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# Tax reductions proposed

## CTIM hopes new cuts will boost SMEs' growth

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**KUALA LUMPUR:** The Chartered Tax Institute of Malaysia's (CTIM) proposal of tax cuts for companies for Budget 2011 is to make Malaysia more business friendly and to remain globally competitive.

CTIM president Khoo Chin Guan said the government, in line with its efforts to achieve a high-income economy by 2020, should consider a reduction in corporate tax as an incentive for small-and-medium enterprises as well as large corporations to flourish and grow.

"It has been shown in many of the developed countries that high corporate tax rates have been counterproductive in creating a conducive business environment, especially in spurring entrepreneurship," Khoo told reporters at a CTIM briefing on its pre-Budget proposals.

The current corporate tax rate in Malaysia is 25%, which is within the bandwidth of most countries tax rates within the region.

He reckons the tax rate for small businesses should be lowered. Thus giving support to the growth of SMEs. Many SMEs are of the opinion that they should be subjected to a lower tax rate of 20% on their entire income and not only on the first RM500,000 of chargeable income.

However, Khoo said any tax rate regime in any country has to be balanced out with other forms of incentives provided by its government to the private sector, including



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Malaysia.

"Tax cuts and other forms of tax incentives are only some of the ways to encourage greater economic activity. The tax incentives should be provided to sectors identified by the government (under the 12 National Key Economic Areas) such as the tourism industry, and other service sectors.

"In places like Hong Kong and Singapore, the tax rates have been reduced to 16.5% and 17% respectively. This was done over time, which had allowed more businesses



to flourish and spurred greater entrepreneurship," he noted.

On goods and services tax (GST), Khoo said there was a need to set a time-line for the implementation of GST and corporations needed to prepare themselves and work towards it.

"GST is a more transparent and efficient broad-based consumption tax (compared with the existing sales and services taxes)," he said.

However, Khoo said to implement GST successfully, there was a need for greater cooperation from individual taxpayers as well as corporations and this can only happen with deeper awareness and education on GST.

Khoo said there was undeniably a cost to taxpayers but on the longer term it was an efficient tax collection system for the government and a fairer system for its people, based on consumption.

"However, there is still a need to offset the GST cost, with a reduction in tax rate, to ensure a cost effective and conducive business environment is maintained," he noted.

Khoo said other effective tax incentives included liberalising of reinvestment allowance.

"Currently there is a 15-year cap on reinvestment allowance and it was confined to a specific product.

"We believe the time frame should not be capped or at least extended and the reinvestment allowance be granted for products within the company," he said.

Khoo said another important tax incentive was on capital allowance, which currently was only applicable to factory buildings but should be broadened to include shopping malls, conventions and office buildings.

"The broadening of tax allowances to include these costs will help reduce the burden on corporations, especially SMEs with limited funds and allow them to grow quickly," he said, adding that many of these enterprises incurred many risks and costs in doing business without getting any form of tax relief.

Khoo said there was a need to recognise companies that have subsidiaries (companies that have at least 51% ownership by a parent company) and treat them as a single organisation (in terms of tax) and to allow the parent company to benefit from exemptions granted to subsidiaries, which otherwise was wasted.

In conclusion, he said, CTIM would like to see the government create a more competitive investment environment, strengthen and grow the service sectors, enhance the efficiency of tax administration, have greater support for the development of local industries, in particular the property sector and promote an equitable and business-friendly taxation system.