CHAPTER 9: RESEARCH FINDINGS AND CONCLUSIONS

9.1. Introduction

This chapter will summarize the findings of the analysis presented in the previous chapters. The findings or summary will be arranged in according to the chronological order of the objectives presented in Chapter 4.

9.2. Revenue of Malaysian Government

Tax revenue contributed approximately 80% of total federal government's revenue for the year 2002. The balance was generated from non-tax revenue (19%), non-revenue receipts (less than 1%) and revenue from federal territories (less than 1%). Direct tax revenue amounted to RM44,351 million (53%), mainly from individual and company income taxes, whereas indirect tax revenue constituted 27% or RM22,509 million of total revenue.

From the indirect taxes revenue, sales tax constituted 11% of total revenue, followed by excise duties (6%), import duties (4%), service tax 3% and other indirect taxes such as export duties (3%).

CBU and CKD of motor vehicles constitute 50% and 67% of total revenue collected from the import and excise duties respectively. Thus, the analysis indicates that revenue generated from the motor vehicle sector is significant to the government.

9.3. Impact of New Tax Legislation

The impact of the new tax legislation on motor vehicles due to the reduction of import duty and imposition of export duty varies depending on the type of vehicle as well as the engine displacement capacity.

The total duties for CBU for ASEAN (CEPT) market signifies a reduction by 10% for passenger cars, but increased by 10% for MPV/Van, without regard to displacement capacity of the engine. However, in the 4WD categories, the total duties increased by 30% for engine displacement capacity less than 2,000cc, but no changes in total duties in respect of engine displacement capacity above 2,000cc.

However, in respect of CKD, the net impact of total tax on passenger cars is indirect because due to the scaling rates previously applied, the total rate of 67 – 148% is now increased/reduced to 85 to 125%, depending on the engine displacement capacity. In the MPV/Van category, no changes of total duties for engine displacement capacity below 2,000cc, but an increase by 20% in the 2,000 – 2,999cc; and a further 30% increase for engine displacement capacity above 3,000cc. Similarly, a 5% increase of total duties applicable for 4WD except a higher 15% increase of total taxes applied to engine displacement capacity above 3,000cc. The summary of the total tax changes can be seen from the following table:

Table 9.1: Net Effect of Total Tax on Both CBU and CKD Vehicles

<table>
<tr><td></td><td>ASEAN (CEPT)</td><td>ASEAN (CEPT)</td></tr>
<tr><td>Type</td><td>CBU</td><td>CKD</td></tr>
<tr><td>Engine Capacity (cc)</td><td>Net Effect
of Total Tax</td><td>Net Effect
of Total Tax</td></tr>
<tr><td>Passengers Car</td><td></td><td></td></tr>
<tr><td><1,800</td><td rowspan="5">Decreased by 10%</td><td rowspan="5">Varies due to scale rates previously imposed</td></tr>
<tr><td>1,800 - 1,999</td></tr>
<tr><td>2,000 –2,499</td></tr>
<tr><td>2,500 - 2,999</td></tr>
<tr><td>>3,000</td></tr>
<tr><td></td><td></td><td></td></tr>
<tr><td>MPV / Van</td><td></td><td></td></tr>
<tr><td><1,499</td><td rowspan="6">Increased by 10%</td><td rowspan="3">No Change</td></tr>
<tr><td>1,500 – 1,799</td></tr>
<tr><td>1,800 – 1,999</td></tr>
<tr><td>2,000 – 2,499</td><td rowspan="2">Increased by 20%</td></tr>
<tr><td>2,500 – 2,999</td></tr>
<tr><td>>3,000</td><td>Increased by 30%</td></tr>
<tr><td></td><td></td><td></td></tr>
<tr><td>4WD</td><td></td><td></td></tr>
<tr><td><1,799</td><td rowspan="2">Increased by 30%</td><td rowspan="4">Increased by 5%</td></tr>
<tr><td>1,800 – 1,999</td></tr>
<tr><td>2,000 – 2,499</td><td rowspan="3">No Change</td></tr>
<tr><td>2,500 – 2,999</td></tr>
<tr><td>>3,000</td><td>Increased by 15%</td></tr>
</table>

It is significant to note that import duty is levied on the value of the imported car-part kits. However excise duty is based on transaction value, which includes local assembly, marketing and distribution cost and import duties. As a result, the total taxes actually end up being slightly higher.

