Budget 2015: Think out of the box

COMMENT
by S.M. Thanneermalai

THE main thrust of Budget 2015 is expected to be in the area of fiscal discipline; actions to reduce the budget deficit. The initial salvo towards fiscal consolidation has been triggered with the recent rise in RON 95 petrol and diesel by 20 sen and news has come out that school bus fares are expected to be deregulated from January 2015. There will be other announcements in the area of subsidy rationalisation and containment of government expenditure.

Budget 2015 is, however, not expected to produce any major surprises. There will be giveaways to the rakyat in the form of an extension of the BR1M payments and other payments to selected groups in the lower and middle income, pensioners and civil servants.

The government will continue to cushion the impact of the expected price rises and impending effect of the introduction of GST with possible additional one-time tax relief to the middle-income groups.

The budget as usual will be used to announce some incentives targeted at specific areas or businesses and there may be some tightening of tax rules which will increase tax collections. Funds are likely to be set aside to help specific communities who need to move up the economic ladder.

Overall no major surprises are expected from Budget 2015.

Based on the above, if we keep moving the same way we have been doing over the past few years, our growth will only be incremental and may even stagnate at the 4% to 5.5% range.

Please be reminded that next year will be a challenging one for Malaysia: Europe appears to be struggling to grow, China's growth story is showing signs of slowing and wonders how the current Hong Kong demonstrations will pan out and affect China.

Oil prices and prices of other commodities such as palm oil are dropping and the only light at the end of the tunnel appears to be the US and in Asia, perhaps India, with the new prime minister who appears to have energised the confidence of his people but the Indian "bullishness" can only be relied upon when it happens as India's past history has been peppered with disappointments.

If Malaysia is to keep its growth momentum up we need to compete with other nations in the world, especially with our neighbours who have a bigger domestic market.

Our focus should be on raising our competitiveness and encouraging our businesses to move up the value chain in the area of manufacturing, giving a lift to our service businesses to move out internationally and to attract multinationals to set up their regional hubs in Malaysia and finally to capitalise on advantages we have built up in the organised agricultural sectors.

Needless to say, significant investments will have to be made by businesses in the areas of technology, research and development, brand building and marketing.

All these investments require capital and businesses should be allowed to plough back their profits to these areas to move up the value chain. There is clearly a need to allow businesses to retain a bigger share of their annual profits and reducing corporate tax will give them the needed support.

It is time to think out of the box and take a risk and make bold bets to move Malaysia out of the current position we are in. The first move should be to reduce corporate tax at a stroke from the current 25% to say 17% (comparable to Singapore) or if that is not possible, then to at least 20% (comparable to Thailand). This will give businesses the additional funds to make investments to move up the value chain and avoid the need to give incentives to selected industries or parties. Providing tax incentives to selected parties or sectors of the business creates as uneven playing field as the rich and powerful and strong lobby groups will benefit more than the others.

Consolidate and rationalise the tax incentives. Reduce the number of incentives and only provide them when there is clear benefit across the board to the nation.

The reduction of taxes will cut government revenues significantly and the need to balance our budget is imperative. The government can raise additional revenue through further tightening the compliance and enforcement of both the direct taxes and indirect taxes and reducing the number of tax incentives.

However, more is needed to close the deficit gap and it is high time for the government to consider widening capital gains to extend beyond real property. Most of our neighbours have capital gains tax except Singapore and Hong Kong. Thailand, Indonesia, Philippines, Vietnam, India, China, Korea, Japan tax capital gains. Currently, capital gains other than real estate are not taxed.

Generally, as part of tax planning, it is not uncommon to try and convert income to capital.

Another avenue to increase the tax revenues is to consider introducing an exit tax upon business enterprises that re-organise or restructure their business such that they move significant values out of the country and along with it significant profits to offshore locations where the tax rates are much lower. Here the aim of this exit tax is to capture a certain portion of the loss of future profits from the restructuring and offshoring of the future profits.

In many cases, the profits will continue to be made in Malaysia as the Malaysian market will continue to be exploited but the share of the profits retained in the country could be reduced. This tax should apply equally to both domestic business enterprises and multinationals.

Overall there needs to be radical reform to the Malaysian tax policy. Time to move away from tinkering our tax policy to making bold moves to think out of the box.

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