

SECTION 2:

FEDERAL GOVERNMENT REVENUE

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SECTION 2: FEDERAL GOVERNMENT REVENUE

Overview

In managing fiscal policy, it is important for the Government to have an efficient and well-designed tax system as well as ensure the revenue collected is redistributed to the rakyat in the form of quality public services and infrastructure as well as people-centric programmes and projects. This will also contribute towards enhancing the nation's competitiveness particularly by providing a conducive business environment and ensuring convenience to taxpayers thus improving their willingness to pay taxes. In this regard, Malaysia's tax policy formulation is premised on the principles of reasonableness, consistency, and fairness.

In the 2018 Budget, the Government announced several tax measures to increase disposable income and enhance business activities. The measures include reduction by two

percentage points for three chargeable income bands and additional individual tax relief in individual income tax. In relation to IR 4.0, incentives are granted in order for industries to move up the value chain and increase production which potentially drive the economy. Despite the tax foregone, the measures announced in the 2018 budget are expected to accelerate investment activities.

Performance 2018

Federal Government's revenue in 2018 is expected to increase 7.3% to RM236.5 billion. The increase is contributed by higher direct tax collections and non-tax revenue which offset the withdrawal of Goods and Services Tax (GST). Tax revenue constitutes 73.9% of total revenue or 12.2% of GDP, while non-tax revenue represents 26.1% or 4.3% of GDP.

Table 2.1. Federal Government Revenue 2017 – 2019

	RM million			Change (%)			Share (%)		
	2017	2018 ¹	2019 ²	2017	2018 ¹	2019 ²	2017	2018 ¹	2019 ²
Tax revenue	177,658	174,700	176,152	4.9	-1.7	0.8	80.6	73.9	67.3
Direct tax	116,024	133,474	135,068	5.9	15.0	1.2	52.6	56.4	51.6
<i>of which:</i>									
CITA	64,465	70,536	70,187	1.3	9.4	-0.5	29.2	29.8	26.8
Individuals	28,945	34,800	34,954	5.0	20.2	0.4	13.1	14.7	13.4
PITA	11,761	16,845	18,084	39.6	43.2	7.4	5.3	7.1	6.9
Indirect tax	61,634	41,226	41,084	3.2	-33.1	-0.3	28.0	17.5	15.7
<i>of which:</i>									
GST	44,352	23,100	22,000	7.1	-47.9	-4.8	20.1	9.8	8.4
Excise duties	10,112	10,691	11,380	-13.6	5.7	6.4	4.6	4.5	4.4
Import duty	2,784	2,800	2,940	-4.2	0.6	5.0	1.3	1.2	1.1
Export duty	1,355	1,600	1,604	38.3	18.1	0.2	0.6	0.7	0.6
Non-tax revenue	42,748	61,760	85,662	-0.8	44.5	38.7	19.4	26.1	32.7
<i>of which:</i>									
Licences and permits	12,777	14,681	15,567	3.8	14.9	6.0	5.8	6.2	5.9
Investment income	21,638	36,937	59,523	1.0	70.7	61.2	9.8	15.6	22.7
Total revenue	220,406	236,460	261,814	3.8	7.3	10.7	100.0	100.0	100.0
Share of GDP (%)	16.3	16.5	17.1						

¹ Revised estimate.

² Budget estimate, excluding 2019 tax measures.

Source: Ministry of Finance, Malaysia.

Information Box

The Reintroduction of Sales Tax and Service Tax

Introduction

The Government has reinstated the Sales Tax and Service Tax (SST) effective 1 September 2018 to replace Goods and Service Tax (GST) which was abolished. SST comprises of two independent taxes, governed by separate legislation, namely the Sales Tax Act 2018 (Act 806) and the Service Tax Act 2018 (Act 807). While maintaining the salient features of the previous SST, the new SST incorporates enhancements to minimise the inherent weaknesses associated with SST and increase tax efficiency.

Sales Tax

Sales tax is a single-stage tax that may be levied at any one level in the value chain, be it at the retail, wholesale or manufacturer level. In Malaysia, sales tax is only levied at the manufacturer level on manufactured taxable goods. Sales tax will be charged at the point when the taxable goods are sold by the registered manufacturer. The sale of goods from the wholesaler to the retailer and from the retailer to the end-user is not subjected to sales tax. In order for manufacturers to charge sales tax to its clients, they are required to register under the Act 806 when the sale value of their manufactured taxable goods reaches or exceeds RM500,000 per annum.

