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'Tax reduction possible after introduction of GST'

Corporate and income tax cuts to take place gradually over three to five years

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KUALA LUMPUR: A gradual reduction of corporate and personal income taxes can only be expected to occur after the introduction of the goods and services tax (GST), said Chartered Tax Institution of Malaysia (CTIM) president SM Thanneermalai.

But he does not expect an immediate reduction in company and individual taxes if the GST is introduced in Budget 2014. Instead, he said, the reduction will take place gradually over the next three to five years.

"The government will have to reduce the corporate tax sometime in the future to compete with neighbouring countries such as Thailand and Singapore, to attract more investments," he told *The Edge Financial Daily*.

"Budget 2014 won't be a budget full of goodies, as the government needs to expand its revenue base to reduce the fiscal deficit," Thanneermalai said.

The current corporate tax in Malaysia is 25%, the same rate as Indonesia, Vietnam and China. Hong Kong and Singapore have lower corporate taxes of 16.5% and 17% respectively, while Thailand's corporate tax is at 20%.

Malaysia imposes a personal income tax of 26%, while Thailand and China's is higher at 37%. Vietnam's personal income tax stands at 35%, Indonesia 30%, Singapore 20% and Hong Kong 17%.

Thanneermalai expects Budget 2014 to address the needs of small and medium enterprises (SMEs). "The sector may receive further assistance in many possible ways, which could be more soft loans or even a reduction in export tax."

Deloitte Malaysia's M&A tax leader, Sim Kwang Gek, said the government is expected to set out a road map for a gradual reduction in personal and corporate taxes.

"Based on the experiences of other countries, the introduction of GST is usually followed by a reduction of corporate and individual taxes. For example, Singapore reduced its corporate and individual tax rates by 3% in the same year GST was implemented in 1994.

"We too should see a reduction in corporate and individual tax rates in the year GST is implemented, although not immediately, as there is a need to manage our fiscal deficit position," she said.

The government may also look at increasing sin taxes, such as excise duty on the brewery sector, and the gaming tax, which has not changed since 1998.

Sim expects Budget 2014 to also reinstate the real property gains tax (RPGT) to its original form before April 2007, which was 30% for property disposals within two years. The current RPGT rate is 15%.

"Foreigners will be the hardest hit because the RPGT rate will be at a flat rate of 30%, unless the properties are disposed of after five years when the rate will come down to 5%." Sim said the secondary property market may be affected as a result of the increase in RPGT.

The lower and middle income groups are also expected to receive further assistance under the 1Malaysia People's Aid (BR1M) scheme. The government had said earlier that the quantum for the next BR1M handout will be more than RM500, and could be distributed twice in 2014.

There is also expected to be an allocation to fund the building of affordable houses under the government's PR1MA programme.

"We also expect the tax relief on interest paid on housing loans for first-time house buyers that was given in Budget 2009 to be reintroduced. In addition, a 100% stamp duty exemption for first-time purchases of properties costing less than RM500,000 may be granted," said Sim.

In Budget 2013, only 50% stamp duty exemption was granted and this only applied to properties costing less than RM400,000.