

27/10/2000

Daim likely to present 'friendly' budget today

Fauziah Ismail

FINANCE Minister Tun Daim Zainuddin tabled a "people's budget" for 2000 last October - one which contained no new taxes and not a single tax increase. An equally "friendly" one is expected to be presented in Parliament today.

Budget 2000 - his first since his return to the Cabinet in January 1999 - had comprised tax breaks and incentives, mainly for the lower income groups and small enterprises, as well as a strategy to boost aggregate demand which includes a pay rise for nearly a million workers.

There were also generous provisions for agriculture, infrastructure and the rural population.

It was a deficit budget of RM12.95 billion or 4.4 per cent of the gross national product (GNP).

This time around, the Government is likely to target at further improving the country's competitiveness and drawing foreign direct investments.

The economy has performed strongly in the past eight months. National Economic Action Council said inflation remains benign while unemployment is below 4 per cent.

Industrial production accelerated and trade has been in surplus for 12 consecutive quarters, while financial institutions and corporations continue to chalk up impressive numbers.

And after three years of deficits, Budget 2001 would be a surplus one, albeit only slightly, Prime Minister Datuk Seri Dr Mahathir Mohamad has indicated.

It seems clear that the chances for new taxes or a rise in existing ones, for both consumers and businesses, are slim. The Government's borrowing requirements may also have eased.

Analysts said a budget with a surplus of 0.1 or 0.2 per cent of the GNP is a realistic expectation.

Indeed, many analysts expect Daim to announce a 2 per cent reduction in corporate tax to 26 per cent to make Malaysia more attractive to businesses.

Asked about this last week, Dr Mahathir would only say the Government has promised to do so.

He would not confirm whether the move will be included in the new budget.

In comparison, Singapore taxes 25.5 per cent of its corporations' income, South Korea 17.6 per cent and Hong Kong 16 per cent. In China, it is 33 per cent but for special economic zones, it ranges from 15 to 24 per cent.

Analysts also expect the Government to raise the top income bracket for personal income tax to around RM500,000 and above, from RM150,000 now.

This will not just help spur consumer spending but also reduce foreign companies' operating costs as they normally pay for their expatriate employees' income tax.

The existing personal income tax structure makes real tax in Malaysia much higher than in other countries in the region.

And players in the information technology and knowledge-based sector anticipate fresh initiatives to attract investments to the sector.

Multimedia Development Corp executive chairman Tan Sri Othman Yeop Abdullah expects some "fine-tuning" of incentives for venture capital

funds and customised ones for cutting-edge research companies.

Incentives may also be in store for expanding the pool of knowledge-workers and this may include more liberal conditions for recruiting foreign staff.

Then there will likely be higher allocations for education, public housing, and socio-economic projects. This follows the reduction in oil subsidies which is expected to free up substantial resources for key sectors of the economy.

The construction sector too should be receiving some goodies, with analysts sensing "urgency on the part of the Government to kickstart lagging domestic spending and sustain consumer confidence".

As for the civil servants, a bonus payment perhaps? Daim had hinted at a "little good news" for the man in the street.

In line with the country's commitment to several multilateral trading arrangement to reduce or abolish tariff and non-tariff barriers, import duties for a host of consumer products will likely be revised.

There should also be some positive news for the stock market, for a start through more incentives to save and invest which are targeted at the insurance and unit trust industries.

Budget 2001 may also see measures to address the overhang in property supply.

(END)