9.4. Market Trend of Vehicles in Malaysia

Passenger cars remain the major category of vehicles owned in Malaysia. It constitutes more than 80% of total vehicles sold for the year 1999 to 2003. Proton and Perodua continue achieving the highest sales volume in the market, capturing 92-93% of total passenger cars sold in 1999 – 2002 but declined to 84% in 2003. The increment in the total market share of non-national cars from 9% in 2002 to 15% in 2003 can be attributed to the increase in demand for brands such as Toyota, Honda and newly introduced Korean-made car, Kia.

The analysis also indicates that engine displacement capacity of 1,451-1,650cc dominates 30-40% of total passenger cars sold in 2000 to 2003. Again, national cars captured half of the passenger cars sold in the category, followed by other non-national cars such as Toyota, Honda, Kia, Nissan and Toyota respectively.

9.5. Survey

The analysis of the survey points out that 84.2% of respondents owned a Malaysian-made car. Proton Wira model leads followed by Proton Iswara and Perodua Kancil models respectively. Honda and Nissan are found to be the major owned foreign-made cars of the respondents.

In terms of financing, 96% of respondents financed their vehicles via credit from financial institutions or banks. Out of this, 53.9% have a credit period ranging of 6 years to 7 years. It is also found that, 53.5% of respondents paid their vehicle monthly installment in the range of RM501-RM800. Assuming the annual household income is in RM24,001-RM40,000 range, an individual is actually paying 25% of his/her monthly salary for financing the vehicle, excluding other expenses such as fuel and routine maintenance. A positive relationship between annual household income and installment payment indicates that the higher the household income, the higher the installment payment paid. However, 54.5% of respondents found that the installment payment was not a burden, *ceteris parabus*.

The knowledge and awareness of respondents on AFTA and its implication is fair, with 67.6% answering positive for the question. However, almost half of respondents do not know the meaning of import, excise and sales tax. This indicates that, even though 74.3% of respondents are degree holders, it does not guarantee their knowledge in this area. Working environment and individual interest are the major factors influencing the level of knowledge on the subject.

With regards to the new tax legislation on motor vehicles, 79.2% know the reduction of import duty but only 64.4% are aware on the imposition of the excise duties on motor vehicles. Unfortunately, only 48.5% are aware of the impact of the new legislation. Out of this, 30.7% view that the price of vehicle will be cheaper as a result of AFTA, 10.9% agreed the price will increase and a balance of 6.9% in the opinion that the price will remain the same.

9.6. Recommendation for Further Research

A further analysis on each parts of this paper can be carried out. For Part 1, the Revenue of Malaysian Government can be further scrutinized through a detailed analysis of each type of tax revenue, specifically indirect taxes.

A study of the impact of new tax legislation on the selling prices of vehicles can also be done to determine whether the impact of tax is observed on the prices or absorbed by the producers in order to remain competitive in the market. In addition, the market trend of vehicles in Malaysia can also be examined in terms of the survival of national cars in meeting the global market demand.

9.7. Conclusion

Undoubtedly, the revenue generated from the motor vehicles sector is significant to the government of Malaysia. Therefore, the reduction of import duty on motor vehicle as required by the AFTA would definitely affect the government's revenue. In order to minimize the loss in import tax revenue, the government introduced or increased excise duty on the motor vehicles.

Traditionally, excise duty is known for the collection of tax on goods manufactured locally. However, Excise Duties Order 2004 (the Order) that came into operation on 1 January 2004 simultaneously revoked the Excise Duties Order 1991. Excise duties, as stated in the Order, shall be levied on and paid by the manufacturer or importer in respect of goods manufactured in Malaysia or imported into Malaysia. The new term differs from a universally understood connotation of excise duty. In the move towards globalization, Malaysia seems to depart from it.

