More to be done to address the rising cost of living

BY JAGDEV SINGH

Budget 2016, the first under the 11th Malaysia Plan, marks the beginning of the final lap of the nation's transformation into a high-income advanced economy. Faced with a challenging economic landscape along with low growth globally, reduced commodity prices and a weakening ringgit, Prime Minister and Finance Minister Datuk Seri Najib Razak presented a measured response to deal with the issues facing the nation.

The long-standing budget deficit has been in the spotlight in the last few budgets. Budget 2016 continues the trend of gradually reducing the fiscal deficit. Thankfully, the bold move to introduce the Goods and Services Tax (GST) helped cushion the drop in direct taxes and petroleum-related revenue, hence reducing the overall deficit to 3.1% of GDP.

For corporates, the 1% reduction in tax rates announced two years ago kicks in next year. While there were expectations that the corporate tax rate would be reduced further to remain competitive within the region, the government has decided to wait a little longer to see the full impact of GST revenue. In order to incentivise the manufacturing sector to continue investing, additional claims in the form of a reinvestment allowance have been brought back. This will definitely be welcomed by manufacturing companies. However, given the fierce competition for investments, a more holistic review of the incentives would have been timely to take us to the next level.

The government, which has been trying to boost home ownership by helping first-time home buyers, has stayed on course by continuing and enhancing the various property financing initiatives such as PR1MA and the First House Deposit Financing Scheme.

The thrust of this budget is to address the impact of the rising cost of living, particularly for the low-income (B40) and middle-income group (through the introduction of the M40 target group). BR1M is set to continue at an increased sum; this remains the most efficient way of putting money in the pockets of the low-income group where fiscal measures would not be as effective.

On the personal income tax front, the government has decided to increase the quantum of certain reliefs and introduce two new reliefs in relation to parental care and Socso contributions. While this is seen as a measure to assist the middle income group by reducing their tax burden, there are a number of key observations:

1. With the implementation of the GST, personal tax rates should be reduced considerably to compensate for money spent on this consumption tax. If the experience of Singapore is anything to go by, their introduction of the GST back in 1993, at the rate of 3%, saw a reduction at the same rate of personal taxes.
2. The majority of fresh graduates entering the workforce will get into a taxpaying position very quickly as the reliefs available to them are limited; the primary relief for this group, that is personal relief, remains unchanged at RM9,000. What was visibly missing in Budget 2016 was an increase in personal relief to an amount more reflective of the cost of living.
3. The previous budget introduced measures to simplify personal tax compliance. While it is recognised that there is a social impact to these reliefs, it goes against the core principle of reducing the administrative compliance burden. For example, the parental care relief is meant to be claimed by one or shared across two or more of the children — the implementation of this will be far less straightforward though.

The table (right) shows the impact of the additional personal tax reliefs coupled with the proposed increase in personal tax rates for various income groups:

While the actual tax savings could depend on the personal circumstances of individuals, it is encouraging to note that those earning below RM600,000 will see a reduction in their tax liability.

However, the increase in personal tax rates for individuals earning RM600,000 and above comes as a surprise to many. Directionally, Budget 2016 reduced personal tax rates and widened some of the bands as part of an overall GST relief package. Although the increase in personal tax rates for this high income group appears to be a populist move, as seen in a number of countries, it could have been better timed as Malaysia has just introduced the GST. There is a general consensus that the retail spending trend is in decline, and maintaining a low personal tax regime would benefit the economy in terms of its multiplier effect.

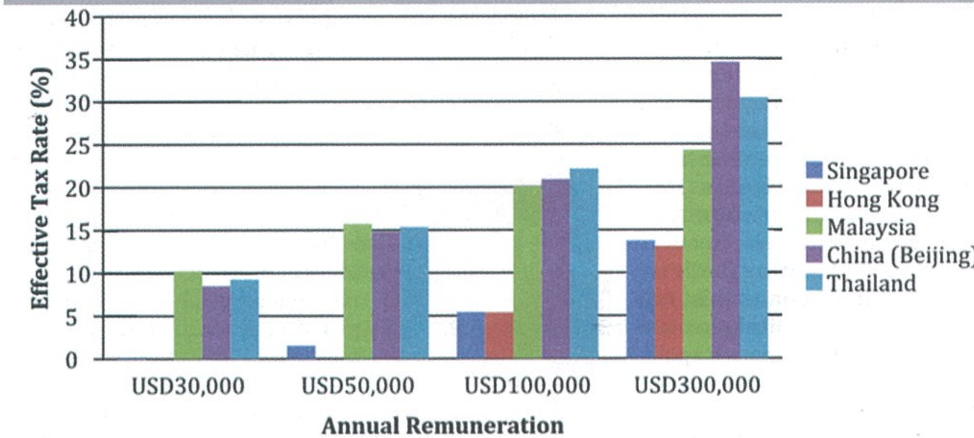
Although the increase would not be seen as significant by many, it does play a part in attracting foreign talent to key sectors of the economy. This is particularly important in our quest to grow the services sector by offering a value proposition for companies to set up their hubs and focus more on the high value-adding parts of the supply chain in Malaysia. This would pave the way for the creation of more high-value jobs.

The above chart shows a comparison of effective personal tax rates for various income levels across the region.

The comparatives are not only relevant to expatriates in their decision-making. Malaysia needs to ensure that its locally trained talent remains here and contributes to the growth of the nation and does not seek opportunities elsewhere where disposable income would be much higher. We may not be the most expensive in terms of personal tax obligations, but the chart above does indicate that for the middle income group, Malaysians certainly pay more than their counterparts in the countries highlighted.

At the end of the day, Budget 2016 can be characterised as one that deals with the immediate issues faced by the nation. For most, the fiscal changes would mean more money at their disposal, but the question is "is it enough to compensate for the increasing cost of living?". E

Effective tax rate for a resident individual



Impact of additional tax reliefs

GROSS ANNUAL EMPLOYMENT INCOME (RM)	TAX LIABILITY (FOR 2016) *(RM)	DIFFERENCE COMPARED TO 2015 (RM)
60,000	538	▼ 100
102,000	5,600	▼ 1,510
180,000	23,360	▼ 1,740
300,000	52,249	▼ 1,776
1,000,000	230,265	▲ 1,865

*Assuming claims of personal relief, spouse relief, relief for one child below 18 and one above 18 in tertiary education, parental care relief, and relief for EPF and Socso.

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