COVER STORY

Taxing issues

Ministry of Finance secretary-general Tan Sri Dr Mohd Irwan Serigar Abdullah recently announced that the upcoming Budget 2014 will include measures to help ease the burden of the middle-income group.

This would certainly be welcome. The recent 1% reduction in personal tax for those with chargeable income of between RM2,500 and RM50,000 — effective in the next filing season — is insufficient to help the middle-income group, many say.

In fact, experts say more can be done to ease the tax burden of middle-income earners who face multifaceted issues — escalating living cost, suppressed income growth, subsidy cuts and the impending Goods and Services Tax (GST).

For one, the country's individual income tax bands are not in tandem with current salary scales, says Jagdev Singh, PricewaterhouseCoopers Taxation Services Sdn Bhd tax leader and senior executive director.

"Our current individual income tax bands are very narrow and have not been reviewed for many years. Taxpayers would find themselves creeping into the next tax bracket very quickly and hitting the top tax bracket of 26% when chargeable income exceeds RM100,000. This compares unfavourably with our neighbour Singapore, where the maximum tax rate of 20% only applies when an individual's chargeable income exceeds S$320,000," Jagdev says in an email reply to *The Edge*.

The city-state's personal income tax rates start at 2% for chargeable income exceeding S$20,000 but below S$30,000. A taxpayer with chargeable income of S$30,000 would have to pay S$200 in taxes.

In contrast, a taxpayer with chargeable income of RM30,000 in Malaysia would be paying a whopping RM1,175 based on the scaled rate of 7% for amounts earned exceeding RM20,000.

Even after the 1% decrease in personal income tax that will take effect next year, the same taxpayer would still be forking out RM900 in taxes.

Jagdev suggests that the government consider widening the income tax bands as a medium-term measure.

"For example, the chargeable income bands between RM50,001 and RM100,000 can be consolidated into one. This could be implemented together with a gradual reduction in tax rates for income bands above RM20,000 and a 1% reduction in the top marginal tax rate [from 26% to 25%] which applies to chargeable income in excess of RM200,000," he recommends.

Meanwhile, Maybank Investment Research chief economist Suhaimi Ilias says tax rebates on top of revised tax reliefs can be given to help alleviate the middle-income group's tax burden.

Jagdev concurs, saying that the middle-income earners do not qualify for the RM400 tax rebate currently available to taxpayers with a chargeable income of below RM35,000. Neither do they qualify for the BR1M cash relief given to households with a monthly income below RM3,000.

"To help the plight of the middle-income group, the government could extend the tax rebate to individuals with chargeable income of up to RM50,000 and increase the tax rebate to RM500. This would mean that in a family where both husband and wife work, there would be tax savings of RM1,000," he says.

The tax rebate is a measure that is both effective and simple to implement, says Jagdev. It looks even more attractive as it would not require any additional cash outlay from the government because the tax rebate is essentially set off against tax payable by the taxpayer.

"With the impending implementation of GST in Malaysia, a tax rebate can be used as a measure to help cushion any initial effects of the introduction of the new tax," he adds.

On the much debated GST that is speculated to come into effect in 2015, co-founder and chairman of Taxand Malaysia Sdn Bhd Dr Veerinderjeet Singh says consumers may face the issue of increased prices for some goods and services, especially those that are currently not subject to such a tax.

However, consumers would be relieved to know that the GST is not expected to apply to essential food items and services, such as government services, sale and rent of houses, tolled highways, public transport, private education and healthcare.

