

Budget 2013: Economists call for prudent spending and GST
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By Lee Wei Lian

KUALA LUMPUR, Sept 27 — Putrajaya needs to ensure that it spends within its means to bolster its fiscal position and shore up investor confidence, economists have said, despite talk that Budget 2013 will be filled with election goodies to boost Barisan Nasional's (BN) chances at the ballot boxes.

RAM Holdings chief economist Yeah Kim Leng said that while the government could not cut back on spending in order to mitigate effects of the slow global economy, it must not breach spending limits in order to sustain the confidence of the private sector.

"Given the fact that the global economy is weak, the government can't cut back on spending in order to support the economy but it can still spend without breaching limits," said Yeah. "A healthy balance sheet can boost investor confidence and crowd in domestic and business spending."

Maybank Investment Bank chief economist Suhaimi Illias said that he wanted to see that money allocated in the budget is spent effectively and that leakages and wastages are cut down.

"Recommendations in the Auditor-General's Report should be implemented," he said.

Suhaimi also hoped the budget would help set the public mindset to be ready for the implementation of the Goods and Services Tax (GST) which the prime minister said last year was likely to be implemented after the general election.

"While the government will try to be people-friendly in the budget, it is good for the government to get businesses and people to be prepared for GST," said Suhaimi.

Malaysia's government financials are considered among the weakest in Asia and many economists have called for the implementation of GST in order to shore up the government's revenue base.

Global ratings agencies such as Standard and Poor's (S&P) and Fitch have recently warned of credit rating downgrades if Malaysia does not implement significant reforms to its financials.

Fitch Ratings said last month that Malaysia has yet to present a convincing plan to tackle the twin fiscal threats of its federal budget deficit and federal debt even though strains on its credit profile are increasing.

It also noted that the country's public finances are weak relative to those of its "A"-rated peers and the Malaysia is now on par with more heavily indebted "A" range sovereigns such as crisis-hit Italy.

Malaysia also tumbled down four spots to 25th in the World Economic Forum's rankings of most competitive countries this year, partly due to a deterioration in its Government Budget Balance ranking, which fell alarmingly from 96 to 110.

Citi economist Kit Wei Zheng said that with elections so close on the horizon, any talk of GST implementation however will likely be deemed politically toxic.

"With GST implementation only possible after elections, any hoped for cuts in personal or corporate taxes will likely have to wait, though a pre-announcement of cuts in 2014 would be a positive surprise — and probably a precursor to concurrent GST implementation," he said.

RAM's Yeah also said that any spending by the government should also be meritocratic in nature in order to spur national competitiveness by encouraging the right kinds of activities by the private sector.

This includes tying spending to research and development, skills development and worker training.

"Government spending should be used to help build the competitive foundations of the economy," said Yeah. "One of the roles of government spending is to shape the right type of individual spending and behaviour."

Citi's Kit said that he expects this year's budget deficit to be on target at 4.7 per cent of GDP.

He added that for 2013 he expects the government to refocus its efforts on fiscal consolidation once elections are out of the way, possibly bringing the fiscal deficit down to about 4.3 per cent of GDP.

Budget 2013 wish list from:

Federation of Malaysian Manufacturers

1) Reinvestment Allowance: Extend reinvestment allowance which is given to encourage companies to reinvest for the purposes of expansion, automation, modernisation or diversification of their existing businesses into any related products in the same industry. Current period of tax exemption is 15 years.

2) Incentives for Energy Efficiency and Conservation: Shorten approval process which is currently too slow. For example, it took a member company approximately nine months for an equipment, e.g. a burner worth RM700,000 for energy saving project, to be approved under the EE incentives. Application to MIDA was submitted on January 28, 2010 and was finally approved on October 29, 2010.

3) Lower Corporate and Income Taxes: Malaysia's corporate and income tax rates are uncompetitive compared to Singapore and Thailand. Malaysia's corporate tax rates should be reduced to 23 per cent with consistent reductions once every two years thereafter. Concurrently, personal income tax bands should be restructured so that tax payers would not hit the higher bands and maximum rate too quickly.

4) Research and Development Double Deduction Incentives: Double deduction for R&D expenses should be automatic, that is on self-assessment basis so that it is similar to other

double deduction incentives namely for export promotion, training of employees and handicapped persons.

The automatic double deduction should be allowed for R&D that is carried out in-house as well as outsourced, whether domestically or overseas.

For outsourced R&D which involves technical services obtained overseas, where the technical services exceeds 70 per cent of the total approved R&D expenses, companies should be allowed to claim up to 70pc and not disallow the entire sum as currently practised.

Malaysian Employers Federation executive director Shamsuddin Bardan

"I wish to see corporate taxes lowered and be competitive to Singapore's (17 per cent) and Hong Kong's (15.5 per cent). Malaysia's corporate tax right now is too high at 25 per cent. Taxes should be reduced gradually to below 20 per cent.

"If we don't quickly make taxes more competitive, we might not be able to attract more investment."

"I wish to see a lower income tax burden on Malaysians. There is an urgent need to review the income tax structure as it is too high at 26 per cent.

"If Malaysia is trying to attract the best talent, the income tax rate is not attractive enough."

"Income tax should be about 15 per cent or similar to the incentivised tax rate for Iskandar Malaysia. Penalties for late submission of income tax should be pro-rated and not flat rate of 10 per cent."

"Income tax relief for EPF should be for all EPF contributions and not capped at the first RM6,000. This will encourage higher savings with EPF."

Suhaimi Illias, Maybank Investment Bank chief economist

"Budget must prepare public for GST. The budget must set the public mindset to be ready for the implementation of the Goods and Services Tax.

"While the government will try to be people-friendly in the budget, it is good for the government to get businesses and people to be prepared for GST.

"The government must ensure that money is spent effectively and leakages and wastages are cut down. Recommendations in the Auditor-General's Report should be implemented."

Yeah Kim Leng, RAM Holdings chief economist

"Budget 2013 must ensure that the government spends within its means. Do not breach spending limits in order to sustain the confidence of the private sector.

"Malaysia should ideally aim for a balanced budget as we have been incurring deficits since 1998. Given the fact that the global economy is weak, the government can't cut back on spending in order to support the economy but it can still spend without breaching limits.

“Government spending should help spur national competitiveness and be used to help build the competitive foundations of the economy.

“One of the roles of government spending is to shape the right type of individual spending and behaviour.”

Kit Wei Zheng, Citi economist

“For 2013 we expect the government to refocus its efforts on fiscal consolidation once elections are out of the way, possibly bringing the fiscal deficit down to about 4.3 pc of GDP.

“While there could be measures in the budget such as training subsidies, incentives to attract overseas talent, and more details on education reforms, any attempt to meaningfully address the human capital deficit will inevitably involve changes to affirmative action policies, which will be met with strong resistance, especially from the Malay rights hardliners.

“We therefore do not expect any significant reforms to be announced in Budget 2013 — any reform will have to wait until elections are over and will depend crucially on the outcome.”

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