Investigation into what the Malaysian public wants from environment protection tax laws in Malaysia
Introduction

Since the 1980s, countries around the world have been looking into various methods in tackling the issue of environmental degradation. This study looks at taxation as a tool used by the government to encourage good environmental behaviour among taxpayers in Malaysia.

Research objectives

- To evaluate the level of acceptance of environmental law as a means of increasing the environmental commitment in Malaysia
- To identify the best practices in environmental preservation initiatives that should be included in Malaysian tax laws
- To create a theorem to explain how environmental preservation can be properly included in tax law.

The researcher was curious about the acceptance level of environmental taxation on the Malaysian taxpayer. The researcher embarked on this study between periods of December 2011 and July 2012 to satisfy his curiosity.

Theoretical Framework : Environmental taxation acceptance model variables


Future quality of life

HUMAN ACCEPTANCE ASPECTS

Self actualization

Attitudes

Immediate

Tax incentive

Offered

Forced compliance

LEGAL ASPECTS

Tax mitigation mechanism

INDEPENDENT VARIABLES

DEPENDENT VARIABLES

Literature Review

Chen, Bao and Zhu (2006)

The reasons underlying respondents' willingness to pay to protect the green spaces of Hangzhou were: protection of the aesthetics of Hangzhou, the availability of recreation, the increases in property value, the availability of shade to protect against glare and noise, the preservation of seasonal colour changes, the reduction of air pollution and the control of dust particles in the atmosphere.

Is the public open to the concept paying a fee before entering a public space?

Clement and Chang (2010)

Environmental tax policies can succeed only if the public puts higher value on the environment than immediate economic gains.

Can the value of the environment be quantified for the public?

Coarse (1960)

Restricting the methods of production by a harmful firm would result in more production by the hurt party at the cost of a reduced supply of the harmful products. The transaction costs of negotiations between the firms would eat up any welfare-maximising reallocations. In such cases with potentially high transaction costs, the law could intervene to reduce costs.

Can the value of the environment be quantified for the public?

Graci (2008)

Organizational factors such as star ratings and international clientele positively influence the level of environmental commitment in an organization.

If Graci concentrated on issues pertaining to eco-tourism, could the issues on environmental commitment highlighted by her be extended to environmental taxation?

Guglyuvatty (2010)

Any environmental policy evaluation tool must include environmental effectiveness, transparency, minimisation of rent-seeking, correct price signals and flexibility.

How does the lack of transparency hinder the acceptance of any environmental policy?

Hacatoglu (2008)

Substitution of biofuels for fossil fuels can help meet a country's greenhouse gas emission reduction targets.

Is substituting biofuels for fossil fuels a sustainable measure, or are any other forms of energy more sustainable?

Khor (2012)

Deeply rooted cultural traditions are hard to change. The government should use education, determination and encouragement to withstand conflict with deeply-rooted beliefs.

How effective is education at changing any deeply rooted cultural tradition?

Metcalf (1999)

In the United States, a modest tax reform in which environmental taxes equal to 10% of federal receipts is quite effective.

Is this measure acceptable to the public in the United States or anywhere else in the world?

Mewton and Cacho (2011)

If the Australian Government purchases green power and sells it to the public, that measure is more cost effective than giving tax incentives in the form of tax deductions to residential customers, exemptions from the goods and services tax or even a green power tax rebate.

Mewton and Cacho's (2011) suggestions were merely conceptual. A study on whether this proposal is acceptable to the Australian populace should be conducted.
Methodology

A mixed-method approach was used
- In the qualitative approach, focus groups and interviews were conducted to explore what taxpayers and interest groups want from environmental taxation laws.
  - The purpose – to identify the gaps in what taxpayers really want to be addressed.
- A quantitative method was conducted next.
  - The purpose - By using questionnaires, a bigger sample of respondents could be obtained.
  - The quantitative approach entailed emailing a set of questionnaires to more than 700 respondents.

Qualitative approach

- Focus groups and interviews involving 30 experts from various disciplines thoroughly explored what taxpayers want from environmental taxation laws.
  - The key points of the interview are tabulated using NVivo.
  - The expert interview and focus group interview transcripts and minutes were loaded as sources into NVivo.
  - QSR NVivo9 uses nodes to represent an idea
  - The researcher went through the transcripts, highlighted the key points and created a node for new theme.
    - The researcher discovered the following new themes and marked them as nodes.

Nodes Clustered by Coding similarity – Qualitative Study

Cluster analysis is run to bring out the connections between the various issues (in NVivo nodes) discussed by the various experts. The software would generate a tree map called “Nodes Clustered by Coding similarity”

Quantitative study

- A 48-question survey was administered between late May and July 2012.
- It had 45 seven-point Likert scale questions asking the respondents how they felt about present and future developments on environmental taxation using a 7 point scale.
- The survey had six distinct sections i.e. Understanding and Acceptance of Current Environmental Tax Laws, Outcomes, Taxpayer Comprehension, Commitment and Comprehensive Laws, Taxpayer Preferences and Future Development.
Findings

- **Quality of life.** Improvement in the present quality of life will impact future quality of one’s life (sig = 0.00). The implication here is that the quality of life today will have an impact on life tomorrow.

- **Self-actualisation.** The understanding of the need for sacrificing of one’s behaviour (sig = 0.00) and the knowledge that comprehensive environmental tax laws are good for a person’s wellbeing (sig = 0.00) are significant attributes in self-actualisation (Subramuniyaswami (2003)).

