Tax cuts and generous handouts leave experts perplexed

BY **INTAN FARHANA ZAINUL**

A surprise reduction in individual income tax rates for the middle-income group, or better known as M40, and a slew of generous handouts for the bottom 40% of the population drew mixed views and left consultants perplexed as to how the government would fund Budget 2023.

They generally feel that there are no major tax reforms in the budget but noted several initiatives to improve collection — a move they describe as timely.

Budget 2023 saw a two percentage point tax reduction for those with a chargeable income of between RM50,000 and RM100,000 annually. Those with chargeable tax income of between RM50,001 and RM70,000 will see their tax rate reduced from 13% to 11%, and those in the RM70,001 to RM100,000 bracket will have their tax rate reduced from 21% to 19%.

The reduction in tax rates is expected to benefit some one million tax payers, who would save between RM200 to RM1,000 each.

At the tabling of the budget last week, Finance Minister Tengku Datuk Seri Zafrul Abdul Aziz said the initiative is expected to increase the people's income by RM800 million.

KPMG Malaysia head of tax Soh Lian Seng welcomes the tax cuts as the middle-income group had been left out from the previous budget, which focused more on the B40 group.

"With the additional cash to spare, it would help to spur consumer spending and the economy. The middle-income group has been affected by inflationary pressure; this is one of the tools to help them," he tells *the Edge*.

Soh notes that while there are no new tax reforms to increase collection, the budget has the largest development expenditure.

"There were more subsidies and handouts than the previous budget. But I don't have the information yet as to how the government is going to fund the budget," he says when contacted.

Ernst & Young Tax Consultants Sdn Bhd managing partner Farah Rosley reckons that the government, in not introducing any new taxes, is responding to an increasingly challenging economic environment and uncertainties on the global front.

"The government, however, has introduced e-invoicing to digitalise the tax structure and increase Customs enforcement which could increase its revenue. Perhaps income from oil would help to provide the revenue that the government needs.

"The economy is expected to see higher growth that, in turn, would see better indirect revenue for the government," she says.

PwC Malaysia Tax Leader Jagdev Singh points out that while the reduction of personal tax rates is estimated to cost the government about RM800 million, it has projected an increase in tax collections across various avenues, from corporate income tax to personal income tax and sales and services tax.

"This could be a reflection of the government's confidence that the economy will continue to recover to pre-pandemic levels, resulting in higher tax collection contributed by individuals returning to the workforce at higher wage levels, profits from recovering businesses and increased audit activities by the tax authorities," he says.

New income tax structure under Budget 2023

CHARGEABLE INCOME (RM)	CURRENT TAX RATE (%)	PROPOSED TAX RATE (%)
0 - 5,000	0	0
5,001 - 20,000	1	1
20,001 - 35,000	3	3
35,001 - 50,000	8	8
50,001 - 70,000	13	11
70,001 - 100,000	21	19
100,001 - 250,000	24	24
250,001 - 400,000	24.5	25
400,001 - 600,000	25	25
600,001 - 1,000,000	26	26
1,000,001 - 2,000,000	28	28
More than 2,000,000	30	30

In 2021, the government collected RM36.40 billion in revenue from individual income tax, lower than the RM38.95 billion collected in 2020, and estimates it will collect about RM37.51 billion this year.

Dr Yeah Kim Leng, professor of economics at Sunway University Business School, points out that about 56% of total government revenue in 2021 came from direct taxes on companies, individuals and others.

The remainder of federal government revenue includes indirect taxes such as sales and service tax, excise duties, non-tax revenue and non-revenue receipts.

"Lower income tax collection therefore has a sizeable impact on government revenue," he says, in reference to the proposed individual income tax reduction for the M40 group.

He expects that the government's revenue collection will undershoot the projected amount if economic growth falls below expectations and commodity prices — particularly for crude oil, natural gas and palm oil — decline.

"The government will have to depend on non-tax revenue such as profits from Petronas and other government-owned corporations. It could also raise revenue through divestment of assets and privatisation," Yeah says.

Bank Islam Malaysia Bhd chief economist Firdaos Rosli says lower direct tax collection could pave the way for the reintroduction of the goods and services tax (GST) in the future.

