Budget 2016 has limited room for manoeuvre, says Deloitte

KUCHING: Despite the slowdown brought on by the global economy, the Malaysian economy is still holding up modestly well due to its diversity, resilience and solid fundamentals, said Deloitte's tax leaders.

"Aiming at sustaining our fiscal position, I'm glad to see the government tightening its operating expenditure with a RM8 billion cut while the development expenditure allocated has seen a four per cent increase up to RM52 billion – signalling the government's intent to attaining high income status by 2020," said Yee Wing Peng, Deloitte Malaysia country tax leader at Deloitte Malaysia's 41st TaxMax Seminar yesterday.

At the seminar, he also further queried if it was enough to cut the budget deficit by merely 0.1 per cent, or more could be done especially on the government emolument which forms 32 per cent of the total operating expenditure.

With the flagging ringgit, Yee opined that bold measures are necessary to incentivise businesses to seize the opportunity to ramp up the export of goods and services.

"In the midst of this downturn, it is important to focus on the silver lining on the country's economy. The weakening Ringgit makes our services and products much cheaper – for example in the tourism, health and education sector.

"The government should take bolder measures by giving more funding for these sectors to explore their overseas market, providing export tax rebate and allowing tax exemption on the incremental value derived from export sales," added Yee.

With the Goods and Services Tax in place for more than 200 days now, Deloitte Malaysia Indirect Tax Leader, Tan Eng Yew also pointed out the importance of having the revamped tax system.

"Malaysia would have suffered a more noticeable budget deficit if the government did not implement the revamped tax system. With globally falling oil prices, and the country's reliance on said prices, GST implementation was necessary step, as the Sales and Services Tax (SST) was not as efficient in terms of collection. The GST will go a long way at reducing the nation's deficit, especially with the waning global economy," said Tan.

Themed as "Prospering the Rakyat", and seen as conservative but realistic, Budget 2016 has given more attention to the lower and middle income classes in an effort to boost their disposable income for better consumption power.

"The BR1M handouts and the increase for minimum wage earners is intended to improve the spending power for the masses. As GST is a consumption tax, the redistribution of wealth will ultimately serve to improve tax collection.

"Though it is seen as a populist measure, it helps to boost up domestic consumption and consequentially, increases business activity. However, this will bring up the cost of doing business especially for the labour intensive manufacturing and construction sectors.

"These sectors are dominated by foreign labour and it is unsure whether this measure will create a significant multiplier effect for the domestic economy given these foreigners are likely to repatriate the money to their home country," said Yee.

The 41st Deloitte TaxMax is an annual tax seminar that focuses on the Malaysia budget.

This year's seminar saw guest speakers such as Tan Sri AK Nathan, vice president of Masters Builders Association Malaysia (MBAM); Dr Nungsari Ahmad Radhi, managing director, Prokhas Sdn Bhd; Sivaram Nagappan, head of Tax, Malaysia Airlines Berhad and Manvinder Singh, vice president, head of Group In-House Tax, Felda Global Ventures Holdings Bhd.

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Yee Wing Peng, Deloitte Malaysia country tax leader

(From left) Nungsari, Yee, Nathan and Tan during a press conference yesterday after the Deloitte Malaysia's 41st TaxMax Seminar.