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TAX-CORPORATE

CORPORATE TAX CUT WILL MAKE PUBLIC SPENDING MORE EFFICIENT

KUALA LUMPUR, Sept 16 (Bernama) -- A cut in corporate tax rate from 28 percent to 26 percent could be in the bag for Budget 2003, which is expected to be investor-oriented and make public spending more efficient, said a tax consultant.

Tax Advisory And Management Services Sdn Bhd (TAMS) executive director, Yong Poh Chye said the government should gradually reduce the top corporate tax rate over a couple of years as it would make Malaysia more competitive in attracting foreign direct investments (FDI).

As a lower corporate tax rate would lessen the cost of capital, he said the government could also reduce the tax rate to 24 percent in 2004 and a further 2.0 percent in year 2005 to provide a more favourable tax regime for businesses.

Yong told Bernama that Singapore would cut its corporate tax rate from 22 percent this year to 20 percent in 2005.

It was vital for Malaysia to have measures that would continue to encourage multinationals to invest and enhance the role of the private sector, he said.

"A cut in corporate tax could save businesses in Malaysia millions of ringgit," he said, noting that Singapore's corporate tax cut to 20 percent by 2005 is estimated to save businesses about S\$700mil a year in the island republic.

Yong said that although a one percent drop in corporate tax would generally reduce the government's revenue by RM500mil, this could be offset by reducing the government's petroleum subsidy which was said to be RM6bil a year.

The government could expand its sales and service taxes coverage to allow further cuts in corporate tax, he said.

He said the government could adopt a one-tier corporate taxation system where the taxes collected from corporate profits would be final while the dividends declared would be exempted.

A company's tax administrative work will be simplified with the one-tier system and it will not have to worry of the chargeable income if it were to declare dividends, Yong said.

At present, Malaysia is using an imputation system in which businesses that are able to declare dividends to shareholders must be aware of the amount of tax credit it has with the Inland Revenue Board as well as the availability of cash.

Yong said businesses had to monitor their credit balance with the Inland Revenue Board (IRB) under the imputation system, for the company had to pay the IRB a section 108 charge if the tax deducted from dividends franked exceed that of the credit balance.

If the one-tier system was adopted, he said the government could encourage the companies to payout dividends through franking tax credits as at Dec 31, 2002, making it in line with the self assessment system (SAS) for companies which encouraged calendar year as the fiscal year.

The one-tier corporate system is currently practised in Hong Kong and will be implemented in Singapore beginning next year.

On personal income taxes, Yong stressed that the maximum rates for corporate tax and personal income tax should remain the same.

However, he said that in order to improve the social well-being of Malaysians, the government might want to cut the personal income tax rates

from 28 percent to 26 percent as well as to reduce the tax rates for all personal income bands.

He said that the government should also reduce the number of bands from 11 to say eight, adding that the first chargeable income of RM5,000 be exempted from tax while any chargeable income in excess of RM150,000 would be taxed at 26 percent instead of the present 28 percent.

"Better still, if the government even consider reducing the maximum personal tax rate to be on par with the proposed corporate tax rate of 24 percent in 2004 and 22 percent in 2005," Yong said.

Alternatively, he said that the government could consider increasing personal relief for the Employees Provident Fund (EPF) and insurance premium payments from RM5,000 to RM7,000 each for husband and wife.

In what is believed to be Prime Minister Datuk Seri Dr Mahathir Mohamad's last budget presentation as Finance Minister, Yong said Malaysians could expect some generous handouts beginning with the 900,000 or so government servants receiving some handsome bonus payouts.

Commenting on sales tax, Yong said it was unnecessary for the present costs for licensing, advertising and promotions to be included in the valuation of locally manufactured goods but excluded from imported items.

He expressed the hope that the government would only introduce one valuation method that could be adopted for both local and imported goods, thus, encouraging further investment in the manufacturing sector. --

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