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KPMG-BUDGET

KPMG: BUDGET 2003 AIMS FOR A MORE COMPETITIVE MALAYSIA

KUALA LUMPUR, Sept 26 (Bernama) -- Chartered Accounting firm, KPMG regards the recently tabled Budget 2003 as people friendly, aimed at positioning Malaysia on a more competitive footing and stimulating growth for certain domestic activities.

KPMG addressed issues and implications of the Budget 2003 at its Annual Executive Tax Briefing held here today.

In a statement, KPMG Malaysia Partner-In-Charge of Tax, Khoo Chin Guan said: "As expected, the budget contained targetted stimuli rather than across the board tax cut."

In this way, he said the Prime Minister Datuk Seri Dr Mahathir Mohamad has avoided the stigma of an "Electron Budget" but at the same time has produced a budget which should be well-received on both the domestic and international front.

"The philosophy echoing through the Budget speech was to target specific fiscal stimuli rather than introduce across the board tax cut.

"Although corporate tax remained at 28 percent for the last six years, Dr Mahathir who is also Finance Minister has once again resisted a rate cut," he said.

The government's view is that tax cut alone would not necessarily influence foreign investors' decision to invest in Malaysia, and therefore focussed their attention on providing targeted incentives.

"In view of the above, limited relief was given to small and medium industries such that companies with a paid-up capital of less than RM2.5 million will pay tax at only 20 percent on the first RM100,000 of chargeable income.

There is however, the concern as shareholders may still have to pay the eight percent tax when dividends are received, Khoo said.

In order to further develop Malaysia as a progressive and high technology industrialised nation and to accelerate export market penetration, tax relief was proposed for locally owned companies that acquire foreign-owned companies overseas.

Relief will be in the form of a five year tax write off from the acquisition cost.

As approval is needed from MIDA, which has not yet issued any guidelines on the criteria for the incentive, it is hoped that this will not be too cumbersome a procedure given that corporates under self assessment must manage their tax estimates, he said.

He added that it remained to be seen whether companies acquiring foreign businesses through investment holding companies or debt financing will enjoy the incentive.

To further develop the Islamic capital market, the government introduced further tax incentive for the issuance/restructuring of Islamic Private Debt Securities based.

Khoo said the proposed incentives seem to fall short of market expectations as it failed to address existing real property gains tax and stamp duty issues.

Economies of scale have been sought within corporate groups by centralising group services typically within a wholly-owned management company.

However, such measures have been frustrated by attempts to impose service tax. Under the budget proposals, intra group professional services

would be exempted from service tax from Jan 1, 2003 in line with the government's aim of making Malaysian businesses more competitive.

On the whole, Khoo said the Prime Minister has taken care to ensure that budget measures help those sectors that can provide sustained growth.

-- BERNAMA

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