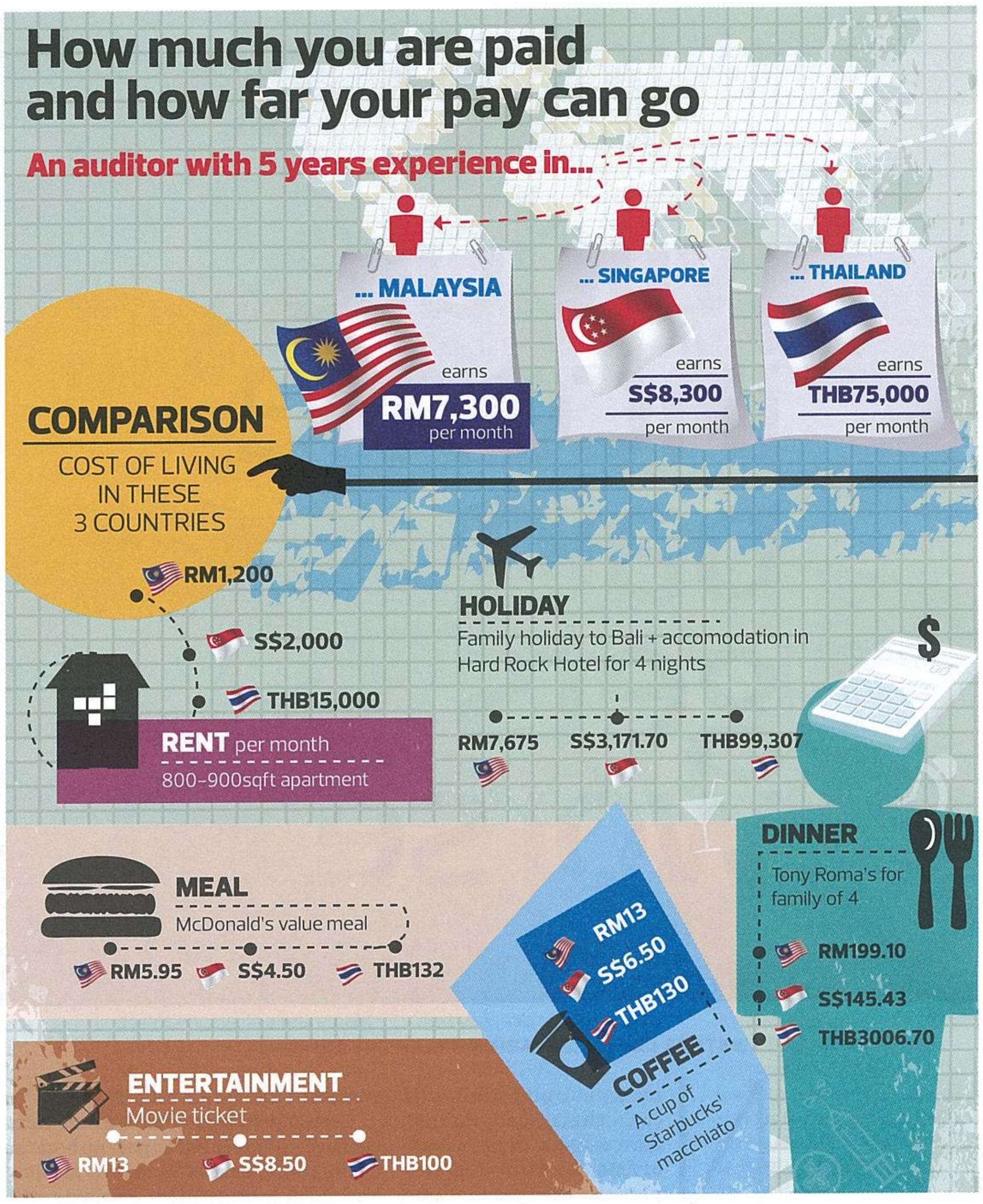
"For those goods and services that are currently subject to sales tax or service tax, there should be no change and, in fact, for some [cases] where the sales tax and service tax is higher than the expected 4% GST rate, there should even be a slight reduction in prices assuming everything remains the same. However, this will involve very active enforcement of the Anti-Profiteering Act," says Veerinderjeet.

According to PwC's Jagdev, "The potential drop in price when GST is implemented is also due to the ability of businesses to recover the GST paid on their inputs, hence reducing operating costs. The recovery mechanism is not available for the existing sales tax and service tax since they are both single-stage taxes. It is therefore inaccurate to expect an across-the-board increase in the prices of all goods and services with GST because the existing tax profile of the goods and services is different."