Looking at the new tax legislation on motor vehicles and the Malaysia vehicles market trend, a reduction of 10% (CBU) of total duties (import and excise) in the passenger cars will be enjoyed by the majority of the consumers. This is shown in the composition of passenger cars of more than 80% of total vehicles sold in the country for the last five years. In addition, a scaling rate applied to all passenger cars (CKD) will now change to a flat rate ranging from 85% to 125%, depending on the engine displacement capacity.

It appears that the new tax structure is moving towards the AFTA objective. Import duty for CKD passenger cars from ASEAN countries have been reduced to 25% to meet the 20% requirement by 2005; the next stage would be to reduce import duty to less than 5% by 2008. However, given that excise duty has been increased, the impact of AFTA on consumers is muted.

It can be seen that the playing field in the local car industry is more level but still remains slightly in favour of the national car players. These set of new tariff rates suggests to us that the Government is trying to strike a balance between ensuring the survival of the local car manufacturing industry, as well as taking steps to encourage continuous investments from foreign car makers. Thus, in order for foreign car manufacturers to penetrate the local lucrative passenger car market, they will have to invest in local manufacturing/assembly plants and not just bring in cheaper cars manufactured in neighbouring countries.

On the other hand, it is also seen that the imposition or introduction of excise duty is to protect the national cars industry from the heavy competition from non-national cars players. The "protection" (in the form of high duties) provided by the government to national cars is translated into a higher price of non-national cars, even though the quality of non-national car is far better or equivalent to the national cars. As a result, the Malaysians, especially the lower and middle class of income group, are forced to purchase the national cars due to its cheaper price relative to non-national cars.

In other words, Malaysians are not enjoying the benefit offered by AFTA. Theoretically, consumers shall be offered a wider variety of quality products manufactured regionally at lower price due to AFTA. However, the theory is not applicable in the automobile sector. In the governments' move towards protecting the national cars, Malaysians have to bear the burden of paying a higher price of cars.

Undeniably, the national cars industry has developed and helped boost the level of manufacturing in Malaysia. This is evidence by the development of the inter-industry linkages (plastics, steel, electronics, glass, metal, rubber, textile industry). Nevertheless, the commitment towards liberalization means that there is increasing competition for domestic industries. Thus, local industries must enhance their resilience to remain competitive and identify new potential for exploiting the ASEAN and global market.

It is expected that, there will be no significant adjustments in the motor vehicle prices arising from the new tax structure. The reasons being the national cars players would probably absorb the additional cost to remain competitive, whilst the non-national car players may have limited room for adjustment due to the weakened Ringgit (against Japanese Yen and Euro currencies). However, it will not be surprising if some non-national car players may choose to forego margins in favor of building market share and presence in the local market. Players which come to mind in this category would be the Korean marques (i.e. Kia and Hyundai) which are just starting to penetrate the heavily competitive market, providing a potential threat to both the national car players as well as entrenched players like Toyota, Honda and Nissan. Thus, it is assumed that the car prices will remain unchanged for now pending confirmation of the new price list, if any, from the respective car manufacturers.

The paper also managed to conclude that the Malaysians are depending on financial institutions for purchasing vehicles. The possible reason for the lending might due to the car prices that are not affordable by the majority of Malaysians. As indicated in Chapter 2, the effective tax rate of transport and equipment sub-sector was as high as 252% in 1987. Generally, if the tax element is significantly reduced, the price of cars would be lower thus enabling Malaysians to purchase them by cash or with a shorter credit period. This would lead to a more lucrative household income since minimal monthly income is tied to paying installment for several years for the car purchased.

In addition, the recent practice of financial institutions towards lowering both the down payment and monthly installment payments to enable Malaysians to own a car(s) is seen as an unconstructive move. This will result in a longer credit period relative to the useful life of the car purchased. Usually, a maximum useful life (operating life) of a car would be around 7 years. If the credit period runs beyond the useful life, then the consumers are actually paying the negative value of the car.

In comparison of the quality aspects of the cars, it is widely proven via accident cases that national cars are not safe and low in quality. Although, widely claimed that national cars have successfully undergone internationally strict quality inspection tests, the end result of the tests were not observed in the national cars. However, due to its low prices, Malaysians left no choice but to purchase the national cars and compromised the quality and safety aspects offered to them.