Other than locally manufactured taxable goods, imported taxable goods are also subjected to sales tax. The sales tax on the goods will be charged at the point of importation, by taking into account the value of the goods for the purpose of customs duty, the amount of customs duty as well as the amount of excise duty due, if any. However, exported goods are not subjected to sales tax.

Sales tax is levied at 5% or 10% of the sale value depending on the types of taxable goods, except on petroleum products which are taxed at specific rates. Example of taxable goods includes apparels, processed foods, building and construction materials and vehicles. In addition, the Government has decided to exempt basic necessities and widely used items especially by the B40 group, such as fresh food items, medicine and motorcycles below 250cc. The exemption is also given on raw materials, packaging and components used in manufacturing to ensure that the cost of production is kept minimal, and tax is only levied at a single level.

Service Tax

Service tax is also a single-stage tax and is levied only on taxable services, as stipulated in the Act 807 and prescribed under the Service Tax Regulations 2018. Service tax is imposed on the provision of any taxable services in Malaysia by a registered person in the course of a business at a standard rate of 6%. At present, imported and exported services are not subjected to service tax.

Unlike GST which was imposed on all types of services unless exempted, the service tax is only imposed on the prescribed taxable services. The service provider is liable to be registered under the Act 807 when the value of taxable services provided for a period of 12 months reaches or exceeds a threshold of RM500,000. However, for the food and beverage (F&B) sector, the registration threshold is set at RM1.5 million. Thus, more restaurants and food outlets are not subjected to charge service tax on their customers. In addition, contrary to GST, any service charge imposed by F&B outlets will not be subjected to service tax.

For the purpose of registration, the provision of credit cards as well as charge cards and customs agents services are not subjected to any threshold of annual sales turnover. Therefore, the service providers in these two categories are required to register under the Act 807 regardless of the annual value of the taxable service provided. A specific rate of service tax at RM25 per year is imposed on each principal or supplementary credit cards and charge cards.

List of Taxable Service and Registration Threshold

GROUP	OPERATORS	SERVICES	REGISTRATION THRESHOLD (RM)
A Accommodation	<ul style="list-style-type: none"> • Hotel • Inns • Lodging house • Service apartment • Homestay • Other establishment (with exceptions) 	<ul style="list-style-type: none"> i. Accommodation services ii. Other taxable services iii. Other services within accommodation premise iv. Sale of tobacco products, alcoholic and non-alcoholic beverages 	500,000
B Food and Beverage	<ul style="list-style-type: none"> • Restaurant • Bar • Snack-bar • Canteen • Coffee house • Catering • Food court • Any place which provides food and drinks, whether wholly or partly eat-in or take-away (with exceptions) 	<ul style="list-style-type: none"> i. Prepared or served food or drinks ii. Other taxable services iii. Other services within the establishment iv. Sale of tobacco products, alcoholic and non-alcoholic beverages 	1,500,000
C Night-Clubs, Dance Halls, Health Centres, Massage Parlours, Public Houses and Beer Houses	<ul style="list-style-type: none"> • Night Club • Dance hall • Cabaret • Public house • Beer house • Health or wellness centre • Massage parlour 	<ul style="list-style-type: none"> i. All services within the establishment ii. Other taxable services iii. Sale of tobacco products, alcoholic and non-alcoholic beverages 	500,000
D Private Club	<ul style="list-style-type: none"> • Private club • Club house whereby entry is restricted by membership, profession or class 	<ul style="list-style-type: none"> i. All services within the establishment ii. Other taxable services iii. Sale of tobacco products, alcoholic and non-alcoholic beverages 	500,000

