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Tax move a test of the human spirit

K.H. Lim

INCOME earned in 1999 will be tax-free. This is the good news for all Malaysians, including companies and businesses.

In a financial "masterstroke", Datuk Seri Dr Mahathir Mohamad has given everyone something to look forward to in the new year.

As the new millennium dawns, all Malaysians will be put on the Pay-As-You-Earn (PAYE) system where we will pay our taxes on a monthly basis as we earn.

We must distinguish this from the current Schedular Tax Deduction (STD) system which the vast majority of Malaysian taxpayers are on. In STD, monthly payments are also made but these are for the previous year's income.

Currently, only taxpayers in Sabah and Sarawak are on the PAYE system. In the peninsula, only taxpayers who started work after Jan 1, 1995 are on the system.

In a bold move, Dr Mahathir as the First Finance Minister has brought the entire country instep.

This reminds us of the major change that Dr Mahathir did soon after he became the Prime Minister: bringing the entire country into the same time zone. Sabah and Sarawak used to be eight hours ahead of Greenwich Mean Time while Peninsular Malaysia was 30 minutes behind. Now Malaysia Standard Time is eight hours ahead of GMT.

In a typical win-win situation, the Government will benefit through a better tax collection rate as people will find it easier to pay as they earn. This is especially true for wage earners.

Under the STD system, a worker retrenched this year will still have to pay taxes on his income last year. It can come from his lay-off benefits. Those earning much less this year than last year are likely to default in their tax payments. Workers in the construction sector may be an example.

And the generous waiver for income earned next year will not hit the Government's cashflow. This is because most taxpayers will actually continue to pay next year - for this year's income.

Only those currently on the PAYE system will have an actual "tax holiday" in the strictest sense of the word. They simply do not have to pay next year, provided they have been diligently paying up all this while.

Those on STD now will also get a "tax holiday" in the sense that they do not pay for income earned in 1999 but they will still be paying money to the Government as tax for income earned this year.

Another generous gesture is the fact that losses will be allowed to be carried forward.

News of this windfall was met with initial confusion, scepticism and even doubt as to the accuracy of the reports. Then, many questioned: Can the Government afford it?

It may seem that the Government will be cash-strapped if it writes off 1999's tax but a deeper probe revealed the considerable planning that went into it.

First, the Government's cashflow will not be affected as only a small minority of taxpayers are under the PAYE system.

Notwithstanding this, the Budget has already factored in the shortfall by projecting income tax revenue to fall 31.4 per cent to RM17.992 billion in 1999 from RM26.236 billion this year.

With plunging corporate earnings reported of late and the numerous pay-cuts instituted throughout corporate Malaysia, income tax revenue is expected to fall sharply next year anyway.

The tax planners might as well plan for a larger collection when the economy recovers in 2000 by implementing PAYE that year. And at the same time, give taxpayers a break and make everyone happy.

After all, income taxes only take up 27.6 per cent of total government revenue for 1999, including RM2.746 billion from petroleum taxes. It is not clear if petroleum taxes will also be waived.

This ingenious incentive, never before attempted in Malaysian history, is a test of the human spirit. The tax-free income is a bonus of sorts and exactly the kind of incentive that will drive people to work harder and be more productive.

With everyone getting into a flurry of activities next year, perhaps the economic recovery will be seen earlier than expected.

TALKING POINT: With tax-free income as the carrot, everyone will work doubly hard and get more disposable income which will generate more domestic demand and more savings. This in turn can finance more investments and the economy will turn around faster, hopefully before the second half of next year as forecast before Friday's Budget speech.

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