Reforming the personal income tax system

MY Say

BY LONG YEN PING

October is usually an active month in Malaysia as we anticipate the national budget proposals to be announced. For Budget 2025, it is expected that the government will unveil updated incentives and reliefs that aim to alleviate taxpayers' burdens. For certain, there will be ongoing restructuring and reforms where tax authorities will continue to enhance transparency, efficiency and compliance.

For the most part, there has been plenty of attention given to corporate taxation, but Malaysia's personal income tax system has been under the radar, which is a missed opportunity. Perhaps it is time to reform the personal income tax system to meet the government's aspirations for equitable economic and social growth. Here are some areas for consideration:

Addressing the gig economy

The surge of social media during the Covid-19 pandemic brought new opportunities for individuals to monetise their platforms. Merchants and sponsors intensified their collaboration with well-known social media content creators, influencers and key opinion leaders (KOLs), recognising their ability to sell and communicate their brand values to a diverse range of audiences. With followers ranging from thousands to millions, these creators hold a significant amount of influence, often receiving monetary rewards or free products in exchange for their services, such as:

- Payments or commissions from popular brands used for product promotion;
- Income from advertisements displayed on platforms such as YouTube, X, TikTok, Facebook and Instagram;
- Revenue from selling branded merchandise;
- Fees for event attendance; and
- Other gifts and non-monetary benefits.

Despite these earnings, many social media content creators, influencers and KOLs do not see themselves as a business operator and are often not registered as taxpayers. As a result, their earnings may go unreported for tax purposes. To enhance tax compliance among content creators, the government could consider the requirement for merchants or sponsors to deduct tax on payments made to social media content creators/influencers/KOLs and remit those taxes to the tax authority. By doing so, merchants and sponsors would act as intermediaries, ensuring better alignment between influencers and the tax authority. This would also create a record of social media content creators' earnings, facilitating their compliance with tax reporting obligations.

Currently, Form CP58 is used by companies to report incentive payments made to agents, dealers or distributors, which are subjected to 2% withholding tax. This form serves as a key tool for tracking income earned through third-party activities. To further support social media content creators, influencers and KOLs in fulfilling their tax obligations, the tax authority could consider extending the scope of Form CP58 to cover the earnings generated by these individuals.

Eliminating joint assessment

The current tax system allows for the option of joint assessment with the spouse. While this might seem advantageous to some individuals, managing joint assessments can be more complex and burdensome. Combining incomes and claiming personal tax reliefs under joint assessment can create complications and increase the risk of errors. Furthermore, most of the individuals will opt for a separate assessment to leverage the personal tax reliefs available.

To streamline the tax filing process, the government may consider eliminating joint assessments and shift towards mandatory separate assessments for all taxpayers. This change would simplify tax administration by avoiding the complexities associated with joint assessments. Separate assessments can be processed more efficiently, reducing administrative complexity and potential errors. Additionally, eliminating joint assessment aligns with the Inland Revenue Board's (IRB) goal of pre-populating relevant data in individual tax returns upon the full implementation of e-invoicing. This shift would promote simplicity and ease the administrative burden on both taxpayers and the tax authority.

Review of personal tax relief for B40 and M40 groups

While the inflation rate has risen steadily over the years, personal tax reliefs have not kept pace. Low- and middle-income earners, particularly those affected by inflationary pressure, would benefit from adjustments to these existing personal tax relief limits to reduce their tax burden. It is recommended that the government increase common reliefs — such as individual, child and lifestyle — to help taxpayers cope with the rising cost of living.

Moreover, the Department of Statistics (DOSM) forecasts that Malaysia will become an ageing nation by 2030, with 15.3% of its population aged 60 and above. Malaysia's ageing population is projected to breach 10 million (23.3%) in 2050. Hence, the government could also consider reinstating parental relief to support individuals caring for elderly parents. This would help ease the financial strain associated with elder care expenses. Further steps could include offering a special tax rebate for taxpayers with chargeable income below RM100,000. Such a measure would alleviate the financial burden on low- and middle-income earners without impacting the tax liabilities of high-income earners.

Towards equitable prosperity

As Malaysia continues its journey towards realising an inclusive economic growth, reforming the personal income tax system is a necessary step in ensuring fairness, simplicity and efficiency for all taxpayers. By addressing the unique challenges faced by all groups of taxpayers, the government can promote greater compliance while alleviating the tax burden on low- and middle-income groups.

Ultimately, these proposed reforms not only modernise the tax system but also reflect Malaysia's commitment to the well-being of its citizens. By aligning tax policies with the evolving needs of the rakyat, Budget 2025 has the potential to shape a tax framework that is more transparent, efficient and responsive — paving the way for sustained national growth and prosperity. E

Long Yen Ping is head of global mobility services at KPMG in Malaysia