Does Budget 2018 chart path towards TN50 aspirations?

A substantial investment from the government would be critical

BY YEE WING PENG

The 2018 Budget lives up to its promise to be inclusive, responsible and comprehensive. There is much focus on the needs of the rakyat in enhancing their accessibility to education, healthcare, home ownership, etc. While addressing the immediate needs of the B40 and M40 groups — civil servants and women in our workforce have been the dominating talking points of the 2018 Budget — there are indeed some attractive proposals that would drive our economy towards achieving our aspirations as one of the top 20 nations in the world under the Transformasi Nasional 2050 (TN50) plan.

Our 60-year journey has seen Malaysia shifting from being a major agricultural industry to a manufacturing hub and now to being a diversified economy — whereby more than half of our gross domestic product (GDP) is being contributed by the service sector. Notably, our strength in playing to the service sector lies in our reasonably good infrastructure, educated workforce and lower cost of doing business among others — and this is further facilitated by our country's softer ringgit currency exchange in recent times.

Indeed, if we were to revisit the 12 National Key Economic Areas (NKEA) identified under the Economic Transformation Programme (ETP) — nearly half of the NKEAs are in the service sector which includes tourism, healthcare, education and business services. I am glad to see related tax incentives offered in this budget.

Tourism and healthcare

In anticipating 28 million tourist arrivals in 2018, various programmes and funds are being brought about to boost Malaysia's tourism industry. Tax incentives for investment in 4- and 5-star hotels and tour operators are being extended to the year 2020 while a goods and services tax (GST) relief for cruise ship operators — on handling services provided by port operators — makes Malaysia more attractive as a port of call or home port.

Closely linked to tourism is medical tourism. Recognising the potential of this billion-ringgit industry, RM30 million is being allocated to promote Malaysia as an Asian hub for fertility treatment and cardiology — with the eVisa facility being extended to other specialised medical services and high-value healthcare packages.

Generous tax incentives proposed include increasing the income tax exemption on an incremental value for the export of private healthcare services from 50% to 100%, the extension of a 100% Investment Tax Allowance (ITA) incentive to 2020 and the doubling of a tax deduction on expenses incurred in obtaining certification for quality systems and standards on dental and ambulatory services.

Business services

Malaysia has been fairly successful in attracting multinational corporations (MNCs) to establish regional shared service centres here — kudos to agencies like the Malaysian Investment Development Authority (Mida) and InvestKL. To continue attracting these MNCs to set up their regional service centres in Malaysia, the Principal Hub (PH) incentive — which offers tax exemption according to 3-tiered preferential tax rates of 0%, 5% or 10% based on certain criteria — is being extended to 2020.

Education service

Visibly missing are incentives for education service providers which work in synergy with tourism and medical tourism. Having attained 150,000 international students in 2016 and working towards 250,000 by 2025, Unesco places Malaysia as one of the top destinations for post-secondary education in the world. Since 2014, Malaysia has jumped into the top 10 of Unesco's international student mobility survey. Many institutions operating education services lease their facilities, which include campuses, libraries, hostels from facility owners. Unfortunately, the current tax law prohibits facility owners that are not the operators from claiming the industrial building allowance (IBA) on capital expenditures incurred — resulting in loss of claim for deduction on millions of ringgit in building cost. I hope the government will review the relevant tax law to encourage this sector to thrive. To encourage the institutions to attract more international students, a tax exemption should also be granted to the incremental value of export services.

Industrial Revolution 4.0

The Budget 2018 is being unveiled amid the Industrial Revolution 4.0 (IR4.0) and various incentives in the form of grants and allowances being introduced to encourage a higher adoption of advanced technology by the manufacturing and manufacturing-related services sector.

While there has been much ado about the IR4.0, there were no specific tax incentives introduced — although the cost of implementation is a major deterrent. On this front, Budget 2018 has proposed an Accelerated Capital Allowance (ACA) and Automation Equipment Allowance (AE) on the first RM10 million qualifying capital expenditure incurred in the years of assessment 2018 to 2020 — fully claimable within two years of assessment. Although this accelerates the claiming of capital allowance, it may not be impactful enough to promote the higher adoption of advanced technology.

More attractive would perhaps be the matching grant worth RM245 million under the Domestic Investment Strategic Fund for the upgrading to Smart Manufacturing facilities. The other supporting measures are extending the ACA and AE to the labour-intensive industry to 2020 and granting capital allowances for expenditure on information and communications technology equipment and developing customised software.

The government may undertake initiatives to encourage global players in IR4.0 to use Malaysia as one of their bases for their technology development and to strike public-private partnership arrangements to jointly pursue strategic projects. Such a bold play would require a massive fund allocation.

Digital economy

Despite the government's intention to drive the digital economy and support the expansion of the Digital Free Trade Zone (DFTZ), we have yet to see concrete plans for attracting established foreign players and look forward to further updates in the near future. More importantly, I hope that the government will provide a facilitative tax framework that is clear, equitable and tax friendly — as this was not articulated in the Budget 2018. Such steps would demonstrate the government's commitment to leading the country into the digital age.

While an inclusive, responsible and comprehensive budget addresses the immediate needs of the rakyat especially the B40 and M40 income group, for us to achieve the nation's TN50 aspirations, there must be a sharp focus on strengthening the long-term trajectory of our economy. Towards this end, a substantial investment from the government — in terms of resource allocation in our strategic areas on top of the sectors I have mentioned — would be critical in propelling our economy towards 2050.

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