Business News

Monday, 17 October 2016

Tax measures to enhance Malaysia's service sector

BY HISHAM HALIM

MALAYSIA has come a long way in terms of development and economic growth. From being the world's largest producer of rubber, palm oil and tin in the 60s-70s to a major manufacturing hub in South-East Asia in the 80s-90s, and to where we are now, a diversified economy with 54% of our GDP contributed by service sector.

We no longer hold strong competitive edge in labour intensive manufacturing activities, losing out to countries like Vietnam, Indonesia, and Cambodia, which have ubiquitous supply of cheap labour. Indeed, we have been seeing several foreign manufacturing giants moving their operations out of Malaysia in recent times.

Acknowledging these challenges, our government through the implementation of the Economic Transformation Program (ETP) is targeting to steer the nation out of the middle income trap by focusing on 12 National Key Economic Areas (NKEA) where we can excel. Nearly half of the NKEAs are in the service sector including tourism, healthcare, education and business services.

In the upcoming Budget 2017, I look forward to seeing double down investments in these four service sectors to enhance our competitiveness.

Tourism

Malaysia ranks the 15th most visited country in the world in 2015 with 25.7 million foreign tourist arrivals, doubling that of Singapore and behind China (56.9 million), Thailand (29.9 million) and Hong Kong (26.7 million), according to the United Nations World Tourism Organisation.

Huge potential lies ahead in this growing sector that has seen estimated 1.186 billion international tourist arrivals worldwide in 2015 with a total spending of US$1,260 billion.

Frequent travelers may find many of Malaysia's tourist attractions lack in scale. When the Chinese Premier Li Keqiang visited Malacca last year, he sent a very clear message to the local operators to upscale their operations to cater for the influx of Chinese tourists.

More efforts could be placed on promoting our natural national assets such as Taman Negara and Kinabalu Park (Mount Kinabalu), and perhaps certain gazetted areas in Malacca and Penang by offering tax exemption to encourage businesses such as cultural show performers, art and handicraft retailers, local specialty food producers, F&B outlets to upscale their operations, as well as attracting new major players into these areas.

Additionally, Meetings, Incentive Travel, Conventions and Exhibitions is a space that we can also play to attract more international event organisers as hall rental and room rates in Malaysia are relatively cheap.

In this respect, the government may consider to further extend the 10-year investment tax allowance incentive to the conventional hall owners, hotel and resort operators to encourage expansion and refurbishment of facilities.

Healthcare

Malaysian healthcare operators are known to provide quality healthcare services at affordable prices. Our weakened currency in a way makes it even more attractive for foreign patients/clients to seek medical treatments here.

To further promote export of our healthcare services, tax exemption can be offered to healthcare businesses, which have been showing healthy increase in foreign revenues over the years. As such, tax exemption given on the increased revenues derived from foreign visitors, which expired in 2014 may be reintroduced.

There is also room for growth in wellness, cosmetic surgery and other alternative medical treatments such as chiropractic and acupuncture. Perhaps tax exemption can be extended to them as well to spur the development and establishment of this sub-sector.

Education

Tax exemption is currently given to institutions offering science and information technology (IT) courses. As Malaysia has been building strong reputation in some other courses such as accounting and finance, to further develop the nation as a regional education hub, the tax exemption incentives could be extended to a wider range of courses for institutions that expand their businesses.

A common challenge faced by some institutions currently is that the facilities, which include lecture halls, laboratories, auditoriums, libraries are leased by the operators from the facility owners.

The current tax law prohibits facility owners that are not the operators from claiming industrial building allowance on capital expenditures incurred on buildings, which could easily run into multi-million ringgit. This has resulted in higher operating costs for education businesses. The government should seriously review the relevant tax law to provide a more conducive tax environment for this sector to thrive.

Business Services

Malaysia has been fairly successful in attracting multi-national corporations (MNCs) to establish regional shared service centres here. Some of the pioneer corporations may have the 10-year tax exemption granted to them either expiring or already expired by now.

Our government may consider extending the tax exemption period to entice them to further invest in Malaysia. Usually such shared service centre, playing back office support roles, would have its profit recognised based on a cost plus method, which would not be highly significant.

As such, offering tax exemption may not necessarily result in substantial “tax loss” to the government, as such perceived loss could be more than covered by personal tax payable by the local and expatriate employees, as well as the multiplier effects on consumptions of goods and services by the businesses and their employees.

Potentially, tourism, healthcare, education and business services could be key drivers for our future economy, generating sufficiently high income jobs for our educated workforce. Offering more tax incentives would attract more domestic and foreign direct investments by businesses to further upgrade and upscale their service offerings, making Malaysia a regional player in these areas.

Hisham Halim is a Transfer Pricing and Business Model Optimisation Partner of Deloitte Malaysia. The views expressed are solely his.