Budget 2014 – Our immediate priority

COMMENT

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THERE has been a lot of discussion in the media about two major changes to the taxation regime: the introduction of the goods and services tax (GST) and the increase in the real property gains tax (RPGT) back to the rates prior to March 2007 when the top rate was 30% for the first two years together with a possible tweaking of the stamp duty top rate from 3% to 4% on the sale of the second or third property within the same tax year.

My earlier article on GST (Sept 17, 2013) has made it clear that GST is likely to be announced in Budget 2014. The RPGT change will be welcomed in my view to cool down price increases in the secondary market.

I believe our immediate priority should be to address the needs of the ordinary people – the 90% of the population who are earning less than RM5,000 per month.

The priority areas of taxation in my view should be: firstly, to keep the economy growing while keeping the focus on reducing the budget deficit (currently government spends more than its revenue – 2013 deficit was 4.7%).

Secondly, to help this group ease the burden of the rising cost of living (2009 to 2012 – 23%) which appears to be outstripping the increase in real wages (stagnant over the same period).

Thirdly, to curtail the increase in property prices (2009 to 2012 – 33%) and help them enter the property market.

If actions were taken to help this group, the impact on the economy will be greatest as they tend to spend most of their income back into the domestic economy and mostly on basic necessities such as food, travel, healthcare, education and housing.

We need to focus on increasing their disposable income. In the short term, for the middle class, there is an urgent need to reduce their personal taxation, especially households earning less than RM10,000 per month.

This can be done by either widening the tax bands or removing the earlier tax bands such that individuals commence paying tax only when they have taxable income of RM20,000 instead of the current starting point of RM2,500 and similarly make the corresponding change all the way upwards.

However, there is no urgent necessity to change the top rate from 26% to 25% as this 1% reduction will only be a "drop in the ocean" to top taxpayers.

On the property front, while the government is helping this group through the 1Malaysia People's Housing Scheme (PR1MA), the supply of such housing has to be increased beyond what the government is doing now.

Generally, the property development industry has been profitable and therefore it is timely for them to help the general population become first time house owners.

But the burden should not only fall on the government as that only adds to the budget deficit problem. I would like to see private property developers contributing to the nation by building more low- and medium-cost houses priced at less than RM250,000.

Generally, the property development industry has been profitable and therefore it is timely for them to help the general population become first time house owners.

This can be a win-win proposition to the industry in the long run as more people become house owners.

I believe the government needs to actively engage the property players to encourage them to contribute more lower- and medium-cost housing to the national housing pool without the need to impose any form of government control as it leads to more unproductive bureaucracy.

Any increase in RPGT is unlikely to have a significant impact on this group. And any slowdown on property price increase will only be psychologically beneficial.

This group urgently needs tax to be given interest relief on the first housing loan perhaps limited to loans not exceeding RM300,000. Having a roof over one's head is an absolute necessity and not a luxury.

In the other areas where more assistance should be given to those households earning less than RM10,000 per month should be in the areas of healthcare and education. In these areas, the allowances need to be increased substantially.

Where will the revenue come from to finance the above suggestions? The broad areas the government needs look into are; firstly, to keep the momentum by the Inland Revenue Board to broaden the tax base through the identification of delinquent taxpayers who evade paying their taxes.

Secondly, the government needs to look into how to tax substantial sums of money that are currently classified as capital gains and foreign income generated by Malaysian corporations and individuals. Many countries tax such income, except off course our immediate neighbours Singapore and Hong Kong.

Thirdly, the other source of revenue may come from increases in the taxes on gambling, alcohol, tobacco.

Lastly, reducing or controlling government expenditure or deferring some major projects to a later date will help balance our budget.

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