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Comment

Building on economic growth and social equity

MALAYSIA'S government has announced its aspiration to achieve a budget deficit of no more than 3% in the medium term, while ensuring that fiscal policies support economic growth and public welfare.

However, Malaysia's tax revenue currently stands at 12.6% of gross domestic product (GDP) in 2023 – lower than many Asean peers.

For this reason, a significant aspect of the Budget 2025 proposals will be expected to explore avenues that can expand Malaysia's tax revenue base to bolster fiscal sustainability.

This approach is not new and will likely build on from the tax measures introduced in the Budget 2024 plan.

In 2024, the government's move to introduce e-invoicing generated significant reactions. The phased mandatory rollout of e-invoicing aims to improve efficiency and compliance as it matures.

In effect beginning Aug 1, 2024 starting with taxpayers with an annual revenue of more than RM100mil, there were reports of businesses encountering challenges to comply and were seeking more user-friendly solutions for a smoother transition.

With Phase 2 due to be rolled out in January 2025, businesses with revenues below RM150,000 await details on exemption criteria.

Meanwhile, to aid micro, small and medium enterprises (MSMEs) in their transition to e-invoicing, the government has introduced a subsidiary legislation which provides a special tax deduction of up to RM50,000 for e-invoicing implementation expenses.

Budget 2024 also introduced the capital gains tax (CGT), which has garnered considerable interest not just within Malaysia but also outside our borders.

While it is a good policy to broaden the tax base and promote a more equitable tax system, stakeholders are still seeking further clarification to understand the legislation's long-term impacts.

The possible expansion of CGT to include individuals and a broader range of assets also remains a topic of debate and speculation. Addressing these matters promptly will help foster greater confidence among taxpayers and facilitate informed decisions.

Run-up to Belanjawan 2025 MALAYSIA MADANI

Against the backdrop of economic inflation, to ensure that taxes do not burden the rakyat while increasing the country's tax revenue, the 2% increase in the sales and service tax (SST) from 6% to 8% introduced by the government last year has excluded essential goods and services such as food and beverages, parking, telecommunications and logistics.

The SST hike is expected to generate RM35.8bil in revenue, aiding efforts to narrow the nation's fiscal deficit.

Meanwhile, the imposition of the high value goods tax, estimated to collect RM700mil annually, is still pending.

These tax measures serve to address immediate fiscal needs and mark the initiation of the Madani Economy framework.

While we anticipate Budget 2025 is expected to sustain this momentum, I hope the government will also address the following key considerations.

Attracting strategic investments

National investments showed promising growth in the first quarter of 2024, reaching RM83.7bil.

That said, the tax incentive regime can still benefit from a revamp to attract high-impact and value-added investments that will generate high-income jobs, drive technological advancement and accelerate digitalisation in Malaysia.

Budget 2025 is anticipated to address these priorities, aligning with the government's plan to position Malaysia as a preferred investment destination in the region.

In addition, we should not overlook the MSMEs' impact to Malaysia's economic progress.

Despite making up 97.4% of businesses and providing 48% of jobs, MSMEs contributed only 38% to GDP.

Reintroducing a unified tax such as a multi-tier tax system could be a viable strategy, depending on broader economic and fiscal goals.

Revisiting incentives that enhance competitiveness, such as extending accelerated capital allowance for automation or increasing deduction for ESG-related expenditures, could further bolster their contribution to the economy's growth.

Social equity

The recent proposal to increase civil servants' salaries by up to 15% reflects the rising cost of living and underscores the need to review personal tax reliefs that have been stagnant for years.

Adjusting personal tax reliefs in line with living costs can provide financial relief to taxpayers.

As costs rise due to inflation, higher prices for goods and services and increased housing expenses, updating the personal tax relief amount from RM9,000 can help individuals maintain their purchasing power.

Additionally, reforms should consider household demographics and social trends such as a growing ageing population and changing household sizes.

Consider broad-based unified taxes

Malaysia's tax collection rates remain among the lowest in South-East Asia.

Reintroducing a unified tax such as a multi-tier tax system could be a viable strategy, depending on broader economic and fiscal goals.

This move should be carefully designed to maximise benefits while minimising drawbacks, especially in terms of equity and economic impact.

Clear communication from the government about the rationale behind its reintroduction and benefits for the economy and society is crucial for gaining public support.

Enhancing revenue sustainability

The sustainability of revenue streams is vital to meet rising demands for public expenditure and to achieve policy objectives. Taxpayers expect improved governance on the taxes they pay, which highlight the need to strengthen institutions and economic governance to maintain public trust.

The efficiency of tax administration impacts the government's ability to collect taxes fairly, enforce regulations and reduce informal employment. Improving the tax dispute process is also essential, recognising that this will be a gradual endeavour.

Budget 2025 will necessarily need to promote a progressive tax system, reduce tax leakages, enhance compliance and transparency and improve public spending. Achieving these requires a whole-of-nation approach to improve transparency and accountability.

Comprehensive considerations and clear communication with stakeholders prior to implementation can facilitate a more seamless execution of the Madani aspirations.

With these efforts, it is expected that Malaysia's tax revenue relative to its economic output will increase, addressing cost-of-living challenges while enabling the government's aspirations to be translated into shared economic prosperity and improved quality of life for the rakyat.

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