Taking the bold and progressive route

MY Say

BY JAGDEV SINGH

Bold, transformational, progressive — these are some of the words that have been used to describe Budget 2014. Whichever the description you subscribe to, more importantly, Prime Minister Datuk Seri Najib Razak has taken the bull by the horns by announcing brave measures to deal with the lingering fiscal deficit, which has contributed to the national debt creeping up. At the same time, we continue our march towards achieving developed nation status by refocusing on areas where we have an advantage over our neighbouring countries.

As widely expected, Malaysia will introduce the Goods and Services Tax (GST) in 2015 at the rate of 6%. Companies now have 17 months to work on aligning their systems and processes to this new regime. This should also be seen as an opportunity for corporates to review their structures as well as explore ways to enhance the efficiency of their internal processes. Having said that, it is equally important to get all levels within their overall corporate organisation to understand and appreciate how GST will impact their business.

On a more macro basis, the government needs to invest in educating the public on the mechanics of GST, especially how it impacts them. For example, when Australia implemented its GST system, it established, among others, an organisation delivered assistance (ODA) programme to deliver GST business skills seminars and material to small and medium enterprises, the community and educational institutions through an advocacy group representing each industry sector.

As part of the education and awareness programme, some 20 million publications were distributed to all walks of Australian society. In Singapore, businesses voluntarily registering for GST were required to complete an introductory GST course (either through physical workshops or e-learns) within three months of registration.

As part of GST implementation in Malaysia, the government has committed to a reduction in corporate and personal tax rates. The reduction in corporate tax rates, however, may need to be accelerated beyond the projected 1% reduction in 2016, particularly when a number of the countries in the region are looking at 20% as the new norm. Lower corporate tax rates are key to ensure Malaysia remains competitive, that is, able to attract foreign direct investment and promote domestic investment, which are both crucial for a resilient economy.

Besides GST, the various measures taken to deal with the rapidly increasing property prices have drawn much debate. Budget 2014 adds a few measures on top of the initiatives introduced last year, such as the loan to value restriction.

Again, striking a balance between not stifling the property sector and ensuring affordability for first-time homebuyers is never easy. Thus, this is one area where it is necessary to introduce various measures and fine-tune these based on their efficacy in achieving the desired outcome. Singapore, for example, over time introduced no less than half a dozen measures to curb property rates and is only now seeing some results.

Core to our economic growth is the service sector, particularly in areas where we have a niche in the region. Budget 2014 has emphasised this by focusing on a number of key growth areas — logistics, aviation and tourism.

Significant investment will be put into establishing Malaysia as an aviation hub in the region. The move is a timely one by the government as the growth potential of the aviation industry is huge — in the past decade, airport growth in Malaysia has more than doubled. Malaysia has had a head start and made impressive progress in the low-cost carrier (LCC) segment.

The tourism industry is also a significant contributor to GDP growth. From 2007 to 2012, tourist arrivals rose 19% to 25.03 million with an increase in spending of 31%, taking the absolute amount to RM60.6 billion. This indicates an increase in average spend from RM2,199 to RM2,421.

Taking cognisance of this, it is imperative that we further develop the high-end tourist industry. The extension of the application period for pioneer status and investment tax allowance incentives to Dec 31, 2016, will provide the boost required to push Malaysia to the forefront of the high-end tourism industry.

Budget 2014 is definitely the most comprehensive fiscal reform we have seen in recent times. The various measures to establish a more comprehensive tax system through the announcement of GST will go a long way towards reducing our reliance on direct taxes. Further reductions of personal and corporate tax rates will also strengthen Malaysia's competitiveness as a potential destination for skilled workers and foreign investment.

What of subsidy reductions? Not surprisingly, there were many unhappy folks following the announcement of subsidy rationalisation. As for me, I prefer my drinks unsweetened and I'm keeping my fingers crossed that I will not have to pay more than what I am paying today. However, it looks like a costlier petrol tank could be on the cards. E

Jagdev Singh is a tax leader at PwC Malaysia