

## MALAYSIA BUDGET 2025

### **Taxing Uncertainty: Unclear SST Scope Leaves Malaysians Guessing**

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In the recent Budget 2025, the Malaysian government announced an expanded SST scope to cover more services and non-essential goods beginning 1 May 2025. However, this announcement with the specifics of the new SST scope remains unclear, causing confusion among businesses and tax professional communities. Most importantly, average Malaysians remain unaware of how this new scope will upset their cost of living and purchasing power.

In 2018, Malaysia phased out the Goods and Services Tax (GST) and reintroduced SST following a brief tax holiday. According to the OECD Economic Survey, the GST system offered certain efficiencies, particularly by minimizing cascading and compound taxation effects, which can burden businesses. With GST, businesses could generally reclaim the input tax paid, reducing costs in the supply chain. Conversely, SST imposes non-recoverable sales tax, which is challenging for businesses that cannot reclaim these costs, potentially leading to higher prices for end consumers.<sup>1</sup>

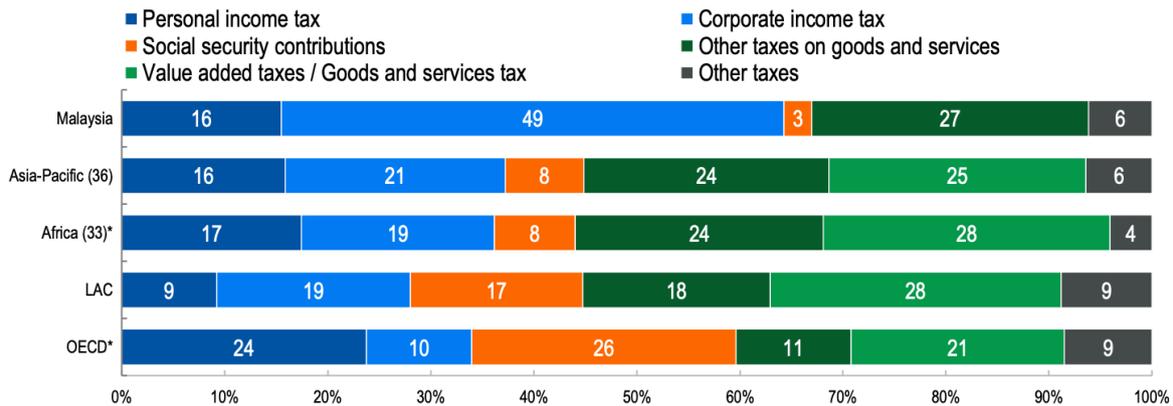
Despite these drawbacks, Budget 2025 outlines a plan to broaden the SST's scope by May 2025. The new policy includes additional services and some non-essential goods under SST, yet crucial details remain undefined. This lack of clarity concerns businesses and tax professionals, who are left uncertain about compliance requirements and potential cost implications. For a tax policy aiming to increase revenue without undermining economic stability, this ambiguity in SST scope could be detrimental, potentially dissuading investments and increasing business operating costs.

Average Malaysians remain largely unaware of the implications of these tax changes, as details on which goods and services will be affected by the expanded SST are still unspecified. This opacity leaves consumers unprepared for potential increases in prices for everyday goods and services, which could erode purchasing power and affect overall economic welfare. Furthermore, the timing of these changes may intensify the economic strain on Malaysians, particularly for low- and middle-income households already grappling with inflationary pressures.

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<sup>1</sup> [https://www.oecd.org/en/publications/oecd-economic-surveys-malaysia-2024\\_e45ca31a-en.html](https://www.oecd.org/en/publications/oecd-economic-surveys-malaysia-2024_e45ca31a-en.html)

**Figure 1: Malaysia’s tax structure compared to the regional averages**



Sources: OECD, 2024

As shown in the OECD tax comparison (Figure 1), Malaysia's tax structure is significantly different from that of other regions. Malaysia highly relies on corporate income tax (49%) and other taxes on goods and services (27%), such as Sales and Services Tax (SST), low-value goods tax (LVGT), real property gains tax (RPGT), excise duties, etc.

The figure highlights a vulnerability in Malaysia’s tax base, as other regions derive more significant portions of their tax revenue from value-added taxes (VAT) or GST. Malaysia’s limited reliance on value-added taxation means that its tax structure lacks the breadth that VAT or GST can provide, a gap SST might struggle to fill without raising other costs for businesses and consumers.

**Conclusion**

In conclusion, while Budget 2025’s focus on expanding SST might generate additional revenue, it risks creating a climate of uncertainty that could dampen business confidence and increase the cost of living. Without clearer guidance on the scope of SST, Malaysia’s fiscal approach may inadvertently hinder its economic growth. INSAP urges the government to prioritize transparency and consider a balanced tax system that can foster sustainable growth without disproportionately impacting businesses and the rakyat. A return to GST or a well-defined, equitable SST system may better serve Malaysia’s goals of growth and economic stability.

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