

Budget 2025:

Experts want growth, fiscal balance



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Stable tax policy is crucial for business planning and market stability as uncertainty can discourage investments

by AKMAR ANNUAR

TAX experts and business leaders call for comprehensive reforms that balance economic growth and fiscal responsibility for Budget 2025.

Their insights reflect a growing awareness that sustainable growth, income equal-

ity and ethical business practices must be key considerations in shaping Malaysia's future tax policies.

Corporate and Personal Tax Adjustments

Corporate and personal tax adjustments are at the forefront of Budget 2025 discussions, with experts highlighting the need for a balanced approach that encourages business expansion while addressing income inequality.

KPMG Malaysia's head of tax Soh Lian Seng pointed out that reducing corporate tax rates tends to benefit higher-income individuals and shareholders, which can

widen the income gap.

"Corporate tax cuts typically favour those at the top, as they benefit shareholders more than everyday workers," Soh told *The Malaysian Reserve (TMR)*.

While lower personal tax rates can stimulate economic growth, household consumption and investment, Soh warned that the benefits may not trickle down evenly across all income groups.

RDS Advocates & Solicitors partner and SST & Customs head S Saravana Kumar echoed similar concerns but highlighted the growth potential from lowering corporate taxes.

"Lower corporate tax rates incentivise

businesses to expand, invest and innovate, leading to job creation and increased competitiveness for Malaysia in attracting foreign direct investment (FDI)," he explained.

However, Saravana cautioned that raising corporate taxes might deter investment, slowing economic growth and stifling job creation.

On the personal tax front, he said reducing individual tax rates could leave consumers with more disposable income, driving demand across industries, particularly in the retail and service sectors.

"Increased consumer spending creates a ripple effect across industries, fostering overall economic activity," he said.

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However, he warned that raising personal taxes could dampen consumer spending and negatively affect growth.

Both Soh and Saravana stressed the importance of maintaining a stable and predictable tax environment to foster long-term investor confidence.

The latter said a stable tax policy is crucial for business planning and market stability as uncertainty around tax policies can discourage long-term investments.

Malaysia's narrow tax base is a major challenge that experts believe must be addressed in Budget 2025.

International Chamber of Commerce VC of the Global Tax Commission Dr Veerinderjeet Singh pointed out that only 15% of the workforce and 20% of registered companies pay income tax, placing an undue burden on a small group of taxpayers.

"This narrow base places too much pressure on too few. Widening the tax net is essential for a more equitable and sustainable tax system," he told *TMR*.

Both Veerinderjeet and Saravana urged the government to explore ways to broaden the tax base, including efforts to capture revenue from the informal sector, which remains largely untaxed.

Saravana said enhancing tax enforcement and compliance, particularly in the informal sector is crucial.

He added that the government could increase revenue without raising rates if more individuals and businesses were brought into the formal tax system.

Veerinderjeet highlighted e-invoicing, which is being gradually implemented in Malaysia, as a critical tool in improving tax transparency and compliance.

"E-invoicing, if implemented properly, will create transparency in transactions, reduce tax evasion and help tax authorities monitor and collect taxes more effectively," he explained.

He added that the system, once fully operational, could boost government revenue collection significantly over the next three years.

While corporate and personal tax adjustments are essential for fostering growth, Universiti Malaya's Prof Dr Mohd Nazari Ismail introduced a more ethical angle to the discussion, proposing tax policies that address international concerns, including Malaysia's stance on the Israeli-Palestinian conflict.

He highlighted the absence of a local framework to address companies that may be complicit in Israeli activities and proposed that Malaysia collaborate with the global Boycott, Divestment and Sanctions (BDS) Movement to identify such companies.

"At the moment, we do not have a government agency that certifies which companies are



TMRpic

Tax incentives are essential for encouraging innovation, particularly in high-growth sector such as renewable energy



Pic courtesy of KPMG

Corporate tax cuts typically favour those at the top, as they benefit shareholders more than everyday workers, says Soh

complicit in Israeli atrocities. It is a good idea for the government to work together with the global BDS Movement to identify complicit companies. We can then impose some kind of 'sin tax' on these companies," Mohd Nazari suggested.