Recently, there has been talk of a 7% GST rate, 3% higher than the 4% indicated by the government thus far.

"Given the economic circumstances and the start of the subsidy rationalsation programme, it is not a logical step as this can shock the system. What we need to do is to introduce a replacement tax (for the sales and service tax) and give it a couple of years to work and this should be at a reasonable rate, which should be at the promised 4%," Veerinderjeet says.

Be that as it may, the coming budget will certainly be the most anticipated in years. — By Esther Lee



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higher education to RM6,000 from RM4,000.

The government also increased the income limit for individua loans under the My First Home Scheme to RM5,000 from RM3,000 per month, and to RM10,000 if incomes were combined. The requirement for a savings record equivalent to three months' instalment and minimum employment of six months was abolished.

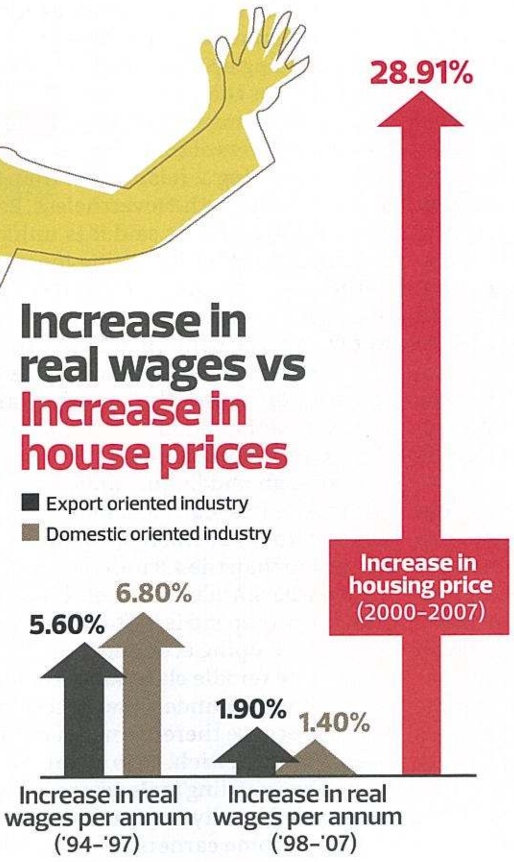
"The general feeling is that they have been left out," says Maybank Investment Bank's Suhaimi.

Says working mother Nisa: "I may not fall into that category [government's definition of lower income] but it doesn't mean I don't need the help. Also, buying a house we can afford is a challenge, given that the affordable houses that are being built are in places away from the city centre."

For some, rising prices will compromise their current lifestyle.

Julian Lee (not his real name), who sends his sons to a private institute of higher learning, is concerned about the potential increase in the prices of goods because of the 10% hike in fuel earlier this month.

"We have been managing okay so far, but if there were to be another [fuel] price hike, we are not sure how we will cope. It would mean that we would have to scrimp and would not be able to have holidays and splurge on little luxuries," says the 50-year-old father of three.



SOURCE: WORLD BANK, NAPIC

Salary mismatch

Apart from the rising cost of living, many say there is a salary mismatch.

As an illustration, Kuala Lumpur was ranked 74th position in the Economic Intelligence Unit's 2012 survey of the world's most expensive cities in terms of living cost. Kuala Lumpur rose 12 notches from 86th place in June a year ago among the 140 cities surveyed.

However, the increase in salary has not kept pace. A World Bank research report in 2009 states that in Malaysia, the growth in real salary and wages after the Asian financial crisis in 1997 has not returned to pre-crisis levels. Real wages are defined as wages that have been adjusted for inflation.

According to the report, the average increase in real wages in export-oriented industries in Malaysia before the Asian financial crisis was 5.6% per annum but this declined to 1.9% following the crisis. As for domestic-oriented industries, average real wages per annum grew 6.8% before the crisis — a stark contrast to post-1997 when real wages only grew 1.4% per annum.