Tax relief to lighten middle-income group’s burden

Government should look at incentives aimed at businesses and individuals

By Chia Shua Fu

KLALU LUMPUR: Against the backdrop of weak commodity prices it could be tough for the government to have an income tax cut across the board. However, experts point that the government should provide tax relief or endorse tax breaks to help the middle-income earners cope with the high cost of living.

Experts do not expect further tax reductions apart from the pre-announced personal income tax cut of 1% to 3% in 2015 and corporate tax cut of 1% in 2016.

PwC’s Tax Services Malaysia senior executive director Steve Chia hoped that the government will look at providing personal income tax breaks for middle-income groups and individuals as a result of higher cost of living and the goods and services tax (GST). He said that while it is expected that the 1 Malaysia People’s Aid (BR1M) payout will continue, it would not benefit the middle-income group which has a heavier tax burden.

“Higher personal relief can be considered; perhaps, an increase to RM1,000 from the current relief of RM500. Such an increase would also benefit the higher-income groups,” Chia said.

Another option would be to give a temporary tax credit of RM500 to RM1,000 to individuals with a monthly income of RM10,000 and below. This was suggested by Chia. He said that in 2013, DBS Financial Adviser told The Edge Financial Daily. He also proposed that relief for medical expenses for self and parents to be increased to RM5,000 and RM10,000 for the existing RM5,000 and RM8,000 respectively to further ease the rising healthcare costs.

In addition, he said to promote preventive healthcare and healthy living, the scope of the relief should be expanded to include cost of health supplements and gym subscriptions. Chia also noted that property cost remained one of the top expenditures among Malaysian households and proposed the government to remove the housing loan interest relief of RM10,000.

The relief was previously given for the purchase of residential property until Dec. 31, 2015.

Crowe Horwath KL tax services managing director Thammeemanul shared Chia’s views on increasing the relief to the middle-income group with monthly salary of RM8,000 and below. In addition, he said the government should consider enlarging the tax bracket so that they can pay less tax.

Country tax leader of Deloitte Malaysia Yeong Wing Peng said the government might announce a roadmap to cut the corporate tax rate progressively to 22% by 2018.

Relatively, Malaysia’s present corporate tax structure is no longer competitive as the corporate tax rate of Thailand, Indonesia and Vietnam will be at 20% by 2016 generally, he added.

“...for personal income tax, due to the GST introduction, it is hoped that it will be gradually reduced to 22% by 2018 to offset the GST impact...”

A lower personal tax rate will help in attracting and retaining talents. Our biggest competitor for talents is Singapore which has a much lower personal tax structure with the highest rate at 20% at present to be increased to 22% in 2017,” Yeong added.

Crowe Horwath’s Thammeemanul expressed concern over the difficulties faced by the government to meet larger spending in Budget 2016 due to the shortfall of revenue not only from oil receipts but also lower corporate due to the economy slowdown.

“The government will have to find ... through borrowings. The government can tap into local funds such as the Employees’ Provident Fund (EPF) and Pension Fund or Permodalan Nasional Bhd. If the government opts to borrow through bonds, the price we need to pay for borrowings is rising due to our sovereign rating,” Thammeemanul commented.

While Thammeemanul said the GST is expected to contribute about RM30 billion towards government revenue in 2016, it is not enough to cover the loss from the Petronas Income Tax.

PwC’s Chia said whilst the collection of GST in the initial months appears to have surpassed the government’s estimates, it necessarily reflects the actual GST revenue as it would have included increased GST remittances which have not fully taken into account the full impact of GST repayments.

“It is likely that the government would take a ‘wait and see’ approach until a normalised trend is reached before embarking on any major fiscal measures in the area of taxes and revenues,” Chia said, adding that this is unlikely that the government will make changes to the GST rate.

KPMG Tax Services Sdn Bhd director Danny Oon said the net GST revenue was expected to be fairly negligible once the sales tax and service tax revenue foregone and BRIM is taken into account.

Oon said that despite the GST rate going up from time to time in other countries, he does not believe a hike in GST will take place in the upcoming Budget.

“...This will provide a much clearer picture of the government’s actual GST take in the future,” Oon said.

Firms want more medicines to be GST zero-rated

By Vinny Yong

KLALU LUMPUR: Pharmaceutical companies said that the government would benefit from reducing the National Essential Drugs List (NEDL) and extending the list of medications in the zero-rated list.

