

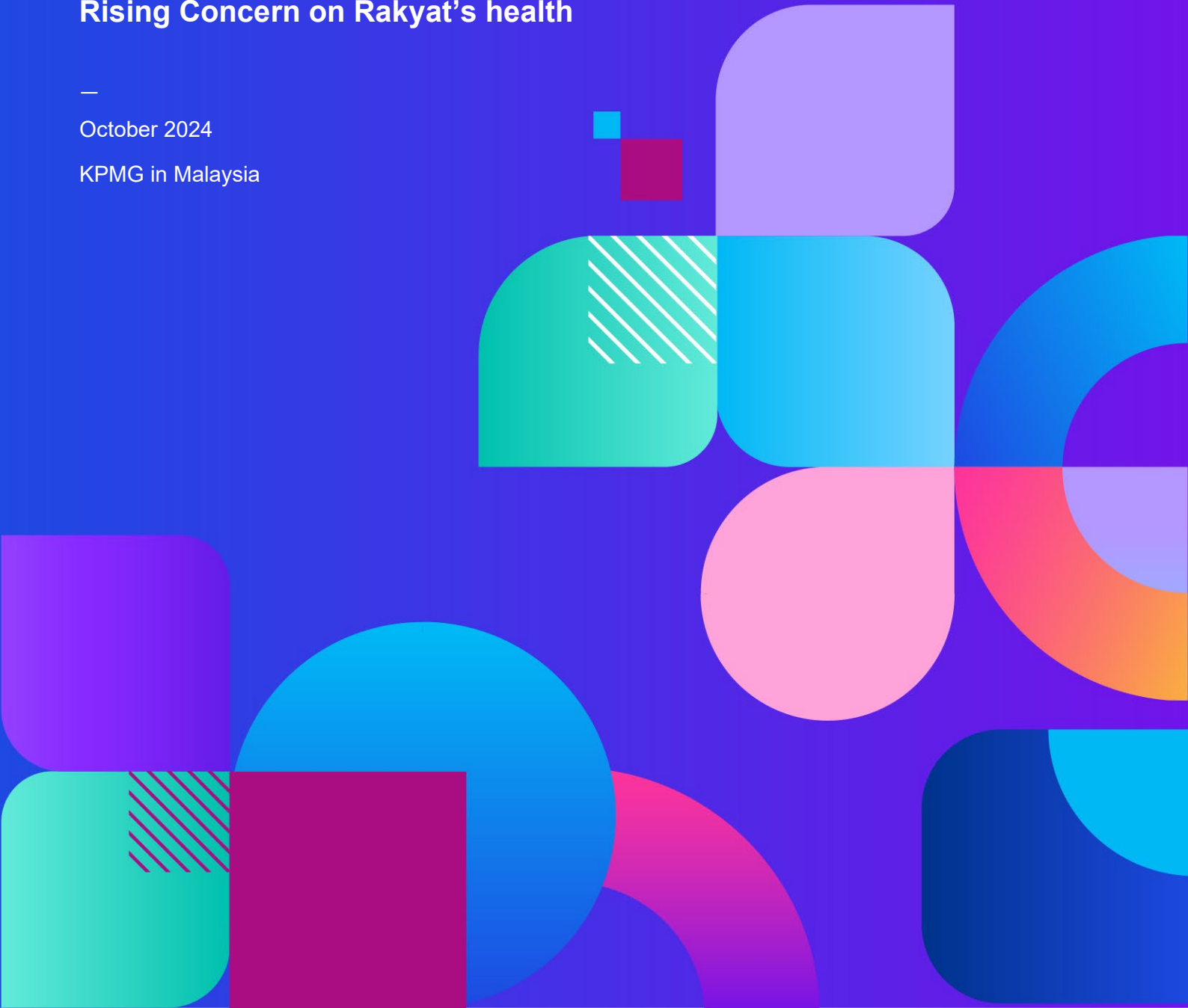


The Next Step Towards “*Kurang Manis*”

Rising Concern on Rakyat’s health

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KPMG in Malaysia



Overview and Commentary



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Key Message

The well-being of the people is important to achieve a stable economy and prosperous nation. Well-being is not only limited to financial but also the health of the rakyat, as can be seen in one of the measures in the 2025 Budget themed "*Membugar Ekonomi, Menjana Perubahan, Mensejahtera Rakyat*".

In the 2025 Budget, it is proposed that excise on SSB will be increased in phases starting 1 January 2025 at RM0.40 per litre.

