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No more **free ride** for the rich

BUDGET 2025 turned out largely as expected. However, it was not without some surprises.

There was a 2% tax on dividend income over RM100,000, carbon tax on steel and power industries from 2026 and the re-introduction of income tax relief on housing loan interest payments for first-home buyers.

Minimum wage earners, meanwhile, had a negative surprise despite the hike in minimum wage. It was lower-than-expected.

Market expectations had been that it would be raised to between RM1,800 and RM2,000, but it was set at RM1,700 monthly, marking an increase of only RM200.

Those expecting bolder reforms such as the reintroduction of the goods and services tax (GST) were also disappointed as Prime Minister Datuk Seri Anwar Ibrahim's budget speech carefully avoided mentioning the tax his party removed six years back.

While the scope of sales and service tax (SST) will be widened next year to cover more items such as salmon and avocado, it is still not as efficient as the GST in terms of revenue collection.

The GST contributed 20.1% of the government's revenue in 2017. The sales and service tax, despite the widened scope, will only contribute 13.8% of the total revenue.

While Anwar announced that the RON95 targeted petrol subsidy will be implemented from mid-2025, details were scarce. We only know that subsidies will be retained for the bottom 85% income earners.

Fuel subsidies will be removed for top 15% income earners.

This T15 group will not only have to forgo their fuel subsidies, but are also likely to be hit by the removal of subsidies for children entering government-funded boarding schools and tertiary education institutions.

This is part of the government's efforts to reduce its subsidy bill amid its fiscal consolidation drive.

The aim is to reduce the fiscal deficit level to 3.8% of gross domestic product in 2025, as compared to 4.3% this year.

That said, the government will still be spending RM52.6bil in subsidies and social assistance in 2025, down from RM61.4bil in 2024.

Fiscal consolidation measures, while unpopular, are unavoidable. A reduction in fiscal deficit is necessary in order for the government to take on lower debt in upcoming years.

A lower deficit is also necessary to bring down the government's debt service ratio (DSR). In recent years, the DSR has been increasing and is forecast to reach 16.3% in 2025.

This means the government will have to fork out 16.3 sen out of every RM1 revenue just to pay for its debt interest. The DSR is the third largest operating expenditure of the government, after emoluments and retirement charges.

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>
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As annual budgets keep expanding – with RM421bil in expenditure for 2025 – the government will have to plug fiscal leakages as much as it can.

Anwar's administration is on the right track to achieving this objective. This includes its success in combating diesel smuggling, cartel activities and bid rigging.

"The Malaysia Competition Commission would be allocated RM27mil to further eliminate cartel activities," Anwar says in his budget speech.

Meanwhile, the Domestic Trade and Cost of Living Ministry and the Royal Malaysian Customs Department will be given RM60mil to further address leakages in the form of smuggling.

The government is also improving its operational efficiency and removing redundancies by combining relevant agencies.

InvestKL and the Malaysian Investment Development Board will be merged; as will the Halal Development Corp and the Malaysia External Trade Development Corp; the Malaysian Aviation Commission and Civil Aviation Authority of Malaysia; as well as Razak School of Government and Institut Tadbiran Awam Negara.

Budget 2025 also seeks to raise government revenue collection, including by increasing the excise duty on sugary drinks by an additional 40 sen from 50 sen a litre currently.

Against commendable economic growth, revenue from corporate and personal income taxes are set to increase next year. The SST collection will also increase by RM5.8bil or 14.2% year-on-year.

Fiscal consolidation agenda aside, Budget 2025 has put in place measures to improve the business sector.

Anwar talks about the need to improve the ease of doing business. According to him, the government will look into streamlining the registration of companies with the Employees' Provident Fund (EPF), Social Security Organisation and HRD Corp into a single process.

Another good news for the business sector, particularly plantation players, is the review of the threshold for crude palm oil windfall profit levy. The threshold will be raised to RM3,150 per tonne in the peninsula, compared to RM3,000 previously.

In Sabah and Sarawak, the threshold will be raised to RM3,650 per tonne.

Minimum wage increase falls short

The proposed increase in the national minimum wage to RM1,700 per month from RM1,500 per month has fallen short of expectations. Experts say that it is barely enough to keep up with inflation and will have virtually no significant impact on the overall economy.

"It's too low and will disappoint many unless it is topped up by wage subsidies through the Progressive Wage Policy or other cash transfers via the Central Database Hub (Padu).

"If that happens, then we might get closer to the required minimum of RM2,000 or the target of RM2,500 to RM3,000 per month," economist and founder of Williams Business Consultancy Geoffrey Williams says.

Industry observers had called for a fresh minimum wage closer to RM2,000 per month in line with the increasing cost of living.

Under the law, the minimum wage in the country is reviewed at least once every two years, with the last review being in May 2022.

The new minimum wage will take effect on Feb 1 next year. For employers with fewer than five workers, it will be effective from Aug 1.

Centre for Market Education chief executive officer Carmelo Ferlito reckons that wages are "prices and as such should be determined by market forces alone."

"The discussion on minimum wage is quite ideological. Just go around the Klang Valley and you will see that some restaurants are already offering RM2,000 to RM3,000 per month to workers.

"Furthermore, a national wage level is meaningless as the costs of living are extremely different in every state, so, let market forces do it," Ferlito says.

Public Investment Bank's research unit says that based on a new minimum wage of RM1,700, plantation companies could see their operating costs go by up to 3%.

