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FUNDS-SMI

USE SAVINGS TO REINVEST AND EXPAND, SAYS CHAN

By: Mikhail Raj Abdullah

KUALA LUMPUR, Oct 4 (Bernama) -- Although the government will forgo some RM270 million in revenue from the reduction in the tax rate for small and medium scale industries (SMIs) announced in Budget 2003, the incentive is aimed at encouraging such industries to reinvest the savings to expand their operations.

Deputy Finance Minister, Datuk Chan Kong Choy, said SMIs should strive to become larger and more competitive entities rather than falling into the dividend trap whereby they use the increased savings to distribute to shareholders which would then be taxable.

The incentive forms part of the government's efforts to make the domestic economy more resilient by increasing domestic demand and investment more so since SMIs form the backbone of the nation's industrial sector, he said during an informal dialogue with the media on Budget 2003.

It is proposed that small and medium scale companies with paid-up capital of RM2.5 million and below at the beginning of the basis for a year of assessment be subject to corporate tax at the rate of 20 percent on chargeable income of up to RM100,000.

For chargeable income in excess of RM100,000, corporate tax at the rate of 28 percent is still applicable.

However, Chan lamented that there were some roadblocks to spurring domestic investments, foremost of which was the reluctance by banks to disburse loans especially to new and productive areas such as SMIs, services, modern agricultural and knowledge-based activities.

That was why Prime Minister and Finance Minister Datuk Seri Dr Mahathir Mohamad warned financial institutions when unveiling the Budget that the Statutory Reserves Requirement (SRR) might be raised.

Currently, the SRR, a set of funds that banks are required to deposit with the central bank where they earn no interest, is at an all-time low of four percent.

According to latest figures, he said that loans growth by financial institutions at about 3.6 percent "was not up to expectations" although the target 8.0 loans growth laid down by Bank Negara after the 1997 financial crisis was still in force.

Chan said that if the banks were not forthcoming in lending more to stimulate business activity, then the government would have to take the lead by using the increased funds from an increased SRR.

He also said that Malaysia was still attractive as an investment destination given the low cost of doing business which was why there was no necessity to lower the corporate tax despite widespread anticipation.

The deputy minister said that Malaysia's effective rate was very low at less than 10 percent when all the incentives and relief offered especially for the manufacturing sector were taken into account.

Besides this, the country's political stability, incentives for reinvestment, and telecommunication and transport facilities were among additional factors sweetening the deal for investors.

Malaysia, he said, was also trying to lessen the dependence on exports which accounted for a bulk of the country's Gross Domestic Product, which at 120 percent was too high, as well as on foreign direct investments.

Comparatively, in developed countries such as the United States, they accounted for 15 percent and Japan less than that, which was why Malaysia was looking inward to make its economy more resilient by boosting domestic

demand and domestic investments.

He said that revenue collection by both the Inland Revenue Board and Royal Customs Department had improved tremendously over the years.

IRB's collection went up to RM42 billion and over RM43 billion in 2001 and 2002 respectively from RM32 billion in 2000, thanks to friendly street surveys, he said. A more successful approach has also been taken to persuade people to pay up as well as the decentralisation of the payment system with 30 over stations nationwide to facilitate payments. -- BERNAMA

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