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CAR-DUTY

EXPECT HIGHER EXCISE DUTIES ON IMPORTED AND LOCAL CARS, SAYS KPMG

KUALA LUMPUR, Sept 17 (Bernama) -- The government may impose a higher excise duty on imported as well as local cars to compensate its revenue loss once the import tax on motor vehicles coming from other Asean countries is reduced, a tax consultant said here today.

"The import tax is a big source of revenue for the government. I don't think that we can simply let go that kind of revenue. So, to compensate for this, the excise duty would come into play," said KPMG Tax Services Sdn Bhd's director, Khoo Chin Guan.

However, he believed that the reduction in import tax for cars would not have a strong impact on government revenue as the bulk of car sales in Malaysia was local or completely knocked down (CKD) cars.

"But that ratio could switch if CBUs become cheaper (because of the lower import tax). So to offset the loss, I don't think you need a very high excise duty. For example, the 300 percent import duty would not turn out to be 300 percent excise duty," he told a press conference after KPMG's 2004 annual executives tax briefing here.

Currently, the import duty for imported passenger cars range between 140 and 300 percent but there is no excise duty while the locally manufactured passenger cars attract an excise duty of between 25 and 65 percent.

When tabling the 2004 Budget last Friday, Prime Minister Datuk Seri Dr Mahathir Mohamad had said the government would levy excise duties on imported cars when import duties on them were reduced from Jan 1, 2004.

Another KPMG director Shalet Marian said the big question was the range of excise duties that could be imposed, whether they would follow the current excise duty regime or whether they would be higher.

"They (the government officials) have not worked out (the percentage of) excise duty (to be imposed). It is probably going up. So what happens is both importers and local manufacturers will pay probably the same rate of (excise) duties," she said.

The excise duties would probably be based on a car's value and to compensate for the revenue drop from the reduced import tax, the excise duties have to be higher, she said.

This meant that there would be some changes in car prices, either the local ones would become expensive or imported cars becoming slightly cheaper, said Chew Theam Hock, another director of KPMG.

He said a higher excise duty should not be a problem for local car manufacturers to be competitive as there were exemptions in excise duties on Malaysian cars or for local content.

"They should also be able to cut down costs by using small and medium enterprises (SMEs) to manufacture car parts and components. The government has given a lot of incentives to SMEs and that should help as well," he said.

Chew said SMEs were important in helping to propel consumption and promote Malaysian products and thus there should be a change in mindset for SMEs.

"They cannot just rely on anchor companies as the only means to survive," he said.

Khoo also said there was an increasing trend in the international tax regime, namely in the reduction of direct taxes and the government's revenue loss could be replaced by indirect taxes such as consumption tax.

"In two or three years' time, this (reduction in direct taxes) will probably become a reality in Malaysia as well," he said.

"So in that sense, if the government wants to introduce a broad-based consumption tax in the form of sales and service tax then the only logical thing to expect is a reduction in corporate tax and personal income tax," he said, adding that the date of implementation of the sales and service tax would not be too far away as it would enable the easier administration of taxes. -- BERNAMA

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