Budget 2023: A good plan is always a good start

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In his Belanjawan MADANI speech, the prime minister outlined the challenges lying ahead for Malaysia — namely, a high debt burden, decline in governance, global economic uncertainty, slowdown in investment levels and economic challenges affecting the rakyat. He set out a structured approach to addressing these challenges and rallied everyone — from the government to the civil service, businesses and the rakyat — to forge a new direction for Malaysia in the spirit of reform. To me, this signals a shift away from a long list of allocations and measures that cater to different groups, to one where the prime minister clearly shares his plan to move the nation ahead.

The need for institutional reforms and good governance

In emphasising the need for good governance, the prime minister stated his commitment to ensuring three key pieces of legislation are passed this year. The Fiscal Responsibility Act will ensure that there are codified targets in terms of managing the nation's finances, where any deviations will require consensus from lawmakers. The introduction of the Government Procurement Act and proposed amendments to the Whistleblower Protection Act are intended to curb the leakages and wastage highlighted annually in the Auditor-General's Report. These pieces of legislation will hopefully increase the level of transparency and accountability in the country.

Furthermore, the creation of the Special Task Force on Agency Reform to implement projects that improve the delivery and efficiency of government services to the rakyat is timely. The efforts to reform public service institutions that have overlapping jurisdictions or almost similar functions, and the call for government agencies to return to their purpose for being, will hopefully provide a better experience for all of us, as well as facilitate a better investment climate and business landscape.

A more progressive approach to taxation

A couple of measures and directional statements outlined in the budget point to a more progressive approach to taxation, with the affluent contributing more to government coffers, which can then be channelled as support for the lower income groups. In broadening the tax base, the approach for now is not to re-introduce the Goods and Services Tax, given its ubiquitous impact on all levels of society. Instead, the government announced measures that target those with means, namely the introduction of the Luxury Tax effective this year, the commitment to study the introduction of Capital Gains Tax for disposal of unlisted shares from 2024 onwards and the 0.5% to 2% increase in personal tax rates for the tax brackets between RM100,001 and RM1 million. While these may not have an immediate impact in terms of government revenue, they certainly demonstrate a commitment to put in place the much-talked-about tax reforms.

While the Luxury Tax and increase in personal tax rates may be relatively easier to implement within the existing tax legislation framework, the introduction of Capital Gains Tax on unlisted shares warrants deeper consideration. Naturally, details in relation to these measures can only be shared upon extensive consultation with the relevant parties, and the government has committed to do this. The approach taken in the budget to share the directional policy and obtain feedback is consistent with what is done in many other countries, and we hope to see more of this in future budgets.

Coming back to the proposed increase in personal tax rates, while the idea is sound, I would have preferred an even more progressive approach where rates for the tax brackets between RM100,001 and RM400,000 are retained, while rates for the tax brackets above RM400,001 are increased. While it is noted that only those earning more than RM230,000 of annual chargeable income will have to pay more taxes, we must be cognisant of the fact that the rate that applies to the income band of RM100,001 and above is already at 24%, which is the headline corporate tax rate. The proposed tax rates in the retabled Budget 2023 further widen the divide between personal tax rates and corporate tax rates, especially with the preferential tax rate of 15% (on the first RM150,000 chargeable income) in the case of micro SMEs effective YA2023.

The New Industrial Master Plan 2030

The New Industrial Master Plan 2030, scheduled to be announced in the third quarter of 2023, will likely be a game changer for Malaysia. Although a tiered approach to tax incentives is not new to Malaysia (newer tax incentives such as Principal Hub and Malaysia Digital adopt this approach), the foundation for Malaysia's general tax incentive regime, namely the Promotion of Investments Act, still retains the more traditional approach to incentivising companies.

Investments are a key driver for growth. As competition for new investments remains intense across the region, reforming the parameters of the type of investments Malaysia needs is important. A tiered approach that rewards higher-quality investments would place more emphasis on the multiplier effects of investments, in terms of creating high-quality jobs and developing local ecosystems. The strengthening of incentive monitoring will also enhance the accountability of these investments.

The elephant that's not in the room

During the lead-up to the retabling of Budget 2023, the talk of the town was on subsidy rationalisation and how this would be a crucial aspect for fiscal reform. Hence, the absence of specific details in relation to this took many by surprise. Although we see a reduced allocation to subsidies of RM64 billion compared with RM80 billion in 2022 on the back of lower oil prices, the variability of this would suggest the need for a longer-term plan. The recent mentions of fairly significant savings that the government can obtain by moving to a more targeted approach alone is a compelling reason for us to do this sooner rather than later.

The pathway to net zero emissions by 2050

I welcome the new and enhanced measures announced in the retabled Budget 2023 to drive the adoption of electric vehicles (EVs), such as the expanded tax deduction of up to RM300,000 for rental of non-commercial motor EVs between YA2023 and YA2025 and the extension of tax exemptions for the EV industry. However, a more comprehensive plan will need to be put in place as we strive to achieve net zero emissions by 2050.

This could include the strategies in using fiscal policy to drive behavioural change, perhaps adopting a carrot-and-stick approach. As the environment, social and governance (ESG) agenda becomes more prominent among Malaysian corporates, we have seen some of the largest companies in the country announcing in the past year that they are implementing the Internal Carbon Pricing policy to account for the cost of carbon in their business operations. It would have been impactful for the government to announce measures to incentivise companies to lead the way in the adoption of strategies to manage climate-related business risks and the transition to a low-carbon economy. At the other end of the spectrum, some form of carbon tax mechanism will help to nudge companies to adopt environment-friendly measures sooner.

Taking into consideration the government had yet to reach its 100th day of administration when Budget 2023 was retabled, I was certainly impressed by the approach it has taken in harnessing the spirit of reform to cultivate a new and fresh policy direction for Malaysia. Belanjawan MADANI charts the country's pathway as we navigate a more challenging global economic outlook while accelerating the goal of achieving high-income nation status. E

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