Rising Concern on *Rakyat's* health

The rising trend of non-communicable diseases (NCDs) and with the age group of NCD patients getting younger, efforts need to be put in place to address this worrying trend. Based on the National Health and Morbidity Survey 2023¹, over half a million of adults in Malaysia live with the "three plus one" i.e. high blood sugar, high blood pressure, high cholesterol and obesity. Out of which, almost 2.3 million adults in Malaysia live with 3 types of NCDs. It is also reported that adults aged 18 to 29 years with diabetes do not know they have diabetes.

Unhealthy diet is one of the causes of NCDs. Concerns, proposals and recommendations have been expressed publicly, and pushed for preventive measurements to be introduced to address the public health issues.



¹ <https://iku.nih.gov.my/images/nhms2023/key-findings-nhms-2023.pdf>

How tax plays a role in the well-being of people?

Many countries use tax as a health tool to prevent the rising number of NCDs patients. The aim is to increase the price of unhealthy food and beverages and ultimately discourage people from purchasing them. Foods that are high in fat, salt or sugar, and beverages that are high in sugar are the known targets.

Fat tax and duties on alcohol and tobacco products are among the unhealthy tax introduced globally. Sugar tax is the most common type of unhealthy tax where more than 110 countries have implemented sugar tax on sugar sweetened beverages ("SSB") as at August 2023². Malaysia is one of the countries.

Malaysia first introduced the Excise Duty on SSB on 1 July 2019 at RM0.40 per litre. Effective 1 January 2024, the Excise Duty rate has been increased to RM0.50 per litre and is imposed on 3 categories of ready-to-drink beverages i.e.

- soft drinks with more than 5g sugar per 100ml;
- milk-based drinks with more than 7g sugar per 100ml; and
- fruit or vegetable juice drinks with more than 12g added sugar per 100ml.

On 1 March 2024, the scope of Excise Duty was also expanded to tax premix preparations that are classified under subheadings 18.06, 19.01, 21.01 and 21.06, and contain sugar of more than 33.3g per 100g. The prevailing Excise Duty on premix preparations is at RM0.47 per 100gm.

Excise Duty on SSB and premix preparations is levied at local licensed manufacturers level or upon importation only.

Effectiveness of sugar tax

Since the implementation of Excise Duty on SSB and premix preparation, manufacturers have taken initiatives to reformulate their products and launched products with lesser sugar content (at least below the sugar threshold). More products labelled with "*kurang manis*" ("less sweet") are seen on shelves. However, the upward trend of NCDs patients as reported in the National Health and Morbidity Survey 2023 suggest that more effort is required to encourage a healthy lifestyle.



What is in this 2025 Budget?

According to a publication released by Khazanah Research Institute in December 2023³, the tax rates on SSB in Malaysia are still amongst the lowest in the ASEAN region. In order to be more in line with the international benchmark and effectiveness of sugar tax, the UNICEF and WHO have suggested Malaysia to review the rate to achieve at least RM1.00 per litre⁴.

A "War on Sugar" campaign will be launched by the Ministry of Health soon in an effort to stem the rise of NCDs among Malaysians. In the 2025 Budget, it is proposed that excise on SSB will be increased in phases starting 1 January 2025 at RM0.40 per litre. Duty collected from SSB will be used to fund medical expenses subsidized by the Government.

² <https://datacatalog.worldbank.org/search/dataset/0063310/Global-SSB-Tax-Database>

³ https://www.krinstitute.org/assets/contentMS/img/template/editor/KRI%20Views_Sugar%20Tax_05012024.pdf

⁴ <https://www.unicef.org/malaysia/press-releases/sugary-drinks-tax-important-first-step-obesity-malaysia-demands-further-action>

The proposed increase in the excise duty rate is definitely a pro-active and welcomed move, and it remains to be seen how the increase of rate in phases will be implemented. Importers and manufacturers need to keep a close eye on this, as it would typically take effect immediately upon gazettelement of the relevant Orders.

What else can be considered to curb NCDs?

Other than rate hike, widening the tax net may have a greater impact on consumer purchasing pattern. Some possible expansion to ponder:

- Excise on SSB (ready-to-drink beverages) and premix beverages is currently taxed on imported products and locally manufactured products only. Consumers have easy access to SSB prepared and served in eateries, cafes and stalls that are not caught under the tax net yet.

Should excise on SSB be collected on SSB prepared and served in eateries, cafes and stalls?

- Sugar is not the only cause of NCDs.

Should food that are high in sodium, fat and calorie food be included under the tax net?

- Sugar content threshold is specified for each category of dutiable products.

Should the sugar content threshold be lower or removed?

The primary objective of sugar tax is not for revenue generating. It is a tool used to increase the selling prices of SSB in order to discourage consumption. Periodic review between the tax policy and the national health objective is encouraged to be reviewed periodically to ensure the national health objective is achieved.

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