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GROUP	OPERATORS	SERVICES	REGISTRATION THRESHOLD (RM)
<p>E</p> <p>Golf Club and Golf Driving Range</p>	<ul style="list-style-type: none"> • Golf course • Golf driving range. 	<ul style="list-style-type: none"> i. Golf club/golf driving range/ services related to the golf club or golf driving range ii. Other taxable services iii. Other services within golf club/golf driving range iv. Sale of food, tobacco products, alcoholic and non-alcoholic beverages 	<p>500,000</p>
<p>F</p> <p>Betting and Gaming</p>	<p>Licensed Betting and gaming provider:</p> <ul style="list-style-type: none"> • Bettings • Sweepstakes • Lotteries • Gaming machines • Games of chance 	<ul style="list-style-type: none"> i. Betting and gaming services involving bettings, sweepstakes, lotteries, gaming machines or games of chance ii. Conducting tournaments involving bettings, sweepstakes, lotteries, gaming machines or games of chance iii. Conducting or allowing the conduct of a card game or any other game by the casino operator 	<p>500,000</p>
<p>G</p> <p>Professionals</p>	<ul style="list-style-type: none"> • Lawyer • Accountant • Surveyor • Engineer • Architect • Consultancy • IT services • Management Services • Employment Agency • Private Agency 	<ul style="list-style-type: none"> i. Legal services ii. Legal services on Islamic matters iii. Accounting, auditing, bookkeeping and related consultancy iv. Surveying services including valuation, appraisal, estate agency or professional consultancy services v. Engineering consultancy or other professional services vi. Architectural services including professional consultancy services vii. Consultancy services including professional consultancy services excluding: <ul style="list-style-type: none"> (a) provision of consultancy services relating to health care and veterinary services (b) provision of consultancy services supplied in connection with goods or land or other matters relating to goods or land situated outside Malaysia viii. IT services excluding the sale of goods in relation to the provision of IT services ix. Provision of all types of management services and other charges in connection with the provision of management services including project management or project coordination 	<p>500,000</p>

GROUP	OPERATORS	SERVICES	REGISTRATION THRESHOLD (RM)
		<ul style="list-style-type: none"> x. Provision of all types of employment services excluding <ul style="list-style-type: none"> (a) provision of employment services in the form of secondment of employees or supplying employees to work for another person for a period of time (b) provision of employment services for employment outside Malaysia xi. Provision of guards or protection for the personal safety or security of another person or for the safety or security of the property or business of such other person excluding the provision of such services to guard or protect person, property or business situated outside Malaysia 	
H Credit Card and Charge Card	Any person who is regulated by Bank Negara Malaysia and provide credit card or charge card services through the issuance of a credit card/charge card	Credit card or charge card services through the issuance of a principal credit card, principal charge card, supplementary credit card or supplementary charge card, whether or not annual subscription or fee is imposed	0
I Other Services	Insurer / Takaful Operator	<ul style="list-style-type: none"> i. All types of insurance policy or takaful certificate to cover against any risks in Malaysia incurred to an individual excluding medical insurance or medical takaful and life insurance policy or family takaful certificate ii. All types of insurance policy or takaful certificate to all business organisations (with exclusions) 	500,000
	Telecommunication services / Paid TV broadcasting services and any content application services	<ul style="list-style-type: none"> i. Telecommunication services and other services in connection with telecommunication services ii. Subscription broadcasting services 	500,000
	Customs Agent	Services for clearing of goods from customs control	0
	Any person who operates or provide parking space	Parking spaces for motor vehicles where parking charges are imposed	500,000
	Motor vehicle service centre	General servicing, engine repairs and tuning, changing, adjusting and fixing of parts, wheel balancing, wheel alignment or body repairs including knocking, welding or repainting of motor vehicles	500,000

GROUP	OPERATORS	SERVICES	REGISTRATION THRESHOLD (RM)
	Courier	Courier delivery services for documents or parcels not exceeding 30 kilograms each	500,000
	Hired Motor Vehicles	i. Hire and drive or hire car services ii. Charter bus services iii. Excursion bus services	500,000
	Advertising	All advertising services excluding the provision of such services for promotion outside Malaysia	500,000
	Provider of electricity	Electricity exceeding 600 kWh to any domestic consumer for a minimum period of twenty-eight days per billing cycle	500,000
	Airlines	All domestic flights except Rural Air Services and transport route within Sabah and within Sarawak	500,000

Source: Service Tax Regulation 2018

Enhancement on the New SST Mechanism

In order to facilitate and reduce the cost of doing business, a more efficient solution has been put in place to replace the previous paper-based SST application for exemption on manufacturing inputs. All applications for registration and exemptions are made online after consultations with industry players which highlighted the existence of red tape in the exemption mechanism and arduous paperwork during previous SST system.