"I appreciate the government's move to reduce the income tax rate by two percentage points, yielding a higher disposable income to M40 salary earners. Having said that, I am doubtful it will lead to higher indirect tax revenue as the present system is not broad enough," he says.

"Perhaps the idea here is to pave the way for the reintroduction of GST in the future. In contrast, policies encouraging savings, such as a higher EPF voluntary contribution and ASB thresholds, may drive households to save rather than spend," he says.

Responding to a question on how the government would fund Budget 2023, Firdaos says debt-led growth was likely as the projected revenues and operating expenditures are at par.

"It can be challenging as the government's debt service charges have already breached the 15% administrative level," he adds. E

Impact on market expected to be muted, but construction sector seen to benefit

BY **LEE WENG KHUEN**

Contrary to the one-off prosperity tax announced in the last budget that shocked local corporates, Budget 2023 is perceived to be generally neutral, although it benefits the construction sector.

The heads of research *The Edge* spoke to generally expect a muted impact from this "election budget".

"The absence of the prosperity tax is very good for corporate earnings. This year a lot of companies' earnings have been affected by this tax. While things look better, valuations are affected by other factors coming from the US Federal Reserve," MIDF Amanah Investment Bank Bhd research head Imran Yassin Yusof tells *The Edge*.

Bursa Malaysia chairman Tan Sri Abdul Wahid Omar concurs, noting the absence of the prosperity tax in Budget 2023. Its effect would have been to potentially shave off the FBM KLCI's 2023 earnings per share (EPS) forecast by 5% to 6%.

"Without such a tax being imposed, analysts have a consensus forecast EPS growth rate of 11.5% for 2023 compared to -1.1% for 2022. This augurs well for the capital market," he says in a statement.

Glove makers were among the casualties of Budget 2022's prosperity tax, with Hartalega Holdings Bhd posting a net loss for the fourth quarter ended March 31, 2022 — its first ever quarterly loss.

Hong Leong Investment Bank head of research Jeremy Goh says, "No major wows and shocks such as the prosperity tax like last year. The impact is muted from the market perspective."

With the extension of tax relief for costs incurred in initial public offering (IPO) exercises for the ACE and LEAP Markets of Bursa Malaysia until the year of assessment 2025, Inter-Pacific Securities head of research Victor Wan is of the view that the move could encourage more new listings.

At the same time, there will be tax cuts arising from listing costs for tech-related companies on the Main Market. Nonetheless, Wan says there isn't much for Corporate Malaysia in Budget 2023.

Imran is surprised by the huge rise in the development budget to RM95 billion from the previous RM75.6 billion, which could provide impetus for the construction sector and the overall economy. The building and upgrading of road, rail as well as rural and urban infrastructure will help boost the economy.

"There will be a high multiplier effect on the economy, especially for 2023," he observes, adding that another key beneficiary of Budget 2023 is the electrical and electronics (E&E) sector, in view of the various incentives such as the relocation incentive to attract affected E&E investors.

"Given the ongoing tensions between the US and China, the Malaysian government is trying to lure companies and multinational corporations from China to relocate to Malaysia. Although Indonesia and Vietnam have low labour costs, our E&E sector has very good infrastructure in place."

Imran says the granting of a special status to the Pengerang Integrated Petroleum Complex for chemical and petrochemical investment incentives is another plus point for the oil and gas (O&G) industry. Petroliam Nasional Bhd (Petronas) has invested US$27 billion (RM125.2 billion) to develop the petrochemical facility, which is the largest in the region.

Imran says that while the cut in personal income tax will benefit the consumer sector on the back of more disposable income, the market may not see an immediate effect. "But you can expect consumer companies to maintain their sales amid potential headwinds next year," he adds.

Nearly one million resident taxpayers in the RM50,000 to RM100,000 bracket will enjoy a reduction of two percentage points in their tax rate, which could see them save up to RM1,000.

Meanwhile, Goh points out that the government's efforts to crack down on smuggling activities involving cigarettes and alcohol augur well for brewers and tobacco players. According to Finance Minister Tengku Datuk Seri Zafrul Abdul Aziz, a multi-agency task force will enforce tight control at entry points, including private jetties, to crack down on such activities. E