Pharmaversa Bhd managing director Dato’ Fauziah Ekrana told The Edge Financial Daily that medicine brands in the National Essential Medicines List are not fully consistent, with the World Health Organization (WHO) list.

“This variability of pharmaceutical products is crucial. Ensuring the consistency with WHO’s terms of reference-rated products would be beneficial for the rakyat, as these products are a necessity in healthcare,” she said.

CCM Diopharma Biotech Bhd chief executive officer Leonard Art Lii noted that the government will make ethical drugs zero-rated in the upcoming budget.

According to Ho, the list of the collection of GST (goods and services tax) has surpassed the original targets, it is worthwhile for the government to consider making all medications that require a prescription zero-rated. This would reduce the burden on the rakyat especially those who are on long-term medications that do not come under the zero-rated list.”

An ethical drug is a drug that is only available with a doctor’s prescription or consent.

Currently, there are about 4,215 medicine brands on the National Essential Medicines List compared with about 12,000 registered brands of medicines in Malaysia.

Incentives and lower corporate tax will also help the industry, according to pharmaceutical manufacturers.

Horild Bhd managing director David Ho opined that pharmaceutical companies should be accorded the same tax and financial incentives provided to biosimilar status. Firms and biotechnology companies, such as corporate tax rates at 20%, investment tax allowances, pioneer status, and additional incentives for employment of research and development work.

According to Ho, this can be done by widening the definition of exemptions entitled for R&D double-deduction tax relief, provides grants for research locally and overseas, and increase the tax relief from 30% to 40%

YSP Southeast Asia Holding Bhd (YSP SAH) president and group managing director Datuk Dr Lee Fahmian concurred with Ho’s view to encourage exports.

“...the expiration of patents of blockbuster drugs have presented opportunities for generic drugs to be produced and compete with the previously patented branded drugs,” he said.

“Proposals are therefore good for Malaysian-made generic drugs to be exported to markets in different parts of the world. Policies and incentives that help local players make inroads into growing export markets will therefore be essential,” he said in his wish list for Budget 2016.

Lee said policies to encourage e-business will be just as pertinent for Malaysian companies like YSP SAH to have its footprint in the global market.

Specifically, Lee hopes incentives will be given for companies that go digital.

“...Incentives for e-commerce and e-systems will be critical for industries in Malaysia to be in the forefront in this new frontier otherwise we will be lagging behind,” he noted.

Meanwhile, Pharmaccur’s Fauziah also hopes to see the endorsement of mandatory importation of generic drugs from Pharmaceutical Inspection Convention and Pharmacutical Inspection Cooperation Scheme (PIC/S) member countries.

This is to ensure drugs sold in this country are on a level playing field, since Malaysia is already a member of PIC/S, the compulsory and all members are subject to very strict enforcement and regulations,” she added.

“We also hope to see a higher budget in Budget 2016 for the pharmaceutical sector,” she added.

Budget 2016 Wish List

Wish list for Budget 2016

As the government prepares to unveil Budget 2016, here are some wish lists for various sectors based on their inputs to The Edge Financial Daily.

Financial Services

- Lower GST rate for investment trusts
- Lower GST rate for insurance
- Lower GST rate for real estate

Borrowing

- Lower GST rate for bonds
- Lower GST rate for securities

IT

- Lower GST rate for software
- Lower GST rate for e-commerce

Agriculture

- Lower GST rate for fertilizers
- Lower GST rate for seeds

Retail

- Lower GST rate for groceries
- Lower GST rate for clothing

Hospitality

- Lower GST rate for accommodation
- Lower GST rate for restaurants

Manufacturing

- Lower GST rate for machinery
- Lower GST rate for materials

Education

- Lower GST rate for textbooks
- Lower GST rate for school fees

Healthcare

- Lower GST rate for medical equipment
- Lower GST rate for pharmaceuticals

Travel

- Lower GST rate for flights
- Lower GST rate for hotels

Tourism

- Lower GST rate for tour operators
- Lower GST rate for travel agencies

Energy

- Lower GST rate for electricity
- Lower GST rate for gas

Transport

- Lower GST rate for public transport
- Lower GST rate for taxis

Construction

- Lower GST rate for building materials
- Lower GST rate for labor costs

Property

- Lower GST rate for property transactions
- Lower GST rate for property management