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Growth strategy tweaked: Dr M (HL)

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THE Government is adjusting its strategy to stimulate the economy in response to changing conditions, says Prime Minister Datuk Seri Dr Mahathir Mohamad.

"We have to change our strategy... we are studying various suggestions on how to make some kind of paradigm shift on policies and taxation and allocation of funds," he said after officiating at the Second National Tax Conference 2002 in Kuala Lumpur yesterday.

On the 2003 National Budget to be tabled on September 20, Dr Mahathir, who is also Finance Minister, said there will be "no surprises".

It will be Malaysia's fifth deficit budget since 1998 and funds will be allocated for a two-year period through to 2005.

Dr Mahathir had earlier said he would unveil new strategies in the Budget to attract foreign direct investment (FDI) and identify new growth areas which can contribute to the economic expansion.

Tax consultants expect the Government to introduce a new tax structure that is skewed towards consumption tax, meaning sales and value-added taxes or a goods and services tax (GST).

But they said a GST would likely be introduced at the earliest only in 2005 when the country has to comply fully with the free trade regime under the Asean Free Trade Area (Afta).

They believe the GST or a broad-based consumption tax would be needed to offset a fall in government revenue due to cuts in import duties.

The 2002 Budget is an expansionary one, designed to boost economic activities and consumer confidence amid uncertain external conditions.

A year earlier, it was aimed at bolstering the economy through pre-emptive measures against external shocks like a possible slowdown in the US economy. That Budget also identified information communication technology as the new growth sector.

The Prime Minister has meanwhile also asked the Inland Revenue Board (IRB) to pay greater attention to global issues like transfer pricing and electronic commerce.

He noted that under transfer pricing, companies can declare lower profits in Malaysia and pay less taxes.

"Our (corporate) tax is 28 per cent but there are places where it is 16 per cent."

On whether the Government will increase taxes on tobacco and alcohol, he said the matter is still being studied.

"We have to be very careful whether we should increase taxes on such items because they can lead to a lot of smuggling," he said.

Unless the Government can improve anti-smuggling measures, raising taxes on tobacco will not lead to an increase in government revenue, he added.

"There is plenty of time, even at the last minute, we can decide."

Economist Tan Sri Ramon Navaratnam is meanwhile hopeful that the corporate tax will be reduced in line with the Government's efforts to make Malaysia more competitive.

Speaking to Business Times at the sidelines of the conference, he said the private sector is anticipating a cut, although there is so far no indication to the effect from the Government.

"There will be disappointment if there is no corporate tax cut," he said.

The private sector, represented by trade associations and chambers of

commerce, have urged the Government to reduce the corporate tax in the upcoming Budget.

They reasoned that a lower tax would be an incentive for the local private sector while also serving to attract foreign investment.

Singapore had earlier this year cut its corporate tax to 22 per cent from 24.5 per cent, and has plans to gradually reduce it to 20 per cent by 2005.

Corporate tax in Hong Kong is 16 per cent, South Korea 28 per cent and China 30 per cent.