  - As part of achieving some level of self-actualisation, voluntarily restraining oneself from environmentally destructive behaviour and knowing that monies sacrificed towards the environment are noble attributes. This implies that a noble person cares for the environment.

Discussion

- **Quality of life.**
  The idea that the public will be rewarded with a better environment and an improved quality of life when it willingly sacrifices money through environmental taxation must be emphasized.
  
  For any form of environmental taxation (or even environmental tax incentives) to work, the public must be made aware of the reward, i.e. improvements to quality of life.

- **Self-actualisation.**
  The regression analysis showed that the taxpayer’s ability to sacrifice behaviour, wants and needs for a larger purpose, such as protection of the environment, was significant for the acceptance of environmental taxation.
  
  A person who has achieved self-actualisation is ready to discard any behaviour, even those required by culture or society for the better good (in this case, the environment).
Discussion

• Immediate tax incentives.
  Whether the Malaysian populace has positive attitudes towards the environment and is willing to change the popular lifestyle to protect it is another question.

• Forced compliance
  The researcher paired support for taxes on plastic bags with the need for a comprehensive set of environmental tax laws using regression analysis and found that the model was significant.
  The forced nuisance of having to pay for plastic bags has resulted in the public not wanting to ask for plastic bags.
  The public, which was initially uninterested in environmental issues, began to take an interest in ways to improve the environment and to support environmental tax laws.

• Tax mitigation
  Tax mitigators aim to pay as little in taxes as possible. Whether the tax incentive is good for such taxpayers does not matter as long as they pay less tax.

Recommendations

• Quality of life
  The public sacrifices taxes for the general welfare and the reward of an improved quality of life. The public’s commitment to sacrifice environmentally unfriendly behaviours is a prerequisite for the success of environmental taxation.
  The reward of a better environment and improved quality of life for the willing sacrifice of environmental taxation must be emphasized.
  If the authorities merely ask the public for more money without clearly explaining the motives for the tax, then the tax will not work, and the public will simply be forced to comply.

• Attitudes
  Re-education can change culture and attitudes.

• Immediate Tax Incentives
  Immediate tax incentives for the public are significant to the acceptance of an environmental tax.
  Since all humans have self-control problems and want immediate gratification, the public is not willing to accept any tax regime that requires them to wait a long time for rewards.

• Forced Compliance
  Forcing the public, through environmental taxes, to perform actions that protect the environment causes people to gradually adopt environmentally friendly behaviour.

• Tax mitigation
  The researcher must caution that a tax or incentive will not work on certain taxpayers who only desire to only pay less tax. Again, although tax mitigation is a significant variable in ensuring the public’s acceptance of environmental tax laws, the merits of any given law itself will not be significant to the person seeking a lower tax liability.

• Amount of tax and the administrative procedures involved
  The amount of the environmental tax or incentive could encourage or impede the environmental commitment of the Malaysian populace. An environmental tax must be large enough to regularly inconvenience taxpayer in order to induce a behavioural change.

• Supporting infrastructure
  Environmental taxation is not a fix-it-all solution for environmental problems. The authorities must understand that taxes play a supporting tool in encouraging eco-friendly behaviour.
  Supporting infrastructure and services must be introduced along with the tax.

• Governance Issues
  There must be accountability when implementing any environmental taxation initiative. The government must be transparent about how incentives are awarded and how taxes allocated for the good of the public.

• Explore Green Technologies
  Research is the best way to improve knowledge; therefore, the government has given considerable attention to research in the Economic Transformation Plan. Incentives for green research are a proactive measure to tackle environmental problems.
Recommendations

- **Promotion of Investments Act**
  The List of Promoted Activities Eligible for Consideration of Pioneer Status and Investment Tax Allowance under the Promotion of Investment Act 1986 should include household waste recycling.

- **Use tax incentives to make their methods of production more eco-friendly**
  Malaysia is the first ASEAN nation to offer green building incentives for developers. Developers should use the opportunity to design buildings that satisfy not only the authorities but more importantly, their “green” customers.

- **Develop green technologies and products even independently of government support**
  The qualitative study found that companies go green not because of the tax incentives but because of customer demand for greener and more sustainable products.
  Good industrialists should take care of the needs of the customer first and not wait for the government to intervene.

Proposal: Life of Pi Theorem

- The researcher would like to propose the Life of Pi Theorem which is inspired by lines from the novel by Yann Martell *The Life of Pi*, the writings of Pigou (1932), and Brown and Law (2005) and the findings that supported the Environmental Taxation Acceptance Model.

- Yann Martell’s book talks about two different stories the protagonist Pi presented to a group of Japanese investigators about the sinking of a ship that killed his whole family. One was a tall tale and the other was the real event. To Pi, there was no happy ending in both versions of the story. His family perished at the end. The only thing Pi could do is to atone.

Environmental taxation (or any other eco-friendly policies) will never restore nature to its original glory.

Qian and Chan (2010) proposed that if man is noble, he will want to protect the environment as he one wants to retain the quality of his life. He will never want his surroundings to be unliveable.

To this researcher man, however noble, is very weak. From time to time he will sin towards nature by destroying it. Environmental taxation (and other eco-friendly policies and acts) are ways man ATONE for his sins towards nature.

Environmental taxation will act to prevent him from destroying further nature but nature will never return to her original glory.

Thank you

Q&A

Dedicated to my late dad Mr Loo Hock Lock, Janet, Lady Edith, Kimmie and Robbie.