



# Mobilising Tax for Fiscal Strength

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KPMG in Malaysia



# Overview and Commentary



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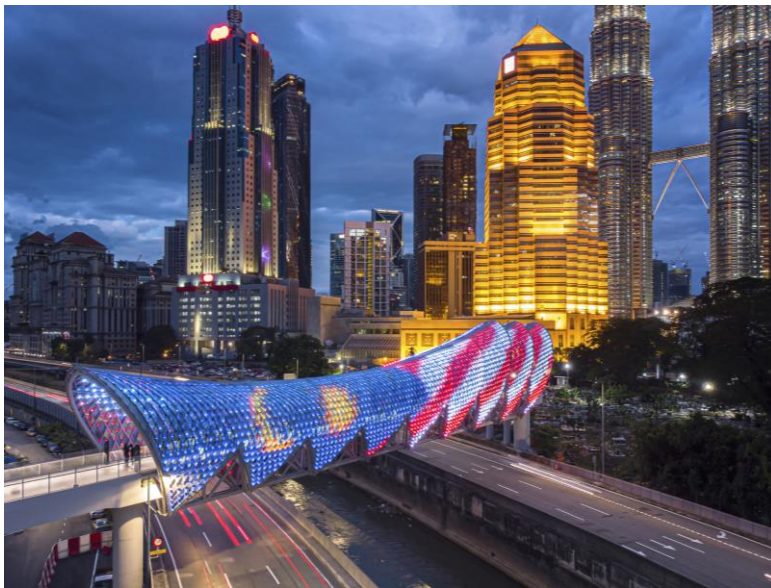
## Key Message

“Changes in the tax landscape introduced in the 2024 Budget aim to supercharge the Country’s fiscal strength.

The Government has proposed to implement targeted subsidies, outcome-based incentives and the widening of tax base. These would work towards increasing revenue collection from tax which makes up about 80 per cent of the Federal Government revenue.

The second MADANI Budget is upon us, and we are eager to be steered under this new direction in driving the country’s economy.”

## Second MADANI brings in the money?



In his tabling of the 2024 Budget themed “MADANI Economy: Economic reforms, Empowering the People”, the Honorable Prime Minister and Finance Minister, YAB Dato’ Seri Anwar bin Ibrahim has set the direction of Malaysia’s journey in these “postnormal times” – reforming and redressing the country’s economic system to enable us to forge ahead towards the future, for both the country and the people.

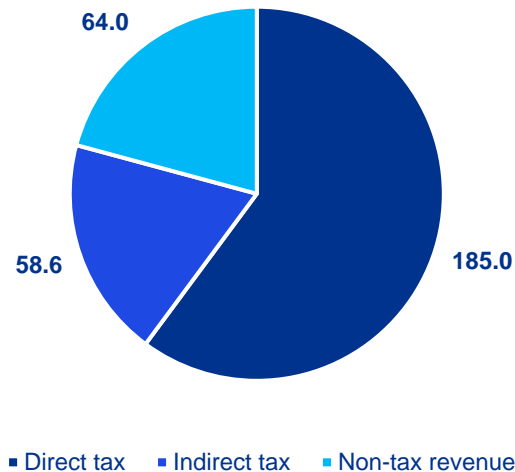
The second MADANI Budget continues the trend of expansionary allocation to the annual budgets, setting another record high allocation of RM393.8 billion.

This is set against the backdrop of optimistic economic growth in Malaysia at

the projected rate of 4.3% by the end of 2023. The Government itself expects to report a revenue of RM303.2 billion by the end of 2023, exceeding the initial estimate of RM291.5 billion. Regardless, how the Budget shall be funded will surely be at the forefront of discussions and a valid concern, given that the national debt level is above 60% of the GDP. However, the Government has assured that the expansionary budget is in line with the Fiscal Responsibility Act.

The Federal Government revenue for 2024 is anticipated to have a marginal growth at 1.5% compared to year 2023, from RM303.2 billion to RM307.6 billion. The Government revenue collection is expected to increase and tax revenue remains as the major contributor encompassing direct and indirect taxes.

Federal Government Revenue in 2024 (in RM billion)



With that in mind, the proposal for the 2024 Budget has identified several key areas which shall be mobilised essentially to supercharge the Country's fiscal strength. The Government has taken a more targeted approach towards subsidies and a tiering system of outcome-based incentives to attract better quality investments. In addition, the tax base has also been widened as the Government announced the implementation of capital gains tax on the disposal of unlisted shares effective 1 March 2024 and an increase to the Service Tax rates. A new form of tax which is the High Value Goods Tax is also being introduced to tax high-value items thus all in all, the revenue collection does look promising.

Whilst the above measures are being introduced, it is clear to all that the Government is doing all it can to minimise any negative financial impact to the Rakyat.

Let us have a quick look at some of these key announcements.

## Targeted Subsidies

First, the Government aims to control the subsidies to ensure that the beneficiaries of these initiatives are mainly those in the B40 category. As observed over the years, subsidies remain one of the most painful costs of the Government with a significant portion of the expenditure not benefitting those who need it most. This targeted approach shall be implemented in phases beginning next year and the savings therefrom will be channeled to further bolster cash aids provided through *Sumbangan Tunai Rahmah*, increasing the allocation available from RM8 billion to RM10 billion. This additional allocation shall surely be welcomed by the B40 group.





## Outcome-based Incentives

Incentives are now being rationalised to be result-based and thus the 2024 Budget sees the introduction of a tiering incentive system. An outcome-based approach has been proposed for the Global Services Hub that provides a premium incentive as opposed to standard ones currently available. It remains to be seen what outcomes are required for investors to enjoy the premium incentives. Another form of focused incentive proposed in the 2024 Budget is the continuing emphasis on promoting Malaysia as a global Islamic financial hub with an extension of income tax exemption for Shariah-compliant fund management services from 2023 for another 4 years with a 60% tax exemption. Additionally, the Government has also proposed a full income tax exemption on Labuan entities that undertake Islamic financial-related trading activities. These proposals are targeted to provide the continuous development needed to their respective targeted sectors, thereby achieving one of the 2024 Budget's key areas of stimulating growth by restructuring the economy.

## Widened Tax Base



Perhaps the most anticipated change introduced in the 2024 Budget is the widening of the tax base as it has been hinted in previous Government announcement in the past. This includes the introduction of Capital Gains Tax through the imposition of a 10% tax on the net profit on disposals of unlisted shares by local companies beginning from 1 March 2024 as well as a High Value Goods Tax within the range of 5 to 10% on certain high-value items such as jewelry and watches, based on the threshold value. Further, an increase in the service tax rate to 8% from the current 6% has also been proposed. This increase however will not apply to the food and

beverage as well as telecommunication sectors which would have a significant impact to the Rakyat, including the B40. The Government has however proposed for an expansion to the scope of taxable services to include logistics, brokerage, underwriting and karaoke services which can be considered non-essential thus would affect a smaller target group rather than the Rakyat of all levels. These proposals, if implemented well, should contribute a significant amount of revenue to the Government coffers to enable it to fund a good number of its planned initiatives.

Overall, the 2024 Budget shows us that the government remains ever committed to the welfare of the Rakyat and is prepared to steer the country's economy to new directions even in unprecedented times.

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