It also believes the minimum wage hike would push industry players to allocate more capex for automation to reduce their headcount.

"(For) example, robotic arms, drones and specialised machinery can carry out manual work more efficiently. It can also help reduce the high dependency on foreign workers.

"However, harvesting work is the most difficult skill to be replaced by machines. Alternatively, we gather that some industry players are gradually converting the hourly-paid general workers to a piece rate-pay basis, which would see the worker's pay rated on a performance basis," it said.

- The government is on right track in objective to plug fiscal leakages
- Experts say minimum wage hike will have virtually no impact on the economy
- Tax on dividend income a real surprise and its impact on capital market still unclear

All in all, Public Investment reckons the labour-intensive palm oil plantation in Malaysia – the world's No. 2 palm oil producer which employs almost half a million workers – could see a "small financial hit" with the minimum wage hike.

In theory, increasing the national wage of a country is good as it reduces poverty and inequality besides boosting overall economic growth. However, it also could negatively affect a country's overall inflation rate as a result of increased production costs.

Unlike Williams, OCBC senior Asean economist Lavanya Venkateswaran feels the minimum wage increase together with the previously announced civil servants' salary increases will bolster spending, and to that extent, be inflationary.

She also notes that efforts to bolster wage growth through higher minimum wages along with clearer guidelines for starting salaries for all job sectors, underscores an all-of-government effort to raise the standard of living.

In Malaysia, the Minimum Wage Order first came about in 2013, when a minimum wage of RM900 per month which translated to around RM4.30 per hour, was implemented. It has since been revised a few times.

A surprising dividend tax

The 2% tax on dividend income came as a real surprise and it is still unclear how much of an impact this could have on the capital market.

The government's proposal is essentially to impose a 2% tax on the total dividends that an individual receives.

There are some notable exemptions – it does not affect dividends received from abroad or from government-linked investment corporations like EPF and Permodalan Nasional Bhd are also exempt.

Apex Securities head of research Kenneth Leong notes that the 2% interest is not significant. To get a dividend income of RM100,000 on say a stock that is yielding 5% a year, the investor would have had to invest RM2mil.

"A tax rate of 2% on RM100,000 of dividend is only RM2,000," he points out.

The dividend tax will be implemented in 2025, as the government hopes to shift the tax burden from salaried individuals to business owners and wealthier shareholders.

"In line with most of the terms in the budget which aim to increase tax revenue from higher income groups while cushioning the impact on lower income groups, we see this as a gradual and moderate effort to ensure an equitable economy," Etiqa Insurance & Takaful chief strategy officer Chris Eng points out.

Soh Lian Seng, head of tax at KPMG Malaysia, adds: "The act of widening Malaysia's tax revenue base through the imposition of the dividend tax is a unique idea, which is obviously targeted at the top 15% taxpayers without further burdening the others."

While the impact from the proposed tax may have little impact on most retail investors, it can trigger a knee-jerk reaction with an initial sell-down of dividend-heavy stocks as investors anticipate lower after-tax returns.

This may cause a temporary dip in stock prices. But over time, the market may adjust to the new tax regime.

There could also be a shift in investment behaviour to bonds, or other tax-efficient investments to minimise the tax burden on dividends.

Companies could also reduce dividend payouts and instead focus on share buybacks or reinvesting profits into the business to enhance long-term value, given that shareholders would prefer capital gains over taxed dividends.

Essentially, companies may rethink how they allocate capital, potentially choosing projects with higher returns on investment or acquisitions instead of returning cash to shareholders.

However, Bursa Malaysia may lose out to its regional peers in terms of attractiveness as Singapore and Hong Kong do not tax dividends at the individual level.

The local stock market is seen as a hotbed for investors looking at high yielding blue chip counters particularly banking stocks such as RHB Bank Bhd and Malayan Banking Bhd.

Other top dividend paying stocks include real estate investment trusts and sin stocks such as British American Tobacco (M) Bhd, Sports Toto Bhd, Magnum Bhd, Genting Malaysia Bhd and Heineken Malaysia Bhd.

However, Etiqa's Eng says while the Malaysian stock market has been known for higher dividends as compared to some regional peers, the relatively low 2% rate is still manageable and would not deter investors too much.

While most investors are focusing on the effects on dividends from public listed companies, the tax appears to apply to dividends from all types of companies, including private limited (Sdn Bhd).

"For Sdn Bhd shareholders, this move could be seen as targeting high-income earners who have conventionally structured their income through companies to benefit from lower corporate tax rates," Datuk Lock Peng Kuan, managing partner in audit & assurance at Baker Tilly Malaysia tells *StarBiz 7*.

"By imposing this dividend tax, the government may be attempting to balance the tax contributions of these individuals, ensuring that they contribute a fair share.

"However, this could result in a form of double taxation, as dividends are typically paid out from a company's after-tax profits. Shareholders may find themselves taxed again on income that has already been subject to corporate tax," he adds.

Since the year of assessment 2008, income tax has been imposed at a single level (single-tier) on dividends distributed by companies.

Under this single-tier tax system, the tax on company profits is final, and dividends distributed are exempted from tax at shareholder level

The overall effect of a dividend tax depends on the tax rate, the structure of the tax system, investor behavior, and the broader economic context.

If the tax is part of a comprehensive reform, it could contribute to fiscal sustainability while balancing investment incentives.