

Quick Economic Update: “Why Malaysia's Proposed LVG Tax Misses the Mark”

A new tax will be implemented on the 1st of January, 2024 called the Low Value Tax (LVG) which imposing a 10% tax on all imported goods valued below RM500. However, the Madani Government is under pressure to find ways to close the Fiscal Gap that has been widening in recent decade, INSAP is of the opinion that the LVG is flawed as a taxation system and extremely regressive.

In an attempt to close the fiscal gap, the Najib administration introduced the Goods and Services Tax (GST) in 2015 which was meant to bring about a broad-based taxation system to replace the old Sales and Services Tax (SST). However, this policy was abolished in 2018 under the second Mahathir administration (also known as Pakatan Harapan 1.0). PH1.0 was then under tremendous pressure to deliver a major campaign promise, which was to abolish the GST.

Upon further research, INSAP has found that the LVG is only projected to achieve a collection of a mere RM200 million, according to the information tabled by the Ministry of Finance at the 14th Parliament (2018-2022) on 4th August 2022.

At that time, the proposed new tax was already met with heavy criticisms by the Pakatan Harapan coalition who were on the Opposition bench. In under 2 years in power, the very same party that objected to the tax is now pushing this through by January 2024, and without proper consultation with the Malaysian public. As far as we are aware, there has not been any comprehensive stakeholder engagement nor, public awareness campaign carried out to inform the Malaysian public at large of the LVG.

INSAP believes that this new tax called the Low Value Goods tax is punitive to the lower income groups as it applies only to imported to goods below RM500. This is presumably also an attempt to plug the tax leakage that is prevalent in the Online Market Place (OMP). On top of it, the process of collection is unclear hence, the roll-out plan and collection are not transparent thus, may be subjected to abuse.

According to Table 1, LVG is expected to fall far short of the government’s objective in boosting its sources of revenue. At RM200m, it represents only 0.007% of what the GST could in 2017 (RM44 billion).

Table 1: Government Revenue (GST vs SST) from 2015-2022 & Projected LVG Collection

GST vs SST Tax Collection (RM billion)									
	Goods and Services Tax (GST)				Sales and Services Tax (SST)				Low Value Goods (LVG) Tax
YEAR	2015	2016	2017	2018	2019**	2020	2021	2022	2024
SST / GST	27 billion	41.2 billion	44 billion	20.2 billion	27.6 billion	26.7 billion	25.6 billion	31 billion	200–300 million (projection)
Projected LVG Revenue vs GST Revenue in 2017 RM 300 million/RM 44 billion = 0.007%									

Note: Malaysia implemented GST in April 2015, and it was abolished in 2019 to be replaced with SST¹ 2023 INSAP Compilation.

0.007% is negligible compared to the GST as a fairer and by far more effective tax system. The huge difference exposes the LVG's ineffectiveness as a revenue-generating measure and highlights the government's missed opportunity for a comprehensive and sustainable fiscal solution, that is the GST.

Instead of focusing on the LVG, the Madani government should admit that they have made a disastrous mistake in abolishing the GST in 2018. The multi-tiered GST structure boasts numerous advantages over the LVG.

This regressive design of the LVG contradicts the very principles of a just and equitable tax system, placing an undue burden on those who can least afford and disproportionately cripples low-income B40 households. These everyday essentials, vital for their daily lives and micro-businesses, bear the brunt of this targeted tax, exacerbating existing inequalities and making the low-income earner pay more while generating insignificant returns for the national income.

In conclusion, the LVG tax is a deeply flawed gambit that fails on multiple fronts. It undermines national revenue goals, unfairly burdens vulnerable B40 communities,

¹ GST could add RM25bil to govt revenue, says Ahmad Maslan
<https://www.thestar.com.my/news/nation/2023/03/09/gst-could-add-rm25bil-to-govt-revenue-says-ahmad-maslan>

and offers a paltry economic return while jeopardizing social justice and sustainable development.