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A benign Budget for most of us

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THE 1999 Budget, like any Budget, is akin to a mirror. It presents different images to different beholders. For most Malaysians, it is a benign Budget. For businessmen, the Budget is expansionary. For the economy, it is stimulative.

First, let us analyse how next year's Budget affects the people. It will pinch the pockets of smokers and consumers of alcohol.

A pack of 20 cigarettes may cost at least 25 sen more. This works out to at least RM7.50 a month for a-pack-a-day smokers. Not an insignificant amount if the total monthly expenditure is worked out: RM124.50! It will surely hurt the lower income group.

How soon the new price would be imposed depends on how quickly the manufacturers crunch the numbers effected by the increased excise duty on tobacco.

Given the business instinct of these purveyors, smokers will pay more for their addiction sooner than later.

Habitual beer and liquor drinkers will be taxed more. They may have to pay as much as 80 sen more for a can of beer. A 720ml bottle of premium whisky would probably cost RM15 more.

Smokers and drinkers might be aggrieved by these increases. Casual smokers and social drinkers might restrict their consumption. Others who can afford would continue their habits, regardless of the increases.

But all should realise why the Government had to impose higher import and excise duties on tobacco and all types of alcohol. A comparative analysis of the Federal Government's Budgets of 1999 and 1998 points to the reasons.

The 1998 Budget envisaged a revenue of RM64.12 billion. Of this amount, 92.4 per cent was to be collected for income tax, non-tax revenue and other taxes, other indirect taxes and import duties.

This forecast was based on the assumption that the economy would register a seven per cent gross domestic product growth.

We all now know that the economy contracted this year. The estimate now according to the 1998/1999 Economic Report is a GDP contraction of 4.8 per cent for 1998. Given this basic data, it is manifest the Government did not collect the RM59.24 in revenues it had estimated. This is fact one.

Fact two: The Government has to stimulate the economy. It has committed itself to shoulder the yoke and to spend more on infrastructure. This means it has to raise funds, vast funds. And where can the Government touch to increase its already shrinking revenue?

Increasing income tax? This surely is a no-no, given the contracted economy with its attendant corporate losses and thinner pay-packets of taxpayers.

This reality has perforced the Government to review its projections of future income tax revenue. The 1998 Budget forecast a revenue of RM28.21 billion in income tax. That entire amount did not materialise for the Government. So the 1999 Budget lowered its prognosis. The forecast revenue is RM17.96 billion.

This is perhaps the reason why the Budget has proposed a waiver on taxes on income earned in 1999. A cursory appraisal of this budgetary proposal might be confounding. But analysis would show its simplicity in rationalising the year of tax base assessment.

Most Malaysians pay tax of the income of the preceding year. That is, we

pay the tax in 1998 on the income earned in 1997. The 1995 Budget decreed that fresh entrants to the employment market who were netted by income tax regulations in that fiscal year paid their tax as they worked.

But that edict left out millions of other taxpayers who have continued to pay taxes on the incomes of the preceding year. So is it also with corporations.

Now the Government desires all Malaysians and corporations to pay their taxes as they work and operate in each given year. To bring about this alignment of the taxation year from the the preceeding year to the current, an adjustment has to made.

This is actually a good move. We pay taxes as we earn. The benefit will be easily seen when we retire. In that year of retirement we will not be burdened by taxes of two or more years.

So in 1999, all of us will have to pay taxes on our 1998 income. We would not have to pay anything on the income earned in 1999. In the year 2000, we would have to pay taxes on our income as we work and earn.

The Government does not lose out in revenues. It will collect income tax revenues in 1999 as well as in the year 2000.

We have digressed. And so we revert to our main question: How will the Government raise the excess revenues to replenish its already depleted Budget?

It cannot raise export duties. For the Malaysian Government is committed to the Asean Free Trade Area which calls for the reduction of all duties within the region to zero by the year 2003. Indeed, it has reduced export duties from 1.5 per cent in the 1998 Budget revenues to one per cent in the 1999 Budget.

The Government has a problem in balancing its Budget. Given its commitment to revive the economy, it has to spend RM17.55 billion in development expenditure.

It envisages a revenue of RM65.09 billion. But it cannot raise the amount in revenues. It has to borrow a lot of money to balance its Budget. The amount, according the 1998/99 Economic Report, is RM16.13 billion.

Given these reasons, the Government was perforced to levy more taxes on goods, considered not healthy. Which should explain the reasons why excise duties on cigarettes and import and excise duties on liquor were increased.

But not all Malaysians are cigarette or alcohol addicts. Many would be gratified by the announcement that dividends and bonuses declared by unit trusts would not be taxed. About four million investors in the Amanah Saham Bumiputera and more than a million of Amanah Saham Nasional unit trust schemes would appreciate this budgetary proposal.

And about 800,000 public servants would laud Prime Minister and First Finance Minister Datuk Seri Dr Mahatir Mohamad's declaration that one Saturday in each month be a holiday. They may have to work extra hours in the weekdays.

But the objective is to release them from work in the weekend once a month. The hope is these public servants would avail themselves of newly declared monthly holiday to travel within the country. That would hopefully boost domestic tourism. It would also generate revenue. Much needed revenue for the economy.

So far we have looked at effects of the Budget on Malaysians. Now let us analyse the economic forecasts.

The 1998/99 Economic Report has many indicators. It says that the economy would contract by 4.8 per cent this year. It also says that the economy would revive by a GDP growth of one per cent next year.

These statistics have no significance to most Malaysians. Many are apprehensive. They are worried about their jobs, about their wages and

about their bonuses. They are also worried about the purchasing power of the ringgit.

If official statistics are indicators, Malaysian workers should not be unduly worried. The number of retrenched workers, until Oct 10, was about 69,000. And we are told that most, if not all, Malaysians have found other jobs.

But retrenchment will not go away from the Malaysian economic picture. For one, even the most profitable company in the country, Petronas Bhd, is on course to lay off more than 1,000 employees. The reason is simple. Petronas relocated to the high-tech Twin Towers which does not require a large battalion of security guards. And so the company has to release these employees.

If a company that recorded a profit of RM9.95 billion for the year ended March 31, 1998, plans to reduce its workforce by a 1,000, what of others? This is chilling news to Malaysian workers. Who is next?

The 1998/99 Economic Report avers that the country would record a one per cent GDP growth.

However, as Dr Mahathir, explained, this is conditional.

Our economy would not move if the regional economies do not. No economy is insular; every economy is dependent on trading partners. Each prospers when its trading partner prospers.

Given these prospects of the growth of the economy, Malaysians should be comforted by a singular forecast. Our ringgit will still have the same purchasing power in the local market as in the past in the coming year. The forecast of inflation is 3.5 per cent.

Clearly then, the 1999 Budget is a benign Budget for most of us.

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