

M'sia looks to GST for revenue as oil prices drop

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Plunging oil prices are sapping revenue from Prime Minister Najib Abdul Razak's government, putting the onus for budget repair on a new consumption tax.

The trouble is, the new levy could fall short.

A drop of more than 20 percent in crude prices since June has undermined a major source of revenue for the oil exporter, worsening the deficit by more than RM4.4 billion, according to Bank of America Corp estimates.

While Malaysia expects the new tax to bring in RM23.2 billion in 2015, all but RM690 million will disappear into handouts to the poor, exemptions and related expenses.

Najib wants to trim the government's deficit to 3 percent of gross domestic product in 2015 as pressure mounts on emerging-market economies to shrink budget gaps ahead of potential capital outflows next year, when the US may raise interest rates.

The ringgit has declined about 3 percent against the dollar in the past three months as strategists cut their forecasts for the currency on concern the nation is vulnerable to a selloff.

"With oil prices falling, Malaysia may lose out and the probability of a miss of the deficit target is high" next year," said Chua Hak Bin, an economist at Bank of America Merrill Lynch in Singapore.

The goods and services tax's exclusion list doesn't help as "when you start exempting a lot of items, you introduce loopholes, implementation could be vague, and it defeats the original purpose," he said.

Growing list

Najib this month added fruit, bread and 2,900 brands of medicines to the growing list of now 900 items exempt from the levy that will start April 1.

At the same time, only about a third of the companies that will have to charge the GST have registered to do so two months before the year-end deadline, according to the Customs Department.

Brent crude fell to US\$82.60 a barrel on Oct 16, the lowest settlement since Nov 23, 2010. Malaysia's benchmark Tapis was at US\$88.28 yesterday, down 26 percent from this year's high of US\$119.39 on June 20.

That puts at risk the government's revenue projection for 2015, which was based on US\$105 a barrel for Tapis.

Oil has collapsed into a bear market amid rising global supplies as leading Organisation of Petroleum Exporting Countries members resisted urgings to cut production.

In his annual budget this month, Najib also offered bigger cash handouts as he contends with opposition to the new tax that has bubbled since he announced it in 2013. Consumers and businesses lament the added burden after food and fuel subsidy cuts in recent years.

Malaysia forecasts a fiscal deficit of 3.5% of GDP in 2014 from 3.9 percent last year, and Najib is targeting a balanced budget by 2020.

Petroleum income

Oil-related revenue accounted for about 30 percent of the Malaysian government's total, and it earned direct income of RM29.8 billion last year from petroleum, according to Bank of America. A 10 percent decline in crude prices will worsen the fiscal deficit by 0.2 percent of GDP, Chua estimates.

Revenue from the 6 percent consumption levy will be offset by RM4.9 billion in assistance to low-income households, RM3.8 billion lost from exemptions to the GST and RM13.8 billion in foregone income due to the abolishing of an existing sales and services tax.

Other goods exempted from the GST include diesel and a widely-used grade of gasoline, piped water supply, some electricity usage and transportation services. Coffee powder, tea dust, noodles, newspapers, as well as washing machines, household furniture and plastic pails are also excluded.

"The list of exemptions seemed too long and there is a lack of emphasis that some of the offsetting measures will be only temporary," said Euben Paracuelles, an economist at Nomura Holdings Inc in Singapore. "The risk is these things could become a bit more permanent, so the pick-up in net revenue impact over time does not yield more fiscal benefits to bring down the deficit more consistently."

Moody's Investors Service has criticised some of the measures the government is taking to cushion the effect of subsidy cuts and the implementation of GST on consumers' purchasing power, saying that it blunts the effectiveness of the changes. Malaysia will cut corporate taxes in 2016.

About 107,500 businesses have registered for the GST as of Oct 27, Bernama news agency reported yesterday, citing the Customs Department. That compares with the 300,000 companies that the government estimates have to take part in the new tax regime. The deadline for registration is Dec 31, and all businesses with an annual revenue of at least RM500,000 have to sign up.

One group of Malaysians doesn't have to worry about the GST. The Agong, sultans and official rulers of 13 states won't have to pay any duties save for those on petroleum, according to an order from the Attorney-General's Chambers.

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