COMMENT

By Arujothi Kanagaretnam

Budget 2015: Facing the challenges ahead

"THE RAKYAT voice their grievances and complaints through blogs, letters, meetings, interviews and dialogues over millions spent, billions allocated and various mega projects questioning the benefits to the people. The biggest challenge I face in administrating Malaysia is its diverse communities, how to balance between policies that are populist in nature as compared to those policies based on economic and financial imperatives."

This extract of the prime minister's budget speech last Friday encapsulates the 2015 Budget's objectives and its challenges.

It is evident that the government has shown commitment to reduce the fiscal deficit gradually in order to achieve a balanced budget by 2020 with the budget deficit in 2014 of 3.5% of GDP (down from 3.9% of GDP in 2013) being reduced to 3% of GDP in 2015.

Government subsidies (RM40.5 billion in 2014) make up a significant portion of government expenditure and the first step to reduce this subsidy was to increase the price of RON 95 petrol by 20 sen before the budget announcement.

The new mechanism for petroleum subsidy (RM23.5 billion in 2013) that will be announced soon will be the main pillar of the planned subsidy rationalisation.

We anticipate that this mechanism will benefit target groups within the bottom 40% of households by income.

The GST implementation date of April 1, 2015 will be upon us very soon.

The prevailing view of a 1% to 2% increase in inflation rate when GST is introduced next year is based on comparisons with other countries and empirical studies by the authorities.

To cushion this impact, the government has widened the scope of items that will not be subjected to GST including more basic food items and services.

The government is also making good on its proposal to reduce individual and corporate tax rates in the 2014 Budget by including it in the 2014 Finance Bill.

It is heartening to note that the government proposes to channel back RM4.9 billion (out of the RM5.6 billion in additional revenue expected from GST in 2015) to the lower income population through assistance programmes such as BR1M.

The institute views that the authorities responsible – the Finance Ministry and the Royal Malaysian Customs (RMC) – have done their best to get this far after engaging with numerous stakeholders and conducting many training courses across the nation.

Nevertheless, there is still a long way to go and the challenges ahead are tremendous.

The institute has worked closely with the RMC in conducting training courses with professionals and tax specialists.

The institute supports the government subsidy rationalisation programme and the implementation of GST as both are integral and important components of prudent economic management.

The institute views that the measures proposed in the 2015 Budget will meet the primary target of economic growth and reducing the budget deficit provided there are no external shocks that will dampen commodity prices and external trade.

The writer is president of Chartered Tax Institute of Malaysia.