BUDGET 2024:
NEW TAXES, ADDITIONAL REVENUE BUT STILL ROOM FOR IMPROVEMENT

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While many experts have earlier flagged the unlikeliness of changes to tax relief and structures in Budget 2024, it is still disappointing to note that Prime Minister Anwar Ibrahim who is also the Minister of Finance did not take this opportunity to take bolder steps to introduce a more competitive tax structure in this budget.

We appreciate the fact that the MOF has acknowledged the need for fiscal discipline and took the bold steps to move towards reducing the nation's fiscal deficit progressively cognizant of the implications of any major shift in strategy. Nevertheless, we are relieved that the fiscal deficit for 2024 is targeted at 4.3% compared to 5% and above in the last two years.

In addition, we are glad that Budget 2024 attempts to redistribute savings from impending subsidy rationalisation and savings from more prudent government spending to widen the spread of aid, assistance, cash transfers to lower- and middle-income groups, and farmers. PM Anwar also assured Malaysians that the government will exercise responsible spending use the savings from lower subsidies to directly fund development activities including green initiatives, improving productivity of agro-activities and prioritise improving the living conditions for millions of government personnel.

We are however cautious with the decision to increase sales tax from 6% to 8% while the majority of Malaysians are still struggling to make ends meet. Despite assurance of exemption of food and telecommunication services from this increase, it is still a chance of it having a wide impact on prices, especially sales tax is now imposed on logistic services. While sales tax does not impact business bottom line, it is still an additional cost burden to the consumers and it will be difficult for the enforcement to check on businesses that take this opportunity to raise prices.

In spite of the generally neutral position among tax experts on the introduction of Capital Gain Tax (CGT) at 10% on unlisted shares, we are however concerned that this would have a deep impact on private equity and acquisition activities among SMEs. As there are still lack of details relating to the implementation of CGT, INSAP wish that the government would spend the next few months to work out the CGT mechanism including giving clarity to definition and conditions for exemption for restructuring of shares within the company or group, and the valuation method for the disposed shares. INSAP has also received feedback from representatives from MSMEs that the rate of 10% is tad too steep and would stifle motivation of private equity and investments.

The rebranded luxury items tax, High Value Goods Tax now set between 5% to 10% beginning 2024 has also caused a little stir among retailers and consumers as they await details and what items would be defined as “high value” by the government. Since foreign tourists will be exempted from paying the tax, we hope that the government would provide the estimated projected revenue from this new tax deriving from Malaysians alone.

In all, INSAP welcomes the government’s effort to seek new tax revenue to fund the nation’s next phase of development but we feel that it would have been more efficient for the MOF to implement the Goods and Services Tax (GST) given its broad tax base and the fact that all essential items would have been exempted or granted zero tax rate.

INSAP has been consistent in our position on GST as a more efficient tax system albeit the weaknesses in its implementation and roll out in 2015. It is after all a more transparent and consumption tax system facilitating a more reliable revenue for the government. The re-introduction of GST would have eliminated the need for new taxes especially in the form of high value goods tax, or any other tax or levies on the higher income group. With proper execution of the GST mechanism and more efficient management of rebates, GST could potentially bring in more revenue to the government compared to SST, and eliminating the need to increase sales tax. For the record, Malaysia collected GST amounting to RM37.9bil in 2015, RM59.3bil in 2016, RM67bil in 2017, and RM36.7bil in 2018 before it was abolished. In comparison, Malaysia expects to collect RM35.8 bil from SST in 2024.

In a statement by the Royal Malaysian Customs Department Deputy Director General, Datuk Sazali Mohamad on 30 January 2023, the government lost RM150 million in revenue in 2022 due to companies and business failing to pay SST to the government.

Finally, we wish to point out that in our memorandum of recommendations submitted to the Minister of Finance earlier, we had strongly suggested the government to provide breathing space for the working population in Malaysia by granting higher personal tax relief and dependent parents (which has not been reviewed since 2010) in anticipation of removal of subsidies and introduction of new taxes in Budget 2024. This additional financial flexibility would increase disposable income, especially B40 and M40, which would empower them to cope with the escalating costs, fostering greater spending power, stimulating domestic consumption, and generating a multiplier effect.

SMEs makes up about 98% of the number of companies in the country and contributes about 38.4% of Malaysia’s GDP (2022). In recognition of the contribution of SMEs to the country, the Minister of Finance had announced a total of RM44 billion worth of loans and financing facilities for MSMEs in Budget 2024. However, INSAP believe that funding is just one of the many challenges faced by small and medium enterprises in this country, and it is our earnest hope that the government would intensify discussions and consultations with MSMEs to also identify other hurdles and challenges that hinder the growth of MSMEs, including their capacity to export and compete in the global market.

Budget 2024 emphasized the development of tourism and cultural industry, but it pays less attention to manufacturing activities of MSMEs and service providers, which are very crucial to upscaling the MSMEs in terms of productivity growth and climbing up the global value chain.

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For Editors only

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For more information on this press statement or INSAP's position/research on a range of government policies, please reach out to us at 03-2161 6201 or hello@insap.org.my.

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