He also proposed tax incentives for companies that publicly divest from Israel or businesses found complicit in unethical actions.

He suggested that publicly rewarding companies that divest from Israel would not only strengthen Malaysia's ethical stance but also attract businesses that prioritize human rights.

In addition, Mohd Nazari advocated for tax-relief measures for companies that shift away from investments in Israel, provided they publicly declare their divestment as a response to Israeli crimes.

"Tax-relief measures should



Pic courtesy of RDS Law & Partners

Saravana says that tax incentives are essential for encouraging innovation, particularly in high-growth sectors

only apply to those that clearly state their divestment is due to the crimes of genocide in Gaza," he said, reinforcing the need for transparency and accountability in such decisions.

Alternative Revenue Channels to Reduce Fiscal Deficit

While tax adjustments are necessary, experts agreed that Malaysia needs to explore alternative revenue channels to address its fiscal deficit.

Saravana noted that broadening the tax base, increasing compliance and introducing public-private partnerships (PPPs) for infrastructure development could generate significant revenue without increasing the tax burden on individuals and businesses.

"Enhancing tax enforcement is crucial. By expanding the tax base and reducing tax evasion, the



Pic courtesy of UM

At the moment, we do not have a govt agency that certifies which firms are complicit in Israeli atrocities, says Mohd Nazari

government can increase revenue without raising tax rates."

This, he said, would not only improve tax fairness but also reduce pressure on the current group of taxpayers.

On the other hand, Veerinderjeet called for more strategic spending cuts and efficiency improvements.

"There is much scope for ministries to cut spending — why is that so difficult to do?" he asked, stressing that existing tax revenue could be optimised through better implementation rather than introducing new taxes.

He observed that government spending cuts and efficiency improvements are crucial in reducing Malaysia's fiscal deficit.

Veerinderjeet cited the reduction of diesel subsidies as an example, explaining that this measure alone has saved the government approximately US\$1.5 billion (RM6.42 billion) annually.

He added that Malaysia's Public Finance and Fiscal Responsibility Act, gazetted in December 2023, was designed to reduce the budget deficit to -3% of GDP by promoting more responsible public spending and improved debt management.

"With measures such as subsidy rationalisation and better debt management, the government has made positive strides toward balancing its budget and this will help ensure long-term fiscal sustainability," he said.

A key concern shared by experts is ensuring that efforts to reduce the fiscal deficit do not disproportionately impact lower-income groups.

Saravana and Veerinderjeet

both advocated for a progressive approach that combines fiscal restraint with targeted financial assistance for vulnerable communities.

"Reducing subsidies without considering the impact on lower-income groups can be detrimental. We need to substitute savings from subsidy cuts with cash transfers and targeted subsidies for the most vulnerable," Saravana said.

Veerinderjeet added that a progressive tax system with a multi-tiered structure would ensure that those with greater means contribute more.

"A more progressive tax system, combining transactional and consumption taxes, would be effective in ensuring that lower-income groups are not disproportionately affected," he said.

Fostering Innovation Through Tax Incentives

Tax incentives remain a crucial tool for fostering innovation in Malaysia, particularly among start-ups and small and medium enterprises.

Soh and Saravana opined that tax breaks for research and development (R&D) and sustainable investments would promote technological advancements and position Malaysia as a leader in green technology and advanced manufacturing.

"Tax incentives are essential for encouraging innovation, particularly in high-growth sectors like technology, renewable energy and healthcare," Saravana said.

He highlighted the reinvestment allowance, which has helped firms modernise their operations and diversify into higher-value products.

Soh suggested that expanding the range of eligible R&D activities and offering higher tax deductions could further incentivise businesses to engage in innovative projects.

"Increasing R&D tax incentives would motivate start-ups to invest in innovative activities, driving growth in sectors that are crucial for Malaysia's future," he said.

With recommendations that span corporate and personal tax adjustments, broadening the tax base, ethical business practices and fostering innovation, the upcoming budget is set to play a pivotal role in shaping the country's future.

Consumer boycott targets: 	Divestment targets:
Pressure (NON-BOYCOTT) targets: 	Organic boycott targets:

Source: BDS Movement's Facebook

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