

INSAP BUDGET 2025 COMMENTARY

Tax Reformation in National Budget 2025: Do Malaysians feel different?

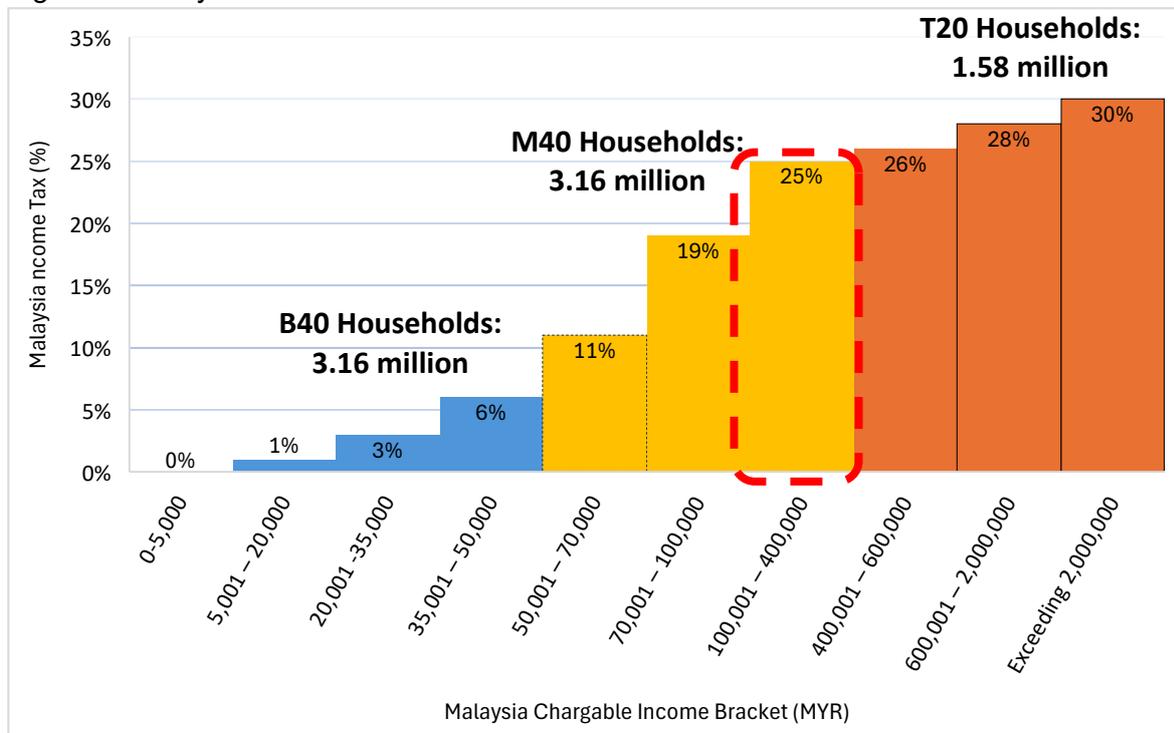
By Wong Yun Tinn

As Malaysia faces persistent challenges such as widening income inequality, the rising cost of living, and increasing global uncertainties, the need for effective solutions has never been more pressing. The upcoming National Budget 2025, set to be unveiled on 18 October 2024, arrives at a pivotal moment for the nation. With Malaysia at a critical crossroads, this budget is expected to redefine the country’s economic trajectory. Among the key areas of focus is tax reform, which holds the potential to boost national revenue while addressing societal needs and fostering a more equitable distribution of wealth.

Middle-Income Group: Breaking Free or Just Getting By?

In most of the developed nations, the middle-income group endured one of the great shortcomings of their existing tax regimes, where the middle-income group (M40) encountered most of the tax burdens, which they positioned between the upper-income (T20) and lower-income (B40) brackets as shown the figure 1. Undeniably, as a developing nation, Malaysia is left paying a robust chunk of their salary in taxes while B40 earners can receive some relief or financial assistance from the government.

Figure 1: Malaysia’s Current Tax Distribution



Source: Inland Revenue Board Malaysia (IRBM), 2023 and Household Income Survey Report, DOSM 2022

According to the Household Income Survey Report 2022:

Based on the Household Income Survey Report 2022, Malaysians who earn a monthly income between RM5,250 and RM11,819 are defined as middle-income earners (M40)¹. As it is now, for individuals earning between RM100,001 and RM400,000, there is a flat tax rate of 25%, which is only a single percent lower than that earning between RM400,001 to RM 600,000 at 26%

This would create a disruption in income distribution and it will choke the middle class. Moreover, without any effective measures, they will enjoy less take-home pay, further leading them to a lower standard of living.

One of the proposed adjustments for budget 2025 is the proposed widening tax bracket with lower personal tax rates. For instance, the tax rate for the earners between RM35,001 to RM50,000 and RM50,001 to RM70,000 should enjoy a 1% rate reduction. Meanwhile, those RM70,001 to RM100,000 and RM100,001 to RM250,001 would own a rate cut of 3% from existing 19% and 25%, respectively. These moves may seem small and limited; however, they have a tremendous influence on the take-home pay of M40 earners.

Expanding Tax Relief: A Safety Net for Households.

Given the soaring cost of living, Malaysians met with challenges to survive in the critical period. A more inclusive tax relief policy would reduce the burden of household to cope with the high cost of living. In addition, broadening tax relief not only benefits households while supports local businesses in recovering, fostering a positive cycle of economic growth.

Table 1: Proposed Tax Relief (Maximum amount) – The proposed figures are for illustration purposes

Tax Relief	Current amount (RM)	Proposed amount (RM)
Self and Dependent	9,000	15,000
Medical Insurance		3,000
Education Insurance	3,000	3,000
Education fees (Self)	7,000 (restricted)	10,000
Husband/Wife/Alimony Payments for former wife	4,000 (restricted)	8,000
Life Insurance and EPF	7,000 (restricted)	10,000
Ordinary Child Relief (per child)	2,000	4,000
Total	>35,000	>50,000

For example, over ten (10) years, there has been no alteration for the combination of medical insurance and education insurance recorded at RM3,000 in total. Revision and modification should take place and split into separate categories, with medical and education insurance granted an RM3,000 tax relief. Furthermore, raising the exemption for self and dependents from RM9,000 to RM15,000 will give breathing room for the households. Greater in hand

¹ <https://newss.statistics.gov.my/newss-portalx/ep/epFreeDownloadContentSearch.seam?cid=111003>

presents that, it is ineluctable that they will consume more which cannot forget about it help form up increase the entire economy.

Conclusion

The tax reforms as proposed seek to address some critical challenges, however, with major reforms, the finer outlines of every strategy are what those matters. The policymaker needs to ensure the smooth implementation of approaches such as broadening up the tax bracket and raising the tax relief for the interest of Malaysians. When it comes to achieving the desired outcomes and sequencing, these changes could set Malaysia on a more even and appropriate path.