

Corporate, personal tax cuts likely

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KUALA LUMPUR: Budget 2004 proposals will be people-friendly and election-biased with emphasis on sectors like education and healthcare, according to economists.

Corporate and personal income taxes may be reduced but some sin taxes could be raised to offset the decline in revenue, they add.

The economists expect a slight reduction in development expenditure as the government seeks to achieve its budget surplus target of RM4.6 billion in 2005.

However, they say selected areas that directly benefit the people, such as education, healthcare, infrastructure, agriculture and rural development, would continue to be given priority.

They say expenditure cutbacks will continue to be gradual and non-disruptive to economic growth amid global uncertainties as well as the increased liberalisation of the global economy.

Prime Minister Datuk Seri Dr Mahathir Mohamad, who is also the finance minister, will present his final budget proposals on Sept 12 before he retires in October.

According to the economists, the Budget 2004 proposals are seen to be tailored to the general election that

is expected to be held soon.

They expect Budget 2004 to see another year of deficit, the 7th consecutive year of deficit since 1998.

For 2003, they estimate the budget deficit to be 4.9% of GDP at RM18.5 billion.

Mayban Securities Research says in a report issued yesterday that it expected a revenue shortfall this year.

"The government had forecast a direct and indirect tax revenue of RM50.6 billion and RM22.5 billion respectively" it said, due to the outbreak of Severe Acute Respiratory

Personal tax rebate is expected to be increased to RM200

Syndrome and the Iraq war.

However, the deficit for 2004 is expected to decline to 2.5% of GDP at RM10 billion. Development expenditure allocation by sector would see a slight reduction to RM34.96 billion from RM35.98 billion in the previous year, it adds.

On corporate taxes, the economists expect the reduction to be gradual over a two-year period to 24% from 28%. Corporate tax was lowered in 1998 to 28% from 30%.

Although the government may lose some RM800 million in revenue for every one percentage tax cut but the move would likely raise the competitiveness of the small- and medium-sized enterprises (SME) to survive and compete in the liberalising world economy.

Hongkong's corporate tax is 17.5%, Singapore 22% and Taiwan 25%.

To further promote SME investments, the economists expect the threshold level of chargeable income taxed under the lower rate of 20% to be raised to RM200,000-RM300,000.

Currently under Budget 2003, SMEs are taxed at a lower rate of 20% on chargeable income up to RM100,000 while the remaining chargeable income is taxed at 28%.

However, the economists' views differ on personal taxes. While an economist with a local research house does not see a reduction in personal tax, he expects the threshold of taxable income level subjected to higher marginal tax rates to be revised upwards to RM350,000 from RM250,000 currently.

Meanwhile, Mayban Research is optimistic about tax cuts and expects personal tax rebate for the lower income tax bracket to be increased to RM200 from RM110 and to RM100 from RM60 for spouses. theedgedaily.com