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## The tax equation in Budget 2003

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IN A few days the country will go through the annual ritual of the tabling in Parliament of the national budget for the year ahead.

Unlike in most countries, the occasion gets an exceptional amount of attention in Malaysia. Perhaps the novelty of following a Dewan Rakyat sitting "live" has something to do with it.

Malaysians also tend to treat each budget presentation like the proverbial Christmas morning. What does Santa have in store this year? Are there any goodies? Cheaper computers? Less expensive cars? Will we be paying more for Belgian chocolates? Will the boozers and smokers find reason enough this year to scale back their sins?

Obviously the budget is much more than that. It encapsulates the country's plan for the year; in fact, for the first time this year, for two years.

The budget will balance Federal Government income and expenditure, detail the fiscal and monetary policies aimed at attaining social, economic and political objectives.

Every year brings new challenges. For Budget 2002, the much anticipated end-2001 global economic recovery did not materialise and after September 11 expectations of a rebound were put on hold, first till the first half of this year, and then the second half.

Now economists say it would not happen before the second half of 2003.

Global capital markets have turned bearish and consumption slowed. There is also the wild card of the US campaign against Iraq that promises to throw all forecasts out of whack.

All these will likely be contained in Datuk Seri Dr Mahathir Mahamad's speech on Friday.

The Prime Minister and Finance Minister is tabling the budget is a bit early this year, prompting the conspiracy theorists among us to ask why.

The budget had normally been tabled on the last Friday of October.

Perhaps, it has been decided that an earlier tabling would allow for implementation of new schemes, projects and incentives before the calendar year-end. But who knows?

For businesses, their main interest would be a corporate tax cut. There has not been one for quite a while, the last being in 1998 when the rate was cut to 28 per cent from 30 per cent.

Many have suggested that a cut is necessary to ensure that the country remain competitive in respect of foreign direct investments (FDIs). A very unscientific poll of tax consultants and capital market analysts point to just that in Budget 2003.

Dr Mahathir has said that the Government will step up efforts to attract and keep FDIs. However, he did not indicate whether that means a lowering of corporate income taxes, or merely a fine-tuning of investment incentives.

Neighbouring Singapore, reeling from one of its worse recessions and feeling the heat of regional competition, has already decided to bring down the corporate tax. It will be 22 per cent next year, and 20 per cent by 2005.

The question that one would ask is will lowering taxes now have the desired impact? Is there an alternative strategy?

Many of the earlier arguments about the tax rate-competitiveness relationship have been thrown out the window following one of the most

significant developments in international trade last year - China's entry into the World Trade Organisation (WTO).

The Middle Kingdom has awoken, and it does not seem like it will be taking any prisoners. The country is a direct competitor to everyone, the regional economies especially.

It is not only physically large, populous and developing, suggesting endless possibilities for the astute businessmen, but it also wields considerable economic influence.

Its cheap workforce, large market and low entry requirements when compared to the neighbours have drawn multinationals in droves to set up base there.

Even for some local corporations, it makes economic sense to relocate to China.

The only thing not going its way is the maze-like bureaucratic peculiarities. Even those are slowly disappearing, and its WTO membership will only serve to expedite the process.

Against China, a lower corporate tax alone may not really work for Malaysia.

Better incentives, ever more skilled workers, efficient infrastructure and continued stability will be needed.

Having said that, there is always a case for a lower income tax regime. It rewards efficiency, and encourages companies and individuals to be more truthful in their income declarations.

However, a tax cut has to be accompanied by a widening of the tax base, lest the country's coffers get depleted.

Too many businesses, especially the smaller ones, might not be pulling their own weight in terms of contributing to the economy's development, and have in fact been subsidised by taxpayers.

This year, the Inland Revenue Board expects to collect close to RM50 billion in taxes, 80 per cent of which will be from businesses. Conceivably a lot more could be raked in if the grey areas are audited and acted upon.