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More realistic to use disposable income as yardstick

The B40, M40, and T20 classifications may not show real income inequality as they do not factor in cost of living. PIC BY ASYRAF HAMZAH

NO MORE B40, M40, T20

MORE REALISTIC TO USE DISPOSABLE INCOME AS YARDSTICK

SOME economists argue that the B40, M40, and T20 income classifications are oversimplified and led to a lot of exclusions in terms of subsidy and financial aid.

According to them, income alone may not capture the full picture of a household's economic wellbeing, as other factors, such as family size and regional cost of living, can significantly impact their overall financial status.

This kind of income classification may overlook households that fall into different categories but face similar financial challenges.

Consistent with the argument, Economy Minister Rafizi Ramli, recently announced that next year, the government plans to phase out the B40, M40, and T20 income classifications, which are based on gross income, and shift towards household disposable income.

Disposable income, which represents the amount of money a household has available for spending and saving after subtracting taxes is claimed to be a better reflection of a household purchasing power and ability to consume, save and invest.

It is worth noting that both gross and disposable income categorisations have their strengths and limitations.

For example, gross income reflects overall earning, which can be useful for assessing households' financial stability and provides insights into their earning potential.

This information can be valuable for evaluating job opportunities and career prospects in the nation.

Likewise, gross income provides a standardised measure of income that accounts for variations in tax policies and structures, which makes it easier for government and policymakers to analyse income levels and financial situations across different households.

Gross income categorisation has also proven to be more stable and predictable. This stability can be valuable for budgeting purposes, financial forecasting and assessing a household's ability to meet fixed financial obligations.

However, it is important to recognise that household gross income categorisation, like B40, M40, and T20, may not capture income inequality within a society.

This is mainly because it doesn't take into account the cost of living factor, such as the number of household dependents.

Therefore, categorising a household based on disposable income could provide a more realistic measure of actual spending power and ability to engage in consumption activities.

For instance, a father with 10 children who lives in Kuala Lumpur may be categorised as T20 based on his gross income, but he could be in B40 category based on disposable income considering his commitments.

Although calculating disposable income can be more complex and time-consuming, this categorisation could provide a more comprehensive and accurate perspective of households' financial situations and market potential.

Various factors including disposable income and spending power need to be considered when determining the poverty line as those with high income might not necessarily have a strong spending power.

The proposed new approach based on net household disposable income rather than the current static income-based approach under the B40, M40 and T20 could minimise errors in aid or subsidy distribution.

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