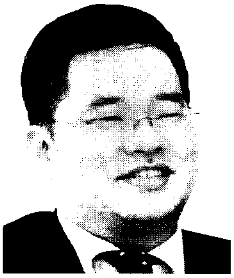
Tax measures for difficult times



MY Say

BY TAN HOOI BENG

In these financially challenging times, all of us need to tighten our belts. It is not an option. Does the current price of oil, coupled with the slowing down of economic giants like the US and China, worry me? Certainly.

While I do not work in the oil industry and only a small number of us do, we are all dependent on it in one way or another. World crude oil prices have continued to plummet and even dropped below US$30 per barrel. Several days ago, Brent crude crossed US$31 per barrel, a reduction of 35% compared with the assumption of US$48 during the tabling of the 2016 budget.

Against this backdrop, Prime Minister-cum-Finance Minister Datuk Seri Najib Razak did the right thing. Last Thursday, he aptly announced various practical measures under a revised Budget 2016.

From the tax perspective, notable changes include a special tax relief of RM2,000 to individual taxpayers with a monthly income of RM8,000 and below for the year of assessment 2015. Depending on the situation in 2016, we hope that the government would consider extending this relief for another year.

It is expected that the government would lose revenue of RM350 million but it will provide individual tax savings of up to RM475, which will benefit two million taxpayers. I commend this move as the government clearly has made the interest of the rakyat a key priority.

At issue is the way that the government deals with the shortage of revenue. It is not rocket science. To balance the equation, public expenditure that is less crucial has to be cut down or deferred. The government has assured the people that it will be more prudent in spending, particularly on supplies and services.

Focus would be given to projects and programmes that are rakyat-centric and have a high multiplier effect and low import content. The implementation of non-physical projects and those that are still under consideration would be rescheduled. These are expected to ease cash-flow commitments of up to RM5 billion. Sure, the critics will have a field day, especially whether the government will walk the talk, but I strongly believe it will. After all, there are not that many options on the table.

I remain sanguine that the nation will be out of the storm in due course. The good news is that the Goods and Services Tax stays at 6%. There is neither an increase in tax rates nor any new tax. The focus now is on controlling and monitoring the government's expenditure. Some may say this should have been done earlier. But it is better late than never. GST critics have been loud over the years. But the reality is that this unpopular tax regime, implemented in April 2015, could be the saviour of the Malaysian economy as it will help cover a huge budget shortfall caused by a drop in oil revenue.

Nothing is certain in life, save for death and taxes. While there is no increase in tax rates, all of us have to pay our fair share of taxes. Imagine this situation. You are seriously ill and cannot afford immediate treatment at a private hospital. Somehow, you are lucky because there is a new public hospital. You are treated in time and recover. All taxpayers, including yourself, have contributed towards the new hospital. Because of the taxes collected, you managed to live another day.

The government would continue its effort to enhance the efficiency and amount of tax collection. Under the revised Budget 2016, several measures will be implemented. The government, through the tax authorities, will increase compliance and auditing efforts on tax evaders. These measures may create fear among the taxpayers but one should not be fearful when one has done all the right and lawful things.

Tax evaders deserve no mercy. Having said that, we know that to err is human. Therefore, we remain hopeful that the tax authorities will continue to be reasonable, lenient and practical on the genuine errors and technical issues rather than being stern about imposing penalties on unintended errors or viewing all errors as low hanging fruit.

Another piece of good news is that the government is prepared to relax its penalty for taxpayers. They are encouraged to declare their past income. Any arrears must be settled before Dec 31 this year. This voluntary disclosure regime has proved to be a success in many countries.

Another commendable measure includes the move to plug the indirect tax leakage on the sale of duty-free cigarettes and liquor, and to tighten the treatment of imported vehicles on duty-free islands. A big relief is that Labuan's duty-free status remains intact.

Another non-fiscal measure that is noteworthy is the proposed reduction in the employees' contribution to the Employees Provident Fund by 3% from March this year to December 2017. This measure is expected to increase private consumption expenditure by RM8 billion a year and will certainly stimulate the economy as a whole.

To sum up, we live in challenging times. The oil price is not expected to recover anytime soon. The political climate could be better. Terrorist threats are real. Thus, it is right for us to exercise the greatest degree of prudence. There will be critics of the revised budget but that is to be expected.

Viewed practically, it would satisfy a reasonable man in the street. There is no new tax or an increase in tax rates. Instead, there is additional tax relief. The government is prepared to cut less critical expenditure. Everything seems under control for now but as a tax practitioner, I have to say this: Be prepared for more vigorous tax audits. The taxman has no boundaries, or so they say. E

Tan Hooi Beng is an executive director at Deloitte Malaysia. The above views are his own.