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Growth boosting

Raymond Liew

BUSINESSES expected the corporate tax rate of 28 per cent to be reduced under Budget 2000, creating a business environment more attractive than in neighbouring countries. (Hong Kong, at below 20 per cent, has the lowest corporate tax rate in Asia; in Singapore it's 26 per cent.) But this did not happen.

However, all is not lost for the corporate sector. I would like to highlight the positive effect Budget 2000 has in store for companies despite no cut in corporate taxes.

Given the reduction in the personal income tax rate and the increase in personal income tax relief, coupled with the proposed bonus payable to government servants and their 10 per cent salary increment, many businesses would indirectly benefit from the additional disposable income given to consumers under the budget. This will encourage spending and enable consumers to boost their aggregate demand, thereby stimulating economic growth which, in turn, would boost the profitability of businesses.

Budget 2000 has proposed that half the accumulated losses of the acquired insurance and stockbroking firms would be allowed as a deduction to the acquiring entity in the form of a tax credit. Such a tax credit is to be utilised within two years to encourage mergers of insurance and stockbroking firms. This concession is seen as a major encouragement as some of the incentives normally extended to banks are now being extended to stockbrokers.

In a further demonstration of the government's commitment to widen and deepen the financial market, Budget 2000 addresses the measures to be taken to strengthen the capital and bond market. The incentives banks have been given to increase lending to productive sectors, and their enjoyment of a full reduction in income tax on interest in suspense are steps in the right direction towards making the banking sector an engine of growth in the revitalisation of the economy.

The stamp duty exemption on debt restructuring under the Corporate Debt Restructuring Committee (cDRC) and Pengurusan Danaharta Nasional is welcomed. Furthermore, to encourage such debt restructuring exercises, all expenses incurred are allowed as a deduction in corporate income tax. Such assistance would, no doubt, help companies to continue their business operations, provide employment and aid to resolve their financial difficulties.

The removal of the restriction on dividend payments under Section 365 of the Companies Act 1965, which was introduced last year, is another relief, particularly for foreign investors.

The provision had restricted the payment of dividends to an amount not exceeding the after-tax profit of that particular financial year or not exceeding the average dividends declared in respect of the two financial years immediately preceding that financial year, whichever was greater. The objective was to prevent companies from paying abnormal dividends offshore thereby getting around the exchange controls.

The stamp duty exemption on instruments of transfer for houses costing below RM75,000 would make the cost of purchasing houses more affordable and aid housing sector growth.

All these measures, directly or indirectly, will create a beneficial spiral effect on business corporates.

However, the task now is to address the budget deficit of RM12.97 billion for next year, which is less than five per cent of the Gross National Product (GNP).

The government plans to finance the deficit through domestic and foreign borrowing. According to Second Finance Minister Datuk Mustapa Mohamed, 'A national budget deficit is acceptable as long as it is below seven per cent of the GNP.' Mustapa also added that there were few governments in the world which did not owe money to others. 'The important thing is not what we owe but whether we can pay for it, and we have the ability.' Given that the country's economy is expected to grow by 4.3 per cent in 1999 and five per cent in year 2000, such a growth potential would provide the government with increased revenue, thus the budget deficit is very much within our country's ability to manage. This is further evidenced by the country's healthy trade surplus.

To ensure that the country's trade prospects remained bright, the government had adopted a pre-emptive measure which facilitated a switch in the basis of computation of taxes, and 1999 was declared a tax-free year for corporate and personal income tax purposes. This gave corporations every incentive to maximise their profits this year.

Against a backdrop of selective capital controls, the tax-free year will, hopefully, encourage export-oriented companies to fully disclose their export earnings. The monthly trade surplus narrowed from US\$ 1.714 billion in May to US\$1.54 billion in July, but increased to US\$ 1.75 billion in August (See graph.) This uplift was promising indeed.

Following the announcement of Budget 2000 in late October, the Kuala Lumpur Stock Exchange (KLSE) fell. It went down further on Nov 1 following the news that Morgan Stanley had postponed re-instating Malaysia on the Morgan Stanley Capital International (MSCI) indices from Feb 29, 2000 to May 31.

The market appeared to have over-reacted to this disappointing news, just as it had over-reacted euphorically by driving the index upwards by more than 50 points on Aug 12 when Morgan Stanley announced it plans to re-instate Malaysia on the MSCI indices.

Prime Minister Datuk Seri Dr Mahathir Mohamad said the investing public should not be overly concerned with the fall in share prices on the KLSE, remarking, 'The main thing investors should look at is the actual profit of the companies.'

Surely the performance of the KLSE should not depend on whether Malaysia is on or off the MSCI indices but rather on the country's economic performance. The MSCI indices do not reflect the true economic fundamentals of a country as is evidenced by both China and India which form an insignificant percentage of the MSCI indices, yet whose economies and stock markets hold the biggest promise.

Further, the Malaysian stock market has performed rather well even though the country has been removed from the MSCI indices. Many overseas investors are investing in Malaysia because they see the potential and prospects in the Malaysian market with or without the MSCI indices! Budget 2000 is indeed an all rounded, pragmatic, objective and, most importantly, pro-growth budget which addresses all sectors of the economy. There's no doubt Budget 2000 will strengthen the economic recovery process in terms of its structural adjustment, growth and equity.

With Budget 2000, the country can continue with its pace of recovery, and it will only be a matter of time before foreign investors recognise the opportunities in the KLSE and see the potential in the country itself.