Malaysians fret over expansion of sales and services tax from July

They are concerned latest economic measure would feed inflation, curb sales

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Imported fruit such as apples and oranges will be subjected to 5 per cent of sales and services tax effective on July 1. Malaysia's fruit trade deficit reached RM2.6 billion (S$786 million) in 2023 due to high demand for temperate fruits, which are not suitable for cultivation in tropical weather. ST PHOTO: LU WEI HOONG

SUBANG, Selangor – Avocados from Australia, salmon from Norway, king crabs from Alaska, and mangoes from Thailand have become hot potatoes in Malaysian politics.

Prime Minister Anwar Ibrahim is expanding the list of imported foods that will be taxed from July 1 in an effort to boost government coffers, but is facing howls of protest from Malaysians concerned that the move would feed inflation and curb sales.

"Some 70 per cent of our stock is imported, with strawberries and apples from Korea, for example," said Ms Jennifer Choo, 20, who was manning the cashier counter at Soon Seng Ever Fresh Fruits owned by her parents.

"Customers expect prices to go up by RM1 (30 Singapore cents) to RM2 per fruit," she told The Straits Times on June 15. The shop in Selangor state's Subang township currently sells 250g of strawberries from the US for RM19.80, while five South Korean apples go for RM12.

The government announced on June 9 that it will expand the list of imported fruits and "premium seafood" that will be taxed by 5 per cent. These are now tax-free.

In March 2024, Malaysia's sales and services tax (SST) was revised from 6 per cent to 8 per cent.

The widening of the SST in July 2025 will also include a wide range of businesses like the leasing or rental of premises, construction, financial services, private healthcare and beauty services.

The expansion of the SST is just the latest controversial move by the government on the economic front: It plans to "slightly increase" electricity tariffs for the industrial sector on July 1.

In addition, it is going ahead with reducing subsidies for the widely used RON 95 petrol by the end of 2025.

The government is also mulling over whether to stop co mercial eateries from using subsidised cooking gas, a scheme that would jack up the cost of eating out.

All these are part of a broader move by Datuk Seri Anwar, who is also the Finance Minister, to wean the public off government subsidies and boost public revenues.

Essential items such as rice, meat, flour, cooking oil, local fruits and vegetables are exempted from taxes.

Meanwhile, national petroleum company Petronas is shedding some 10 per cent of its workforce, or 5,000 people, with profits sharply down due to weak oil and gas prices globally. Petronas is expected to struggle to maintain its annual RM32 billion dividend payments to the government, comprising some 10 per cent of Malaysia's annual budget outlay.

And hovering over the whole economy is the uncertainty over how badly the Malaysian economy would be hit by US tariffs.

The Malaysian opposition used harsh words to describe the government's SST plan. Perikatan Nasional chief Muhyiddin Yassin slammed the government for "sucking the blood" of the people by taxing commonly eaten fruits. Parti Sosialis Malaysia warned that the expanded SST scheme could lead to the downfall of Mr Anwar's government at the next general election.

All the negative noise could be having an effect.

On June 19, Deputy Prime Minister Zahid Hamidi said the government will review the implementation of the revision and expansion of the SST on several selected imported goods, including fruits such as apples and mandarin oranges.

"I believe it is reasonable for the new SST rate on specific goods to be reviewed... (But) don't take that conclusively," he said.

Later that same day, Mr Anwar said the government will provide a more detailed explanation regarding the SST implementation, acknowledging that there has been confusion over the matter.

"We will give an explanation. Sometimes, general statements such as saying bananas will be subjected to SST cause confusion. Actually, it refers to imported bananas... (But) we need to clarify this because what is important is that we do not want to burden the lower-income group," he said.

Malaysian Prime Minister Anwar Ibrahim is expanding the list of imported foods that will be taxed from July 1, as he tries to wean the public off subsidies and boost public revenues. PHOTO: BERNAMA

When presenting the 2025 Budget in October last year, the government said that the proposed SST expansion could generate an additional RM5 billion to bring the consumption tax collection to RM51.7 billion.

Defending his government's plan, Mr Anwar said on June 15: "Recently, it was in (the news) that on imported goods, bananas would be taxed. People got mad. People toil to grow (bananas) in Lumut, then we have to import bana as?"

He added, at an event in Lumut, Perak: "If you have a high income and want to eat avocados, go ahead. But pay a bit more, (because) we are taxing avocados."

Kuala Lumpur Fruits Wholesalers Association president N.M. Chin, 61, said the nutritious imported fruits are essential for maintaini g a healthy diet and should not be taxed.

"We want to appeal to the Finance Ministry next week to halt the SST imposition. Our domestic fruit production is insufficient to meet market demand. Some 70 per cent of fruits sold here is imported," the veteran importer told ST at the Kuala Lumpur Wholesale Market in Selayang on June 17.

She was concerned that if the Customs Department levies SST at the port, wholesalers would have to absorb losses should the fruits perish or become unappealing before they are put up for sale – sometimes 40 per cent of the fruits in a 40-foot container could end up spoilt.

Malaysia's fruit trade deficit reached RM2.6 billion in 2023 due to high demand for temperate fruits such as apples, oranges and grapes, which are not suitable for cultivation i tropical weather.

The Finance Ministry's secretary-general Johan Mahmood Merican looked at the issue from another angle. The higher prices for imported fruits would boost demand for local fruits, thus supporting local farmers while reducing imports, he was quoted as saying by online news site Free Malaysia Today on June 16.

Ms Ng Sue Lynn, head of indirect tax at KPMG in Malaysia, said that consultations had been conducted with the relevant stakeholders, with a focus on taxing discretionary spending.

"The purpose of the SST expansion is to make the tax structure more progressive by broadening the tax base, while ensuring that the targeted approach does not burden the ordinary Malaysian," Ms Ng told ST.

A self-proclaimed heavy fruit consumer, consultant Mr Hanapiee Zamzami, said the expanded SST implementation will reduce his purchasing power and force him to opt for local varieties.

"I will switch to Cameron Highlands strawberries at RM20 per 250gm rather than Japanese strawberries, which fetch up to RM80. Actually, even local fruits like watermelon cost RM4 now – double, compared with two years ago," the 32-year-old told ST.

Asking the government to consider the deferment of SST expansion, Associated Chinese Chambers of Commerce and Industry of Malaysia president Ng Yih Pyng said Malaysian businesses are facing higher operation costs and domestic economic uncertainty amid the "US tariff uncertainty and potential global economic slowdown".

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