Tax relief to lighten middle-income group's burden

Government should look at incentives aimed at businesses and individuals

BY CHEN SHAUA FUI

KUALA LUMPUR: Against the backdrop of weak commodity prices it could be tough for the government to have an income tax cut across the board. However, tax consultants opine that the government should provide tax relief or enlarge tax brackets to help the middle-income earners cope with the high cost of living.

Tax experts do not expect further tax reductions apart from the pre-announced personal income tax cut of 1% to 3% in 2015 and corporate tax cut of 1% in 2016.

PwC Taxation Services Malaysia senior executive director Steve Chia hoped that the government will look at some incentives for both businesses and individuals as a result of higher cost of living and the goods and services tax (GST).

Chia said while it is expected that the 1Malaysia People's Aid (BR1M) payout would continue, it would not benefit the middle-income group which has a heavier tax burden.

"Higher personal relief can be considered, perhaps an increase to RM15,000 from the current relief of RM9,000. Such an increase would also benefit the higher-income group.

"Another option would be to give a special one-off relief of perhaps RM5,000 to individuals with a monthly income of RM8,000 and below. This was done in year of assessment 2013," Chia told *The Edge Financial Daily*.

He also proposed relief for medical expenses for self and parents to be increased to RM8,000 and RM9,000 from the existing RM5,000 and RM6,000 respectively to further ease rising healthcare costs.

Chia: While it is expected that the BR1M payout would continue, it would not benefit the middle income group.

Yee: A lower personal tax rate will help in attracting and retaining talent.

Oon: Net GST revenue was expected to be fairly negligible once the sales tax and service tax revenue foregone and BR1M is taken into account.

In addition, he said, to promote preventive healthcare and healthy living, the scope of the relief should be expanded to include cost of health supplements and gym subscriptions.

Chia also noted that property cost remained one of the top expenditures among Malaysian households and proposed the government to revive the housing loan interest relief of RM10,000. The relief was previously given for the purchase of residential property until Dec 31, 2010.

Crowe Horwath KL Tax Sdn Bhd managing director Thanneermalai shared Chia's view on increasing the relief to the middle-income group with monthly salary of RM8,000 and below. In addition, he said the government should consider enlarging the tax bracket so that they can pay less tax.

Country tax leader of Deloitte Malaysia Yee Wing Peng said the government might announce a road map to cut the corporate tax rate progressively to 22% by 2018.

Relatively, Malaysia's present corporate tax structure is no longer competitive as the corporate tax rate of Thailand, Indonesia and Vietnam will be at 20% by 2016 generally, he added.

"As for personal income tax, due to the GST introduction, it is hoped that it will be gradually reduced to 22% by 2018 to offset the GST impact.

"A lower personal tax rate will help in attracting and retaining talents. Our biggest competitor for talents is Singapore which has a much lower personal tax structure with the highest rate at 20% at present to be increased to 22% in 2017," Yee added.

Crowe Horwath's Thanneermalai expressed concern over the difficulties faced by the government to meet larger spending in Budget 2016 due to the shortfall of revenue not only from oil receipts but also lower corporate taxes due to the economic slowdown.

"The government will have to fund [the expenses] through borrowings. The government can tap into local funds such as the Employees' Provident Fund and Pension Fund or Permodalan Nasional Bhd. If the government opts to borrow through bonds, the price we need to pay for borrowing is high due to our sovereign rating," Thanneermalai commented.

While Thanneermalai said the GST is expected to contribute about RM30 billion towards government revenue in 2016, it is not enough to cover the loss from the Petronas Income Tax.

PwC's Chia said whilst the collection of GST in the initial months appears to have surpassed the government's expectations, this may not necessarily reflect the actual GST revenue as it would have included transitional GST remittances and would not have fully taken into account the full impact of GST repayments.

"It is likely that the government would take a 'wait and see' approach until a normalised trend is reached before embarking on any major fiscal measures in the area of tax cuts and incentives," Chia said, noting that it is unlikely that the government will make changes to the GST rate.

KPMG Tax Services Sdn Bhd director Danny Oon said the net GST revenue was expected to be fairly negligible once the sales tax and service tax revenue foregone and BR1M is taken into account.

Oon said that despite the GST rate going up from time to time in other countries, he does not believe a hike in GST will take place in the upcoming Budget.

"But it will be interesting to find out exactly how much GST revenue was collected by the government since its inception on April 1. This will provide a much clearer picture of the GST strategies that the government may have in the future," Oon said.