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Small, medium-scale companies enjoy tax cut

reports on "(Budget 2003)" by Hamisah Hamid; Adeline Paul Raj;
AS EXPECTED, the Government lowered the corporate tax rate, but only for small- and medium-scale companies, so as to promote domestic-led growth in the country.

It was proposed under Budget 2003 tabled yesterday that companies with a paid-up capital not exceeding RM2.5 million be subject to a 20 per cent corporate tax rate - instead of 28 per cent currently - for chargeable income of up to RM100,000.

The tax rate on the remaining chargeable income is, however, maintained at 28 per cent.

This means a company entitled to the new rate will save RM8,000 on the first RM100,000 of its chargeable income.

The new tax rate is effective from the 2003 assessment year and is expected to cost the Government some RM270 million in revenue.

Dividends distributed will be given a tax credit of 20 per cent in the hands of the shareholders.

Prime Minister Datuk Seri Dr Mahathir Mohamad, who is also Finance Minister, said in his budget speech that the move is in tandem with the Government's policy to promote domestic investment, especially among the small- and medium- scale industries (SMIs) that currently do not have many tax incentives.

Although disappointed that the corporate tax rate was not broad-based, economists and tax consultants contacted by Business Times acknowledged that SMIs deserve the boost as they form the backbone of a country's domestic economic activities.

"In view of the uncertainty in the global economy, we believe the Government is banking on stronger domestic activities as one of its future growth strategies while reducing over-reliance on external drivers," said economist Azrul Azwar of MIDF Sisma.

The market had largely anticipated a corporate tax cut of at least one percentage point to 27 per cent across all sectors to promote greater foreign direct investment (FDI) inflow. Singapore has just cut its corporate tax rate by 2.5 percentage points to 22 per cent in 2003 and plans to reduce it further to 20 per cent by 2005.

"I'm a bit concerned at the disparity between the Malaysian and Singaporean rates," said Quah Poh Keat, vice president of the Malaysian Institute of Taxation and managing partner at KPMG Malaysia. He had hoped that the corporate tax rate would be cut to 25 per cent for all sectors.

Dr Mahathir, in his budget speech yesterday, however, said that a low corporate tax regime would not necessarily attract more FDI, pointing out that Malaysia had been successful in attracting FDI even when the tax rates were higher at 40 per cent in the 1980s and 30 per cent in the 1990s.

However, there are others who disagree.

"You have to look at the region as a whole... at that time, Indonesia and China had not really come up yet and Malaysia's labour costs were still low," said Lee Lee Kim, executive director at Deloitte KassimChan Tax Services Sdn Bhd.

Dr Mahathir said even if foreign investors paid lower taxes in Malaysia, they also had to pay taxes in their country of origin, thus "our tax foregone will be tax gained in their country".

He remarked in his speech that corporate tax should not be viewed in

terms of its nominal rate only. "We must also take into account the provision of tax incentives. If these incentives are included, our effective tax rate for the manufacturing sector is only 8 per cent," he added.