Implementation

The legislation for SST was gazetted on 26 August 2018 effective from 1 September 2018. Under the new SST, the Royal Malaysia Customs Department (RMCD) carried out automatic registration of eligible manufacturers and service providers by migrating data from the GST database. As at 14 September 2018, a total of 94,783 businesses have been registered under the SST comprising of 56,918 service provider and the remaining 37,865 manufacturers.

The declaration of tax return under the SST has been streamlined so that all registered businesses can submit their tax return bi-monthly compared to GST where submission was made monthly or quarterly. Therefore, compliance cost for businesses as well as the administrative cost to the Government under the SST is expected to be lower due to a simplified process. One of the biggest concerns in the implementation of SST is the re-emergence of the informal economy. While this is a valid cause for concern, the risk is mitigated through the existing business database and continuous information sharing between RMCD, Inland Revenue Board and Companies Commission of Malaysia.

Conclusion

The reintroduction of SST will benefit businesses due to lower compliance and administration costs. In addition, the new SST is more business friendly, less bureaucratic and help the businesses' cash flow management. The Government will continue to enhance the new SST system to increase its efficiency and effectiveness.

Tax revenue in 2018 is estimated to register RM174.7 billion with direct tax collection constituting 76.4%. *Direct tax* is expected to increase 15% or RM17.5 billion to RM133.5 billion contributed mainly by better corporate profitability and higher crude oil price averaging USD70 per barrel. The main contributors to higher direct tax collection are companies income tax (CITA) which is expected to increase by RM6.1 billion, followed by individual (RM5.9 billion) and petroleum (PITA: RM5.1 billion). Meanwhile, other direct tax collection such as stamp duties and real property gains tax (RPGT) are estimated to increase by RM0.5 billion reflecting higher property market values.

Indirect tax collection is anticipated to register RM41.2 billion or a significant reduction of 33.1% following the abolition of GST and a 3-month tax holiday. As a result, the revenue foregone is estimated at RM21 billion. In addition, the Government has allocated an additional RM4 billion for GST refunds that have been verified and audited. However, with the reintroduction of SST effective 1 September 2018, the Government is expected to collect RM4 billion. Hence, the net consumption based tax is estimated at RM23 billion compared with initial estimate of RM44 billion. As for excise duties, due to expected higher sales of vehicles in 2018, collection is estimated to increase to RM10.7 billion despite continued tax exemption for energy efficient vehicles (EEV).

Non-tax revenue is estimated to surge 44.5% to RM61.8 billion primarily contributed by higher dividend from PETRONAS amounting to RM26 billion in tandem with better financial performance and higher crude oil price. In addition, the Government is expected to receive higher dividend from Khazanah Nasional Berhad amounting to RM2 billion. Furthermore, a one-off contribution of RM4 billion is expected to be received from Retirement Fund (Incorporated) (KWAP) to partly finance the current year's retirement charges.

Outlook 2019

In 2019, Federal Government's revenue including special PETRONAS dividend is forecast at RM261.8 billion or 17.1% of GDP. Notwithstanding the significant reduction in consumption based tax,

tax revenue is estimated at RM176.2 billion and continues to be the key component in overall revenue. However, as percentage to GDP, tax revenue is estimated to decline slightly from 12.2% in 2018 to 11.5%. *Direct tax* collection which constitutes 76.7% to tax revenue is estimated at RM135.1 billion, an increase of 1.2% as compared to 2018 revised estimates. This is mainly contributed by higher collection from PITA of RM18.1 billion compared to RM16.8 billion estimated in 2018 on account of modest assumption of crude oil price.

Individual income tax and CITA are forecast to register RM35 billion and RM70.2 billion, respectively. The main contributor to CITA collection is from services sector primarily financial services. In addition, the continuous Inland Revenue Board (IRB) efforts in enhancing auditing and taxpayers' compliance also contribute to sustain the individual and CITA collection. Simultaneously, the Government has established the Tax Reform Committee to undertake a comprehensive review of tax system aimed at broadening the tax base and reducing tax gap. Meanwhile, revenue from other direct taxes comprising stamp duties, RPGT and other taxes is expected to increase by 4.4% to RM8.2 billion. The increase in stamp duties and RPGT to RM6.3 billion and RM1.8 billion, respectively are in line with the expected stable property market.

