

BUSINESS BOOST

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Budget 2003 expected to include cut in company taxes

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KUALA LUMPUR: The country's 960,000 civil servants and corporate sector are likely to have reason to smile when Prime Minister Datuk Seri Dr Mahathir Mohamed presents the Budget to Parliament today.

There is widespread expectation that Dr Mahathir, who is also Finance Minister, will announce a generous bonus to civil servants and make a cut in corporate tax to encourage businesses to work harder.

The public sector, which had been the engine of growth for the past six years because of the Asian financial crisis, is expected to take a back seat from next year to allow the private sector to resume its rightful role as economic driver.

In the area of corporate tax, experts say a cut of more than 2% is possible, as it has been six years since the last reduction. A mere 1% to 2% cut would not be sufficient to stimulate private sector investments, say analysts.

The talk is that the bonus for civil servants this year could be slightly higher than last year's where they received a half month's bonus or at least RM1,000.

In terms of short- and medium-term measures, this year's Budget is expected to provide measures that will ensure continued steady performance of the economy.

In Putrajaya last night, Dr Mahathir said the thrust of 2003 Budget would be on stimulating the growth of domestic economic activities to increase its contribution towards the overall national economic growth.

He said the Government was planning to shift the emphasis for economic growth from contributions from foreign direct investment and external export to that of domestic economic

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activities. He said sectors that could expect the incentives included tourism, transportation, ports and information technology.

Dr Mahathir said the Government wanted to further develop these economic activities to make them the catalyst of domestic growth.

"We realised that our external trade is twice as big as our Gross Domestic Product whereas in developed countries, this sector makes up only between 20% and 30% of the total GDP.

"So this time around, we will concentrate on packages aimed at stimulating our domestic economic growth so as to increase its contribution to our GDP," he told reporters after checking the Budget preparations at the Ministry of Finance last night.

Lee Heng Guie, manager of the economics division at Hong Leong Bank said there was a

need for the Budget to stimulate late corporations to invest.

"True, many companies are reporting higher earnings but they have to rebuild their reserves. The environment is competitive and margins are thinning. Worldwide, we see companies re-strategising to be leaner and more productive."

"There is a need to reduce income taxes," said Datuk Paul Low, vice-president of the Federation of Malaysian Manufacturers. "In view of the continued Budget deficits, we may need to compensate that through indirect taxes such as value-added tax, which is a more efficient means of taxation and imposed at stages of production in manufacturing and services.

"We need to improve domestic investments, and make a bold move to remove impediments and regulatory rules. People are investing in other parts of the world based on the existence of less regula-

tory rules and competitiveness," said Low.

Economists point out that the situation now has become more competitive, compared with the time when Malaysia was quite ahead of other countries in its push for investments, following the recession in 1985.

They said if government finances did not permit a reduction in corporate tax as yet, there should at least be a schedule for gradual reduction to bring the levels in line with countries in the region.

Dr Mahathir said the Budget would also shift its emphasis from tertiary education which had traditionally received the biggest allocation every year to that of primary education.

This shift, he said, was taken because the Government now realised that time spent in primary level education was the most important time for a pupil.