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SMIs get a shot in the arm with incentive package

CORPORATE TAX CUT

THE proposed corporate tax cut in Budget 2003 will benefit only small- and medium-scale industries, which the Government hopes will promote domestic investment.

Prime Minister Datuk Seri Dr Mahathir Mohamad announced in his capacity as Finance Minister that corporate tax for SMIs, with paid-up capital of RM2.5 million or less, will be reduced from 28 per cent to 20 per cent on chargeable income of up to RM100,000.

The corporate tax rate on the re-maining chargeable income is maintained at 28 per cent. The proposal, which will result in a revenue loss of RM270 million to the Government, will be effective from next year.

Dr Mahathir, said this is to promote domestic investment by SMIs, a group which does not benefit as much from tax incentives as large companies.

SMI Association of Malaysia president Looi Teong Chye described the eight per cent tax savings amounting to RM8,000 as equivalent to outright grants to profitable and viable SMIs.

He urged SMIs to use the savings to upgrade their information communication technology facilities and enhance their competitiveness.

"The fact that this is given in the form of lower tax as opposed to grants shows the Government's seriousness in helping to further develop SMIs.

"With attractive tax incentives for increased exports and the development and penetration of new markets, the Government has signalled SMIs to be more export-oriented," he said.

To enhance exports and ensure Malaysian goods penetrate the global market, Budget 2003 has proposed tax exemption for statutory income equivalent to 30 per cent of increased value provided the company achieves a significant increase in export.

Currently, tax exemption for statutory income equivalent to 10 per cent of increased export value for products is given to exported goods which attain at least 30 per cent value added.

Malaysian Plastics Manufacturers Association president Callum Chen welcomed the reduction of corporate tax for small enterprises but stressed that more emphasis should be given "to teaching the owners how to fish".

"Of course, we would want a bigger chunk of our profit to enjoy the 20 per cent corporate tax but this is only a short-term measure.

"Equally important are tax incentives based on staff training initiatives as this will spur more local industries to move up to a new level of competency."

MPMA has 900 members, 70 per cent of which are SMEs, and they lack modern technology or are not keen to seek progress by carrying out research and development activities.

"Likewise, the granting of pioneer status or an investment tax allowance under the high technology incentive package is only as good as it sounds.

"SMEs which are proactive might benefit from the scheme but generally many are ignorant on how to tap the benefits.

"It still boils down to the relevant government agencies and the industries concerned to create a highly specialised but affordable training module, which can produce trainees who have the aptitude for design and can develop high quality products".

Budget 2003 has proposed that several categories of machinery, including plastic extrusion machinery, be included in the list of products eligible for pioneer status, with 100 per cent income tax exemption for 10 years or an investment tax allowance of 100 per cent for five years.