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ANALYSIS-EXIT TAX

ANALYSIS: WILL GOVT REMOVE OR REDUCE EXIT TAX?

By: Yong Soo Heong

KUALA LUMPUR, Oct 19 (Bernama) -- Will the government remove or reduce the exit tax on the repatriation of profits from equity investments in the country in the 2001 Budget?

This issue is being closely-watched with bated breath by the investment community, especially foreigners, who view the levy as an administrative hindrance.

They are hoping that finance minister Tun Daim Zainuddin will address the issue when he delivers his budget speech from 4 p.m. on Oct 27.

But will he?

Some foreign investors are still quibbling over the 10 percent exit levy, which was as high as 30 percent at one stage before the government reduced it on Sept 21 last year.

The levy was imposed on Sept 1, 1998 to counter the activities of currency manipulators who used the Kuala Lumpur Stock Exchange as a conduit for their operations which in turn created havoc to the ringgit as well as the local stock market.

At the same time, the government pegged the ringgit at 3.80 to the US dollar to stop the excessive volatility of the local currency.

There is no doubt that those measures brought stability to both the ringgit and the economy. The economy staged a remarkable recovery from minus 7.5 percent in 1998 to a growth of 5.4 percent last year.

And this year, the economy is poised to grow by at least 6.0 percent. But many analysts, foreigners included, think that the forecast is much too conservative and could be much higher, thanks to the rise in crude oil prices since Malaysia is a net oil exporter.

Some market observers claim that the KLSE had not seen much trading activity of late, especially by foreign institutions.

They feel that the stock market could receive a boost if the exit tax, which they view as a disincentive, were to be reduced further or eliminated.

In the middle of last month, the KLSE saw a flurry of activity when there were rumours that the government may lift the levy or reduce the amount to, say, five percent from the present 10 percent.

Datuk Dr Zainal Aznam Yusof, deputy-director general of the Institute of Strategic and International Studies and a member of the National Economic Action Council, said earlier this year that the repatriation levy should be reviewed given that the Malaysian economy had recovered.

He, however, felt that there was no compelling reason to change the ringgit peg.

Prime Minister Datuk Seri Dr Mahathir Mohamad, who was instrumental in the imposition of selective exchange controls to ward the economy off from excessive manipulation by foreign rogue speculators two years ago, said recently that Malaysia would have to stick with those controls.

"Because we can't leave it to the market. The market is totally irresponsible and all they (speculators) can think of is how much money they can make for themselves," he said in an interview with The Times.

Dr Mahathir said it was quite easy for foreigners to invest in the local stock market as they could bring money in and out of Malaysia.

"The only thing that they are asked to do is pay a 10 percent tax on the profits that they take out of the country. That is all. And that is very minimal. There is no tax on capital gains. So they make a lot on

capital gains. So there is practically no restriction on the flow of short term capital."

In the meantime, foreign investors would have to exercise patience and wait for the government to decide what is best for the economy and the stock market. -- BERNAMA

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