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Focus on domestic spending

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ANOTHER deficit year, larger capital spending, increased Government income and an RM1.2 billion revenue loss from tax cuts and incentives. And zero reduction for corporate tax!

That's the gist, from the corporate and business perspective, of Budget 2002 unveiled by Prime Minister Datuk Seri Dr Mahathir Mohamad yesterday.

It is one focused on driving domestic spending amid an ailing world economy.

"The proposals to reduce and abolish various kinds of taxes in the Budget 2002 will result in a loss of Government revenue of RM1.2 billion," said Dr Mahathir, who is also Finance Minister.

At the same time, the Government had to increase expenditure to stimulate the domestic economy and seek other revenue sources to strengthen its financial position.

Dr Mahathir pointed out that based on the revenue estimates of RM73.4 billion, the overall Government account is estimated to record a deficit of five per cent of gross domestic product.

This amounts to RM18.6 billion, which is lower than the RM22.4 billion deficit or 6.5 per cent of GDP registered last year.

A total allocation of RM100.5 billion has been set aside for various programmes and expenses next year, an increase of 19.4 per cent compared to the original 2001 figure of RM91.05 billion.

Of the amount, RM66.98 billion is for operating expenditure such as grants and fixed payment obligations (including debt-service charges, payment of pensions and gratuities). The remaining RM33.54 billion is for various development activities.

Contrary to widespread speculation, the Government did not announce a cut in corporate tax as it feels the current rate of 28 per cent was still competitive.

Dr Mahathir explained: "The Government received many proposals to reduce corporate tax. However, the Government does not intend to reduce corporate tax since the rate is still competitive with many countries in Asean and Asia, and developed nations.

"Malaysia does not impose tax on dividends unlike several other countries including Thailand, Taiwan and Japan.

"Furthermore, we have already provided various tax incentives to foreign and domestic investors. If all these are taken into consideration, our effective tax rate is lower."

However, the Government did make a major tax reduction - a one to two percentage point cut in personal tax rates with the maximum rate lowered to 28 per cent from 29 per cent in a bid to get consumers spending.

The move, according to Dr Mahathir, is to increase the disposable income of the rakyat whose purchasing power has been affected by the global economic slowdown.

Sweetening the individual income tax cut is the increase in chargeable income subject to maximum tax rate to more than RM250,000 from RM150,000.

Although the financial blueprint for next year stressed on raising consumption expenditure and did not offer corporate tax reductions, companies are not left out.

For example, those which reinvest in expansion projects, automate or diversify would have the reinvestment allowance period extended from five to 15 years.

The Budget 2002 also proposed cuts on import duties for products that had long been protected, sending a message to investors to up their investments and to domestic firms to sharpen their competitive edge.

The Government decided that import duties on 55 products be reduced from between 20 and 105 per cent to between 10 and 50 per cent.

Besides this, import duties on 171 products, inclusive of intermediate goods such as multimedia projectors, telephone answering machines, furniture components and photographic papers, would be cut from between five and 35 per cent to between zero and 25 per cent.

Dr Mahathir said small and medium companies, the backbone for supporting growth, must participate in the global supply chain management network for on-line and real-time procurement, production and logistics management.

To cut the cost of doing business by shipping companies in the country, it was proposed that income received by non-residents from renting containers to shipping companies be exempted from income tax.