

Budget burden on the people

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A significantly higher than anticipated goods and services tax (GST) collection meant the government was able to mitigate the plunge in its oil related revenue. And this allowed them to maintain their operating budget. Unfortunately, this also meant that there were no attempts to reign in government expenditure, as many had hoped for.

Budget 2016 was perhaps one of the more widely anticipated federal budgets in recent times, the big question being how the government would deal with falling revenue as a result of the plunge in oil prices. In light of this, preparing a budget which carried the theme of fiscal responsibility while protecting the welfare of the rakyat looked like a serious challenge for the government.

Many budget watchers expected that the government would have to deal with this by cutting its operating budget, in order to meet its fiscal commitments and maintain its development budget which covers economic and social projects, crucial to economic growth.

However Budget 2016 did not follow those predictions, in fact the operational budget went up as did the development budget. And to cap it off, the government's fiscal deficit targets are more or less intact.

What saved the day was a significantly better collection from the goods and services tax (GST). The government's initial projections were significantly surpassed and from expecting to collect RM21 billion for 2015, it now will net RM27 billion. This not only lessened the loss of oil related revenue, it totally mitigated it.

So much so, the government even felt that it could afford to forgo some future GST collection and added more goods to the exempt and zero-rated supply lists. This included a range of medicines and basic food items. Prime Minister Najib Abdul Razak said "I am pleased to announce the government is prepared to forgo the GST revenue on several basic necessities".

The government and PM were clearly pleased at the effectiveness of the GST in bolstering the government's coffers. Comparing it to the old sales and services tax

(SST), Najib said if Malaysia were to still use that tax regime in 2016 the government would see a revenue shortfall of RM21 billion.

This is because the collection from SST in 2016 would have only been RM18 billion versus RM39 billion expected from GST. And this would have resulted in a rise in the country's fiscal deficit to 4.8% instead of a drop to 3.1% as is now being forecasted.

GST saved the day and Najib was keen to use it as an example of the government's prudent and responsible management of the economy. He said (if the fiscal deficit were to rise so substantially): "If this were to happen, the government would have been forced to borrow, including to pay civil servants' salaries; the nation's credit rating would be downgraded; and all borrowing costs, including personal loans, business loans and housing loans would definitely be higher.

"We are grateful to the Almighty that the government remained steadfast and had the political will to implement GST, although this decision was faced with various challenges and was unpopular," he added.

And he even goaded the opposition, saying that they had proved the need for GST by using it as a revenue source in its shadow budget. "Those who used to vehemently oppose GST have now accepted it and even included it in their Budget document. This clearly indicates the changing and inconsistent stand of the opposition," said Najib. The claim was rubbished by the opposition which explained that under its shadow budget, all goods and services would be zero-rated.

So yes, GST saved the day for the government and the predictions that the government would tighten its belt prove unfounded. This allowed it to present a marginally expansionary budget. The government increased its operational budget to RM215.2 billion from RM213.3 billion previously. The development budget was also increased to RM50 billion for 2016 from the RM46.4 billion allocated in 2015.

But at a time when Malaysians are having to tighten their belts, what does it say about a government that does not do the same. It is important to ask where the unexpected GST collections have been channelled to?

Unfortunately not much of it seems to be being channelled back to the people. In the breakdown of the operating budget allocation, note that subsidies still fall in 2016 to RM26 billion from RM26.2 billion in 2015.

Like before the biggest operating expenditure will be for emoluments which is basically for civil service salaries, and this is set to rise by 2% to RM70.4 billion. Perhaps there is nothing much which can be done in this area, however it raises the question of whether or not the government's decision to freeze the creation of new government departments and positions is still in force.

The biggest concern however is that the allocation for supplies and services fell less than 1% from RM36.6 billion to RM36.3 billion. Since Najib first budget in 2010, the allocation for this area has risen by 74.2% from around RM20 billion. And it is this area that most commonly sees wastage as is often detailed in the auditor-general's annual report. The fact is the government could stand to cut its allocation for this area in order to force more efficient spending.

So while it is helpful that more items have been added to the zero-rated and exempt supply list, that Bantuan Rakyat 1Malaysia (BR1M) has been increased and there has been an expansion in personal tax reliefs – this is nothing more than returning to the rakyat a bit of what they are already forking over in GST.

Then there is the decision to increase the personal income tax from 1% to 3% for the two highest income tax brackets. Although progressive, where is the money going to?

The fact that the Higher Education Ministry's budget was cut to RM13.3 billion from RM15.7 billion but the PM's Department (PMD) allocation was increased to RM20 billion from RM19 billion raises worrying questions about the government's priorities.

The PMD has 10 ministers and numerous commissions and agencies which could very easily be integrated into existing ministries. The government found a way to fund each of them, but was unable to do the same for a ministry which plays a direct role in developing Malaysia's greatest asset, which is its youth.

It was always inevitable that Malaysia would have to move on from blanket subsidies and that it would have to employ a more comprehensive tax regime in the form of the GST.

But adjusting to these fiscal reforms have hit many Malaysians hard and they have had to cut back significantly to make ends meet. The fact the government has not done the same is disappointing to say the least.

And while the government has perhaps managed to remain on the fiscal responsibility track, it is the people who are bearing the full brunt of shouldering it, which does not seem very fair at all.

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