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Budget not likely to tax everyone unduly

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FRIDAY is Budget Day. For the first time, the Prime Minister will present the Budget and the Economic Report to the Dewan Rakyat.

The informed layman has already been given a hint of the thrust of next year's Budget and the most significant data contained in the 1998/1999 Economic Report.

The distilled information is that the economy is on the road to recovery. That news would be comforting to all. The forecast is equally gratifying.

Both bits of information can be gleaned from the statements of Datuk Seri Dr Mahathir Mohamad, who is also First Finance Minister. On Thursday, he pronounced the Government's assessment of the economy, which will be published in the Economic Report.

He said the estimate for this year is that the economy will register 4.8 per cent contraction of gross domestic product. But it might revive to record one per cent real GDP growth next year. That is the forecast.

Since the economy contracted by the same percentage over the first half of the year, the estimate is actually good news. It would appear that the managers of the country's economy, according to the estimate, had been able to arrest the contraction. Reviving the economy by 5.8 per cent of the GDP within 18 months is a solid achievement by any country.

Equally heartening is the news released by the Statistics Department on Thursday. It said the rise of the Consumer Price Index, the indicator of inflation, had been capped at 5.2 per cent as at the end of September. Which means the purchasing power of the ringgit is relatively stable, given these trying times.

The CPI, in the past, recorded double digit increases. In 1973, it rose by 10.5 per cent; and, in 1974 by 17.4 per cent. If we look at Malaysia Plan period averages, the 5.2 per cent increase is more than two percentage points lower than the 7.4 per cent recorded between 1971 and 1975 and less than a percentage point higher compared to the 4.4 per cent registered between 1991 and 1995.

The economic indicators, estimated and forecast, might be comforting. But what does the upcoming Budget portend? Dr Mahathir has said it would contain fiscal measures to stimulate economic growth.

What are fiscal measures? Fiscal measures are simply the policy decisions of the Government to lower or increase taxes. The logical question then would be: will Dr Mahathir, as the First Finance Minister propose higher or lower taxes.

He said on Thursday that the 1999 Budget will propose new taxes. To stimulate the economy, the Government needs funds.

Why? Especially when the Government had presented a surplus budget over the last six years. Last year, it was slightly over RM8 billion.

The answer is simple if we analyse what transpired in the country over the past 18 months. One, the ringgit was battered. Its exchange rate diminished against the currencies of almost all major trading countries.

Two, the stock market was besieged by speculators and manipulators, foreign fund managers, in the main, since July 1997. Thus the values of shares of about 740 listed companies were battered to all-time lows.

These two factors contributed to most of the companies to declare lower profits, indeed losses in many instances. Lower profits and losses of companies mean less revenues to the Government, in the form of direct

taxation.

An analysis of the 1997/1998 Economic Report would show the tax revenues the Government has lost. That Report said that the estimated tax revenue for 1998 would be RM28.2 billion.

Given the poor performance of a lot of companies and the reduced income of many workers, the Government cannot garner its projected tax revenues. Indeed in 1997 and 1998 it cannot even raise a significant amount of its estimated revenues from non-tax revenues which net duties on the sale of new cars. Sales of new cars plummeted by as much as 70 per cent between July 1997 and July 1998.

Thus the Government confronts a diminished direct and indirect tax revenue for this year. The 1998 Budget envisaged a revenue of about RM56 billion. It is clear the amount would not be collected. Perhaps only 70 per cent or less would be garnered by the tax collectors, given the contraction of the economy.

But the Government has committed itself to revive the contracting economy. It has also initiated measures to restructure the financial system. It has put into place many measures that necessitate huge funds.

Pengurusan Danaharta Nasional Bhd, the company established to buy non-performing loans of financial institutions and Danamodal Nasional Bhd, the company established to revive ailing financial institutions, would be funded by off-budgetary measures.

The former will buy non-performing loans of financial institutions. Thanks to Bank Negara's edict of lengthening the period of NPLs from three to six months, the NPLs will amount to less than RM20 billion. Danaharta will issue bonds locally and overseas to raise the required money.

Danamodal Nasional Bhd will issue bonds worth RM11 billion. The measure would raise an estimated RM7.7 billion from 57 financial institutions. That should be sufficient to energise ailing financial institutions.

The Government has also put into place exchange control measures which make the ringgit non-tradable in the foreign exchange market. The converse side of these measures fixed the exchange rate of the ringgit at RM3.20 to the US dollar.

Both measures have resulted in a stability in working out accounting forecasts for exporters and importers.

Given these monetary measures that have already been implemented, what would the Government pronounce in the 1999 Budget. For one, Dr Mahathir has already indicated that it would be an expansionary budget. Which means it will spend more, especially in development expenditure.

His announcement that public servants might not get a bonus means that operating expenditure would be maintained. But it would increase nominally, given, for one, the annual increments of salaries of public servants who now number almost 900,000.

Clearly then the 1999 Budget would show a deficit. To divine the amount would be looking at the crystal bowl. But to the layman, the important question would be whether he would be taxed more next year.

Dr Mahathir was ambivalent on this count. He said the Budget would announce new taxes. He added that they would not overly burden Malaysians.

What does this mean? It is clear that the country needs funds to revive the economy. It is also clear that the tax revenues are shrinking. So how would the Government manage its budget, even though it has conceded that it would have to work with a deficit?

It is obvious that it would have to raise new funds, through new taxes. That much Dr Mahathir already indicated last Thursday.

Where will this new revenue come from? The Prime Minister has said the new fiscal measures will not overburden Malaysians.

Which points to the possibility that excise duties of luxury items might

be raised. Like those on unhealthy consumerables like cigarettes and liquor. They might be increased.

It is highly unlikely that the Government would raise EPF contribution rates. Employers are already overburdened with thin profit margins or losses in the case of many. Perforcing them to pay more in statutory contributions would only add more red ink to the bottom line.

And so while the 1999 Budget would be expansionary, it would not tax everyone unduly.

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