

13/09/2002

`Single tax incentives authority needed'

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MALAYSIA needs a single authority which conglomerates investing in the country can turn to on all matters related to tax incentives, says Malaysian Institute of Taxation (MIT).

The tax regime must reflect the changes in the global business environment that are driven by the twin process of liberalisation and globalisation, said Lee Yat Kong, MIT council member.

Investors with varied activities should not have to approach the Government based on pre-set criteria that treat each or business or subsidiary separately, he said.

"Potential investors no longer view a country based on selective tax breaks but on the basis of how overall incentives can benefit the entire group's operations," Lee told Business Times earlier this week.

As such, Prime Minister Datuk Seri Dr Mahathir Mohamad's announcement that the Government is adjusting its economic strategy to respond to new circumstances is welcomed, he said.

Dr Mahathir, who is also Finance Minister, had said that the Government is studying various suggestions with a view to effecting a paradigm shift in policies.

It is hoped that the exercise includes the consolidation of existing tax incentives through the creation of a one-stop centre, said Lee, who is MIT's technical and public practice committee deputy chairman.

Although the current tax regime provides wide-ranging incentives to invest in Malaysia, such as double tax deduction and pioneer status, they are fast losing effectiveness and relevance.

This is because investors are currently only able to enjoy the tax benefits if they modify their investment plans to comply with specific pre-set criteria.

"All other activities will be discounted, regardless of the fact that they might be part and parcel of a group investment," Lee said.

In a number of neighbouring countries, incentives are already being granted on a holistic basis, irrespective of the eligibility of specific activities, Lee added.

"We need to revisit the existing incentives and refine them.

"We have to determine why some areas are not addressed and some sectors neglected."

By having one agency to handle all tax and non-tax incentives, the Government can more effectively see to the needs of both foreign and local investors, he said.

And one main complaint among local investors is that the existing tax incentives tend to favour foreign companies.

In addition, they are skewed towards manufacturing-based investments and do not reach down to primary activities like agricultural ventures and raw material production.

There is also a need to recognise a "group of companies" as a single entity in line with the cluster-based approach to development.

Here, MIT suggests that Schedule 4(C) on group relief of the Income Tax Act 1967 be extended to all Malaysian companies as a way to fast-track the adoption of the cluster/linkages concept and promote competitiveness.

Schedule 4(C) stipulates that a company resident in Malaysia in the basis year of assessment may surrender its adjusted loss, in full or in part, in the basis period for that year of assessment, to one or more

related companies resident in Malaysia.

On indirect taxes, MIT hopes the Government will remove the service tax levied on "intra-group management services" in keeping with the drive to get local companies to restructure their operations for greater efficiency and competitiveness in the export market.

"It is counter-productive for a service tax to be imposed on companies that are centralising their management services to improve overall group efficiency," Lee said.

The sales and service taxes in the country are governed by the Sales Tax Act 1975 and Service Tax Act 1975.

The service tax is 5 per cent, applicable to service providers like hotels, restaurants, entertainment outlets and professional functions like accounting and legal services, based on a minimum annual turnover.