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8th Plan kickstarts a tax reform (HL)

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A TRANSFORMATION of the Malaysian tax structure is under way with consumption tax expected to gain increasing prominence in the next five years to account for about 24 per cent of the Government's total revenue by 2005.

Sales and service taxes are projected to grow by annual average rates of 24.2 and 17.5 per cent, respectively, during the Eighth Malaysia Plan (8MP, 2001-2005) period.

This has led some economists to conclude that corporate and individual income taxes would conversely decline both in terms of contribution to total revenue, and rates, the later serving to spur business activity and attract foreign investors.

The 8MP, which was tabled by Prime Minister Datuk Seri Dr Mahathir Mohamad in Parliament yesterday, said the tax strategy "is in line with the Government's efforts to reduce dependence on direct taxes and broaden the revenue base".

The personal income tax tops off at 29 per cent currently, down from 30 per cent under Budget 2000; and corporate tax at 28 per cent, also from 30 per cent under Budget 1998.

The Government has meanwhile increased the minimum taxable income to RM2,301 per month under Budget 2001, from RM951 per month in 1995. Personal tax exemption likewise was raised to RM8,000 from RM5,000.

As for sales tax, the rate varies by product, ranging from 5 to 15 per cent, but no tax is imposed on essential goods, agricultural produce and raw materials.

According to the 8MP, while direct taxes (comprising company, individual and petroleum taxes) will continue to be the biggest contributor to revenue, their growth will slow down to help create a competitive environment for doing business in Malaysia.

Sales and service tax collection will contribute 23.8 per cent or RM396.75 billion to the Government's coffers by 2005, up from 12.13 per cent or RM301.27 billion at the end of the 7MP.

During the 8MP period, sales tax collection is expected to total RM65 billion, a 150.58 per cent jump from 7MP's RM25.94 billion; and service tax RM14.4 billion, up 97.26 per cent from RM7.3 billion.

Income taxes in contrast will only grow at an average of 4.8 per cent a year, compared to 6.1 per cent under 7MP.

Direct taxes' contribution to government revenue is expected to decline to 41.3 per cent by 2005 from 47.1 per cent in 2000; while that of indirect taxes, which include export and import duties, as well as sales and service taxes, will grow to 40.2 per cent from 29.1 per cent.

SungeiWay Group corporate adviser Tan Sri Ramon Navaratnam said a low corporate tax regime would be an incentive for local businessmen to expand their operations or venture into new activities.

"If the corporate tax is reduced to 25 per cent, less than Hong Kong and Singapore, for example ... we can draw more foreign investments," he said.

American-Malaysian Chamber of Commerce (Amcham) president Nicholas Zeffreys concurred, saying that a lower corporate tax would make Malaysia more attractive and competitive than its neighbours.

He said Amcham welcomes any move in this direction, which the association has repeatedly suggested to the Government through dialogues and memorandums.

"Any kind of tax reduction, particularly during an economic slowdown or the downside of an economic cycle, is a smart move.

"Private enterprises are the engine of growth and tax relief will definitely help them," Zeffreys said.

The increase in contribution from indirect taxes would be driven by growth in Malaysians' income and the promotion of Malaysia as a tourist destination, the 8MP said.

Navaratnam, who was the Treasury's deputy chief before joining the private sector, said the consumption-based thrust will result in a more efficient and equitable tax regime.

The Government will also be able to collect more revenue as there will be less opportunities for tax evasion, he said.

However, both Navaratnam and Zeffreys suggested that the Government impose a sales tax only on non-essential goods, and mainly products that are consumed by the higher income groups.

"Otherwise, the tax will be punitive and unfair to the lower income earners," Navaratnam said.

They also agreed that the tax reform reflects the country's transition to a developed nation.

But Malaysian Trades Union Congress president Senator Zainal Rampak said there would be no impact on consumer spending from a cut in income tax if the Government increases sales and service taxes, or imposes them on more items.

Zainal, who is also MTUC's consumers movement (3PMTUC) president, said the Government should instead reduce both income and sales taxes so that the prices of goods and services will fall while the public will have more disposable income to buy locally made products.

The Royal Customs and Excise Department expects to collect RM26 billion in taxes this year, up from RM16 billion last year. More than 50 per cent of the amount comprises excise duties or sales and services taxes.

The Inland Revenue Department's collection is estimated at RM30 billion this year, compared to RM29.1 billion in 2000, the largest contributor being the tax on company earnings.

Other sources of Government revenue include taxes on cooperatives, petroleum, land and Labuan Offshore businesses as well as stamp duties.