BUDGET EXPECTATIONS FOR A NEW MALAYSIA

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BUDGET 2019 is expected to be a tough one –with potential new taxes, existing tax hikes and prudent spending given the government's commitment to tackle the nation's debt situation.

It is also the perfect time for the new government to launch reforms that are effective to future proof Malaysia and I am glad that a tax reform committee has been set up to review our current tax regime. With global economic uncertainties, Budget 2019 needs to be well crafted to meet its objectives of reducing the nation's debt while ensuring that the country remain resilient and competitive.

Broadening tax base

Based on government statistics, the reversion to the Sales and Service Tax (SST) system is expected to result in an annual shortfall of RM20bil.

The shortfall is expected to be filled up by contributions from Petronas (in view of rising oil prices) and dividends from government-linked companies. This is just a short-term measure and we cannot be overly dependent on oil-related revenue.

To ensure a more sustainable revenue for the government, our tax base may be broadened by introducing new forms of taxes such as the much talked about sugar tax and digital tax. Sugar tax has been introduced in a number of countries – such as Thailand, Philippines, United Kingdom (UK), Ireland and South Africa.

The Ireland Department of Finance has estimated that the sugar tax alone should bring in an additional tax of €40mil (RM190mil) in a full year. This year, the UK government introduced a new soft drinks industry levy to be paid by producers and importers of soft drinks that contain added sugar.

This new tax marks the first step towards the government tackling potentially unhealthy foods through tax measures, while generating £520mil in the first year. In Thailand, the government raised taxes on soft drinks with high sugar content in September last year where taxes on sugar-sweetened soft drinks were changed from a 20% excise tax on the wholesale price to a 14% excise tax on the recommended retail price, with an additional sugar tax based on content.

The National Diabetes Institute reported that Malaysia has the highest rate of diabetes in Asia and one of the highest in the world, with about 2.5 million Malaysians aged 18 and above having this disease. Sugar tax can be introduced as a way to help tackle diabetes by incentivising consumers to opt for healthier drinks, while encouraging the relevant industry to reduce sugar content and deliver healthier products.

The government may also consider a form of digital tax in view of technological developments, where businesses can be carried out virtually anywhere without the need to have physical presence. Some countries like South Korea, Japan, New Zealand and Australia have set rules requiring overseas online suppliers to register for value-added tax (VAT) or GST. In this year's budget, Singapore introduced an overseas vendor registration system where overseas suppliers and electronic marketplace operators who offer digital services to Singapore consumers will be required to register for GST with the Singapore tax authorities with effect from Jan 1, 2020.

Meanwhile, India introduced an equalisation levy on online advertising revenue earned in the country by non-resident e-commerce companies. The European Union is also in the midst of deliberating its digital tax proposals, which may potentially include an interim measure of a tax based on turnover for digital transactions while working towards a long-term objective of a digital taxable presence or permanent establishment framework.

In Budget 2017, efforts were made to capture digital transactions into the tax net by expanding withholding tax on royalties to include payments to non-residents for the use of software.

However, there were arguments on the differing interpretations of "royalty" taken by foreign jurisdictions resulting in potential double taxation.

Perhaps, a more effective way would be to introduce a form of digital tax (say, service tax) on overseas supplies of digital services where such foreign companies are required to register for service tax and charge service tax on such services. This not only helps in revenue contribution but creates a level playing field between local and foreign companies.

The mechanism in which how new taxes can be implemented with ease and the impact on the growth of the economy should be studied. It is also important that the introduction of any new taxes are as practicable as possible to ensure that businesses have adequate time to prepare and consider the implications.

Currently, penalties ranging from 10% to 35% of the tax undercharged is imposed on voluntary disclosures of understatement of income by taxpayers depending on how fast the voluntary disclosure is made. This can be a “turn-off” for taxpayers who are willing to come forward and correct their tax returns.

In Singapore, the Inland Revenue Authority of Singapore (IRAS) has a Voluntary Disclosure Programme (VDP) that aims to encourage taxpayers that have made errors in their tax returns to voluntarily come forward to correct their errors.

The programme is an attractive one in that zero penalties are offered for voluntary disclosures made within one year from the statutory filing deadline. A 5% penalty is imposed if such disclosures are made after the said grace period.

Taking a leaf out of the IRAS’ book, we may consider revisiting our current penalty regime to encourage voluntary compliance and disclosure. Such measure promotes fairness as generally, taxpayers would want to comply with their tax obligations. Unintentional errors may be made in the tax returns due to lack of care or awareness.

A “carrot” approach would be more enticing to taxpayers to voluntarily pay the additional taxes arising from such errors, as opposed to penalising them.

The Finance Ministry has implemented a tax amnesty programme where tax penalties may be reduced or waived to encourage taxpayers to voluntarily disclose their income and settle tax arrears. This programme, valid from March 1 2016 to Dec 15, 2016, was fairly successful with many taxpayers coming forward to declare unreported/under-reported taxes.

To encourage greater self-compliance amongst businesses, this programme should be re-introduced with tax penalties fully waived for voluntary disclosures. This can be an effective way to collect additional taxes with minimal efforts on the part of the tax authorities.

Boosting private investments

In view of our nation’s fiscal position, it is clear that private investments takes the driver’s seat in spearheading growth.

According to the Malaysian Investment Development Authority (Mida), RM197.1bil worth of investments were approved by Malaysia in 2017, down 7% compared with RM212.9bil in 2016. Mida had stated that the 2017 performance, while moderate, was hard-won against significant international competition. This shows that our country is facing stiff competition from other countries where foreign direct investments (FDIs) are concerned.

Our current corporate income tax rate of 24% is not competitive with our neighbouring countries. For example, the tax rate for Thailand, Vietnam and Cambodia stands at 20% while Singapore's is at 17%. Clearly, our tax rate could be more competitive, to attract more FDIs into Malaysia. A bold move would be to reduce the corporate tax rate to perhaps 22% and take a holistic review on our tax incentive regime to ensure that we are raking in quality investments that outweighs the tax revenue lost. A lower tax rate would also encourage domestic companies to expand their business locally rather than seek alternative locations overseas that will eventually lead to a loss of revenue for Malaysia.

Single agency for tax incentives

I welcome International Trade and Industry Minister Datuk Darell Leiking's proposal to have a single investment promotional agency to approve investments, perks and benefits for both local and foreign investors.

Currently, there are too many government agencies overseeing tax incentives in specific economic areas. For example, the Iskandar Regional Development Authority is tasked to oversee tax incentives offered in Iskandar Malaysia, Malaysia Digital Economy Corporation for companies in the information technology/ shared services centre sector, Halal Development Corporation for halal investments and so on.

I would propose for the management of tax incentives in Malaysia to be under the umbrella of Mida, which will lead and administer the tax incentive framework in Malaysia.

Sub-agencies that specialises in specific sectors can be formed under Mida and these sub-agencies can form part of the committee evaluating and approving tax incentive applications. This gives Mida a holistic view of our tax incentives regime and enables Mida to formulate effective policies for the country as a whole. From the investors' perspective, having a one go-to government agency avoids confusion and simplifies compliance process.

Budget 2019 will be the maiden budget under the new government and is going to be a sacrificial budget as quoted by our Prime Minister. There is no doubt that the government will have a tough job formulating strategies to stimulate economic growth, while recognising the need to reduce the nation's debt and prioritise the well-being of the rakyat. Will there be a silver lining to this upcoming budget? I certainly look forward to Nov 2.