

12/07/2001

## Prospects of corporate tax cut hailed

Hamisah Hamid

THE corporate tax cut, if it materialises next year, will benefit the country's overall economy through the multiplier effect, economists says.

Corporate players, meanwhile, welcome the tax cut as it means more money for them to spend or re-invest.

American-Malaysian Chamber of Commerce (Amcham), which represents American investors in Malaysia, believes that the corporate tax reduction will enhance the country's attractiveness as an investment destination.

"Amcham had been advocating this (corporate tax cut) to help private enterprises during difficult times such as this.

"It will add up to the investors' perception about the business-friendly environment in Malaysia," Amcham president Nicholas Zeffreys said when contacted in Kuala Lumpur yesterday.

Prime Minister Datuk Seri Dr Mahathir Mohamad had hinted on a corporate tax cut, which currently stood at 28 per cent, at the pre-Budget 2002 dialogue on Monday.

Malaysia's 28 per cent tax is behind Singapore's 25.5 per cent, Hong Kong's 16 per cent, South Korea's 17.6 per cent and Thailand, where listed companies pay a preferential 25 per cent.

The country's corporate tax was last reduced in 1998, by 2 per cent from 30 per cent.

Amcham's Zeffreys said if the tax cut is implemented, the cost of doing business in Malaysia will be reduced.

"Companies can then use the money for reinvestment or to purchase equipment.

"The multiplier effect from this will affect the whole economy," he said.

Economists see the tax cut as a stimulative measure which would have direct impact on overall spending when more money is available in the economy.

For foreign investors, they said the tax cut would make Malaysia more competitive and for local businessmen, it will boost their confidence.

Economists agreed that the impact of corporate tax cut is across the board, whereby companies in all sectors will benefit from it.

Rating Agency Malaysia's Consultancy Sdn Bhd chief operating officer Dr Yeah Kim Leng said if the Government announces the tax cut in Budget 2002, the impact could only be seen at the end of next year when companies pay their taxes.

On when the multiplier effect for the whole economy will set in, he said it will be on gradual basis.

On the quantum, Yeah said it would probably be a 1 per cent cut because the Government could not afford a large budget deficit.

"A 1 per cent cut for 2002 is more practical," he said.

It has been estimated that a one percentage point cut would see the Government's revenue fall by RM139 million, assuming no expansion in business activities next year.

For the first quarter of this year, corporate tax collection contributed RM2.6 billion, or 17.6 per cent, to the Government's total revenue. For the whole of last year, RM13.91 billion was collected, or 23 per cent of total revenue.

On whether the tax reduction is able to divert foreign investors' interest in the emerging market of China, economists said the tax cut is

only one of the means to promote a competitive and conducive investment climate.

"It is more than fiscal incentives to attract investors.

"It is a combination of many factors such as quality infrastructure, human resource, stability in legal and regulatory environment and other factors which are supportive for enterprises to create wealth," Yeah said.

Another economist pointed out that Malaysia's corporate tax is still among the lowest in Asia. Japan has the highest corporate tax of 37.5 per cent.

He said given the current economic condition, the Government might introduce more incentives in the coming Budget 2002 for local businesses to step up domestic investment.

(END)