

What to expect from a fine-tuned Budget 2023

STORIES BY **CHERYL POO**

While tax experts and economists do not expect a significant difference insofar as the size of the re-tabled federal budget on Feb 24 is concerned, all eyes will be on how Prime Minister and Finance Minister Datuk Seri Anwar Ibrahim, who previously held the finance portfolio from 1991 to 1998, will juggle his commitment to maintaining a sustainable fiscal position for Malaysia's growth with ensuring the well-being of the rakyat.

As at January, Malaysia's fiscal debt including liabilities hit RM1.5 trillion, which is more than 80% of the nation's gross domestic product. The fiscal deficit — the shortfall between revenue and expenditure — stands to widen further than the earlier estimate of 5.8% of GDP in 2022 in view of economic uncertainties, the Russia-Ukraine conflict and global recovery post-Covid-19, Anwar said at a dialogue on Budget 2023 last month.

In providing handouts and a blanket subsidy for petrol and diesel to help the rakyat cope with high inflation, the government shoulders a huge subsidy bill that ballooned to RM80 billion last year amid elevated oil prices.

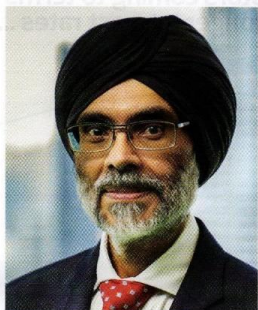
The World Bank has said Malaysia should explore new sources of revenue and that its strategy of achieving fiscal consolidation by reducing spending is challenging. In addition, data provided by the Perikatan Nasional-led administration showed that debt service charges had exceeded RM40 billion in 2022 and were projected to rise further to 17% of its operational expenditure (opex) this year. More than 40% of the opex is allocated for emoluments and retirement charges, the projection showed.

How will the unity government tackle the subsidy problem while attempting to increase the national revenue? (More on the subsidy mechanism later.)

The tax experts *The Edge* spoke to last week do not expect any new taxes to be introduced this time around, apart from the introduction of the Qualified Domestic Minimum Top-up Tax (QDMTT) in response to the implementation of the Global Minimum Tax.

Nevertheless, there is talk of another round of Cukai Makmur or prosperity tax — the one-off tax proposed under Budget 2021.

"The government's drive to further raise revenue means that 'surprise' taxes are still possible. We could see a return of the prosperity tax in some form or another as the new administration is not tied to the previous government's promises," says CGS-CIMB economist Nazmi Idrus in a Feb 15 report.



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Chow: There should be incentives to boost the small and medium enterprise sector, which makes up over 95% of the total business community and employs about 70% of Malaysia's labour force

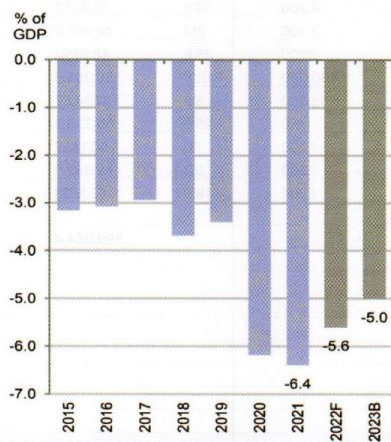


Farah: Skilled resources will enable businesses to grow and provide increased employment opportunities as well as better remuneration packages for individuals



Soh: The revised budget should enable businesses, particularly SMEs, to adopt and invest in green technology, which will ultimately enable the green economy to be fostered on a national scale

Fiscal deficit expected to be reduced in 2023



He believes the budget may see a narrower fiscal deficit as the government targets fiscal consolidation and aims to rein in the high debt levels. He says Putrajaya could target a narrower fiscal deficit of 5% of GDP this year compared with the 5.5% it projected in its Fiscal Report 2023 last October.

Nazmi says the areas in which

the government could raise revenue include wealth-related taxes, such as a tax on inheritance, dividends or capital gains. "We think the government can still lift its revenues from alternative sources, such as the expiry of Covid-19-era tax exemptions, a tax on sustainability, greater tax compliance, as well as addressing leakages in procurement processes."

While the notion of bringing back the Goods and Services Tax (GST), which would shore up revenue for the government, is raised before every budget announcement, Anwar confirmed last Thursday that there would not be a broad-based consumption tax, or a tax based on what people consume such as GST and Value Added Tax.

"The prime minister's indication that it is not the right time is understandable given that a reintroduction [of GST] may potentially exacerbate inflationary pressures and burden the lower-income groups," surmises PwC Malaysia tax leader Jagdev Singh.

Both Jagdev and Deloitte Malaysia tax leader Sim Kwang Gek believe new measures such as the implementation of e-invoicing and the tax identification number would help tax authorities to raise tax revenue. E-invoicing can be an effective tool in tackling tax evasion, reducing tax leakages and promoting greater tax transparency.

