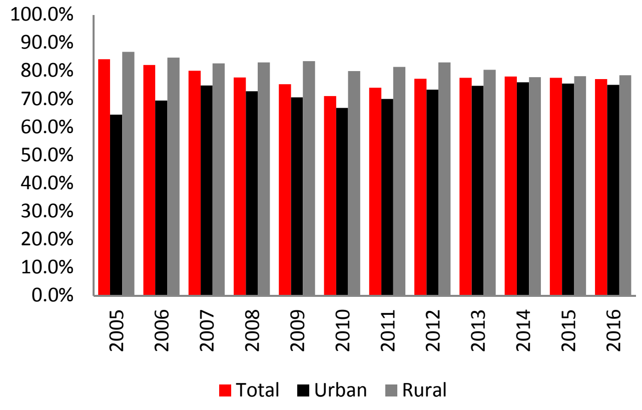
Accommodative policies for consumers. The rolled back of key polices such as GST abolishment, managed fuel price and targeted subsidy are seen as sentiment booster for the consumers. The proposed policy stance will help to lift consumers' disposable income and indirectly spur domestic consumption. At this juncture, the directional (upward) implication on consumers is given but the impact on government's fiscal position is unclear due to lack of details of implementation. Domestic demand remains the backbone of the economy. Private consumption constitutes about 53.5% of the Malaysia's economic activity, in line with the RMK-11 target of 53.8%.

Chart 14: Household Expenditure-to-Income Ratio



Source: CEIC, MIDFR

Chart 15: HH Exp. – Income Ratio by Strata



Source: CEIC, MIDFR

Alternative ways to increase government revenue. In addition to the SST, we reckon that there are other avenues for the government to collect revenue which may include; Capital Gains Tax (CGT) and Inheritance Tax. Both types of taxes have presence in developed countries such as Australia, the U.K and the U.S. In general, CGT is the tax paid on the sale of assets such as real estate, shares or managed fund investments that result in a gain and can be offset by capital losses while inheritance tax or death tax is the tax paid on the estate of the property, money and possessions of someone who has died once it is sold. Below are the criteria of CGT and death tax applicable in Australia, the U.K and the U.S.

Table 6: Capital Gains Tax

Country	Australia	U.K	U.S
General	Company: No CGT but pay 30% on any net CGT discount *CGT discount applicable for any CGT assets held for over 12 months Individual: Similar rate to income tax	Company: 20% for companies Individual: 10% and 20% tax rates for individuals Benchmark : payable when overall gains for the taxation year is above the Annual Exempt Amount (AEA)	**Tax bracket** / **Rate** 10%,15% / No tax 25%,28%,33%,35% / 15% 39.6% / 20%
Share trading activity	Gains on disposal shares need to be recorded	No CGT on shares held in a pension Need to pay CGT on shares when: -shares not in pension -in a unit trust -include bonds	General rates above apply to the sale of shares according to respective tax brackets Regular income tax rate on capital gains will apply when a stock is held for less than a year
Exemptions and relief	Applicable for: -depreciating assets used solely for taxable purposes, and trading stock -collectables acquired for $500 or less, or worth $500 or less when acquired -shares of certain profits, gains or losses arising from disposal of investments by certain venture capital entities	Entrepreneur's relief: -only pay tax at 10% on all gains on qualifying assets -pay less CGT when dispose a part or all of business -also applies when disposing shares in a company were a person has at least 5% of shares and voting rights -dispose assets lent to personal business	CGT Relief: -allow individual to exclude up to USD250,000 of capital gains on sale of property if owner used it as a primary home for 2 out of 5 years before date of sale

Source: Various, MIDFR

Table 7: Death Tax/Inheritance Tax

<table>
<tr><th>Country</th><th>Australia</th><th>U.K</th><th>U.S</th></tr>
<tr><td>General</td><td>Applies during a sale of an inherited asset beside a dwelling</td><td>a)Standard: 40%
b)Only charged on part of estate that is above threshold (above GBP325,000)
c)If 10% of the net value of the estate to charity, inheritance tax can be reduced</td><td>Only 6 states implement:<table><tr><th>States</th><th>Rates</th></tr><tr><td>Nebraska</td><td>18%</td></tr><tr><td>Kentucky</td><td>16%</td></tr><tr><td>New Jersey</td><td>16%</td></tr><tr><td>Iowa</td><td>15%</td></tr><tr><td>Pensylvania</td><td>15%</td></tr><tr><td>Maryland</td><td>10%</td></tr></table></td></tr>
<tr><td>Exemptions and relief</td><td>Occur for the sale of inherited dwelling if:
-the deceased died before 20 September 1985
-the deceased died on or after 20 September 1985 and acquired before 20 September 1985
-the deceased acquired the dwelling on or after 20 September 1985</td><td>Occur if:
- value of estate is below GBP325,000 threshold
- if everything (asset) left to charity and even spouse
-Pass a home to husband, wife or civil partner
-Giving away a home and live for another 7 years; (id die within 7 years, the home will be considered a gift and the 7 year rule applies)
Gifts:
-no inheritance tax if given to partner
-recepients of gifts amounting more than GBP325,000 in the 7 years before death of giver will be taxed (charged at 40% on gifts goven 3 years before giver's death)
Children:
Tax free threshold increase to GBP450,000 if pass home to children</td><td>Occur if:
- if the decedent you inherited from did not live in the 6 states even if you are living in these states.
Do not occur if:
-if the decedent lived in one of these states or owned real estate in one or more of these states, then the value of the estate must exceed the state estate tax exemption before any state estate taxes will be owed. But even if the estate will owe state estate taxes, usually these taxes will have to be paid before you can receive your inheritance check, so the amount that you are paid will already be reduced by the taxes that were due.</td></tr>
</table>

Source: Various, MIDFR

Views on alternative taxes. To propose such taxes i.e CGT, a range of operational issues will need to be addressed. For example how is a gain to be measured from a specific valuation date or from the original date of acquisition? How is inflation to be factored into asset valuations, what allowance will be made for capital losses, and so on? A capital gains tax would also have to be compatible with our existing tax system, which already contains plenty of complex legislation. Compliance costs for taxpayers, particularly arising from the need to obtain valuations, could be high. Another matter to consider is whether a capital gains tax would encourage investment in 'productive' assets as opposed to a 'non-productive' over-investment in property.

As for inheritance tax, OECD reckons it is a suitable system to mitigate wealth inequality. Wealth such as property, savings, share portfolios and pensions grows and becomes self-reinforcing because the rich have more to invest in higher-yielding assets, greater financial literacy and better access to investment advice. A key aspect of wealth accumulation is that it operates in a self-reinforcing way; wealth begets wealth. It may be argued that wealth begets more power, which may ultimately beget more wealth. Overall, this means that, in the absence of taxation, wealth inequality will tend to increase. Increased home ownership and rising house prices mean the wealth of younger generations now depends more on how much they inherit, increasing inequality. Inherited wealth is also unearned and therefore unfair. Hence taxing capital income would not do enough to reduce wealth inequality to be fairer to the rakyat and the answer may reside in higher taxes on inherited wealth.

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