"It has been implemented in many countries such as Argentina, Bolivia, Brazil and China and it's an effective tool to bring businesses out of the grey economy and into the formal economy," says Sim.

People will also be watching to see whether the government pursues or delays the implementation of the low value goods (LVG) tax, where a new 10% sales tax is levied on goods priced RM500 and below that are sold online and shipped via land, sea or air. Announced during the initial tabling of Budget 2023 in October last year, the implementation, originally slated for Jan 1, has been tentatively postponed to April.

Assuming that the government takes measures to reduce its subsidy bill and implements more efficient spending, UOB economists Julia Goh and Jasmine Loke anticipate a marginal tweak in the fiscal deficit target by the government to between 5% and 5.5% from its initial target of 5.5% for 2023.

Goh and Loke point out that

a lower fiscal deficit could be achieved firstly by reducing the development expenditure (DevEx) allocation by RM10 billion to RM20 billion (from the initially budgeted RM95 billion) after factoring in the provisional RM55.9 billion in the mini budget and maturing debt of 1Malaysia Development Bhd of US\$3 billion (about RM13 billion).

Apart from lower fuel subsidy bills on the back of the currently lower crude oil prices of US\$83.50 per barrel, versus the initial budget assumption of US\$90 a barrel, the UOB economists point to the reduction in allocation for members of parliament (MPs). Anwar confirmed earlier this month that the development allowance for MPs had been shaved to RM1.3 million from RM3.8 million.

Goh and Loke add that there could be a reduction in other subsidy schemes, such as cooking oil prices in the face of falling crude palm oil prices, egg and chicken prices and utility tariffs.

Targeted subsidy mechanism expected

Tax consultants are expecting the government to have finalised the mechanism for implementing targeted subsidies. They refer to countries such as India, Iran and Indonesia, where cash transfer models were introduced to the lower-income groups to replace blanket subsidies.

"While we already have the existing Bantuan Keluarga Malaysia (BKM) to help the rakyat with the rising cost of living, I believe that more can be done by expanding the scheme," says Soh Lian Seng, head of tax at KPMG in Malaysia.

Jagdev notes that subsidy rationalisation should take place in phases, bearing in mind the need to continue subsidising lower-income groups during this difficult period, while gradually removing subsidies that primarily benefit those who do not require them and redirecting the subsidies to the lower-income groups.

"At the very least, there should be measured reforms on an incremental basis, with the goal of ultimately replacing blanket subsidies with a targeted subsidy framework that ensures aid reaches its target groups," he says, noting that the M40 group encompasses a wide range of household income levels, from RM4,851 to RM10,970 a month.

"Any subsidy rationalisation proposal may need to segmentise this group to ensure they are not unduly burdened once subsidies become more targeted. For example, a comprehensive subsidy rationalisation scheme will need to consider targeted assistance to the M40 group, such as increases in tax deductions/rebates or further reductions in personal tax rates, to combat the potential impact of inflation," says Jagdev.

Other areas of focus

In order to ensure a sustainable economic recovery while addressing the rising cost of living and looking to accelerate income and job growth, Chartered Tax Institute of Malaysia (CTIM) president Chow Chee Yen hopes that the government will create opportunities and provide incentives to boost the small and medium enterprise (SME) sector, which makes up “over 95% of the total business community and employs about 70% of Malaysia’s labour force”.

“I hope that the proposed reduction of the income tax rate for micro, small and medium enterprises (MSMEs) from 17% to 15% for the first RM100,000 in taxable income with effect from the year of assessment 2023 will be retained. This measure is set to benefit 150,000 MSME taxpayers in tax savings of up to RM2,000 each,” says Chow, who is a senior executive director of tax advisory and compliance at Grant Thornton Malaysia.

To this end, the tax consultants stress the importance of manpower and skill development as businesses embrace automation and digitalisation.

“Skilled resources will enable businesses to grow and provide increased employment opportunities as well as better remuneration packages for individuals. Productivity is a key source of economic growth and competi-

tiveness,” says Farah Rosley, Malaysia tax managing partner at Ernst & Young Tax Consultants Sdn Bhd.

“Measures to assist business recovery such as tax deductions on training costs and tax allowances on capital expenditure to encourage businesses to continue investing in plants and machinery should be continued. To alleviate the burden of high interest rates, a tax deduction on the cost of borrowings for businesses or for the purchase of property can be introduced.”

Another area of focus is believed to be initiatives encouraging the government’s pledge towards carbon neutrality by 2050.

“The revised budget should enable businesses (particularly SMEs) to adopt and invest in green technology, which will ultimately enable the green economy to be fostered on a national scale. One approach is by placing an emphasis on awareness, education and support (AES) programmes for SMEs to embark on a green growth journey,” says KPMG’s Soh.

He expects the budget allocations for education, public healthcare and the defence sector to be maintained, if not increased, while the allocation for the Ministry of Home Affairs can be more targeted and henceforth, likely to be reduced if the government can identify any duplication of services. **E**