Indirect tax collection is projected to decrease slightly to RM41.1 billion. However, the reintroduction of SST is estimated contribute RM22 billion to the total indirect tax collection. Excise duties collection in 2019 is estimated to improve by 6.4% to RM11.4 billion on account of higher demand for motor vehicles. According to first half review by Malaysia Automotive Association (MAA)¹, vehicles sales volume is anticipated to increase 2% in 2019 in line with continuous demand for new vehicle models and aggressive promotional campaign by automotive companies.

Export duty is forecast to remain at RM1.6 billion in tandem with assumption of stable crude oil price in the medium-term. Import duty is projected to grow 5% to RM2.9 billion in 2019 contributed by higher estimated duty collection on complete-built-up motorcars; machines and spare parts; resin and plastic materials.

¹ Malaysia Automotive Association (MAA) (2018). Retrieved October 16, 2018 from http://www.maa.org.my/pdf/Market_Review_First_Half_2018.pdf

Non-tax revenue is projected to increase significantly to RM85.7 billion, primarily contributed by higher collection of interest and return on investments. The bulk of the return on investments is dividend from PETRONAS amounting to RM54 billion of which RM30 billion is a special dividend from PETRONAS which will be utilised to pay the outstanding tax refund. The source to fund the special dividend will be from the accumulated retained earnings of PETRONAS. The usage of the earnings will not affect the funding of their current investment activities as the fund for the activities has been accounted in their capital expenditure plan. The payment of tax refund will improve the cash flow of the businesses and households thus help to stimulate the economic activities.

Collection from licences and permits are estimated to increase 6% to RM15.6 billion. The increase is mainly contributed by higher

collection from petroleum royalty, motor vehicle licences and levy on foreign workers. Petroleum royalty is forecast at RM5.6 billion in consonance with the modest assumption of crude oil price. Similarly, motor vehicle licences are anticipated to increase 10% to RM3.5 billion in line with higher estimated vehicles registration.

The share of petroleum-related revenue to the total revenue after excluding the special PETRONAS dividend is estimated to increase slightly to 19.5% in 2019 (2018: 21.7%). Even with the reduction in consumption based tax, the share of petroleum-related revenue is still lower than annual average of 34.6% recorded during 2009-2014 period. This indicates that the Government's sources of revenue remain fairly diversified. The Government is expected to enhance its non-petroleum revenue base particularly from the efforts taken by tax reform initiatives.

Figure 2.1. Petroleum-Related and Non-Petroleum Revenue
(% of total revenue)

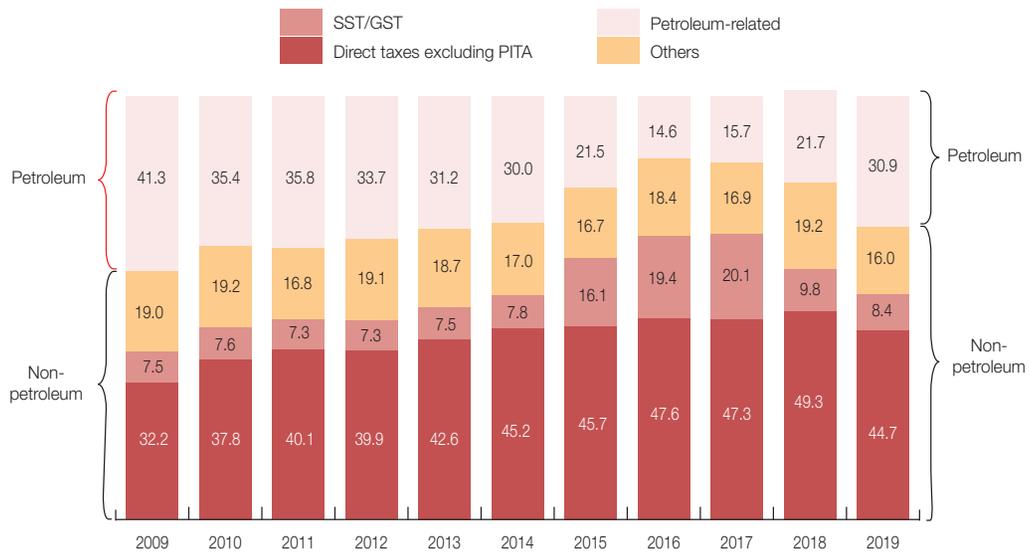
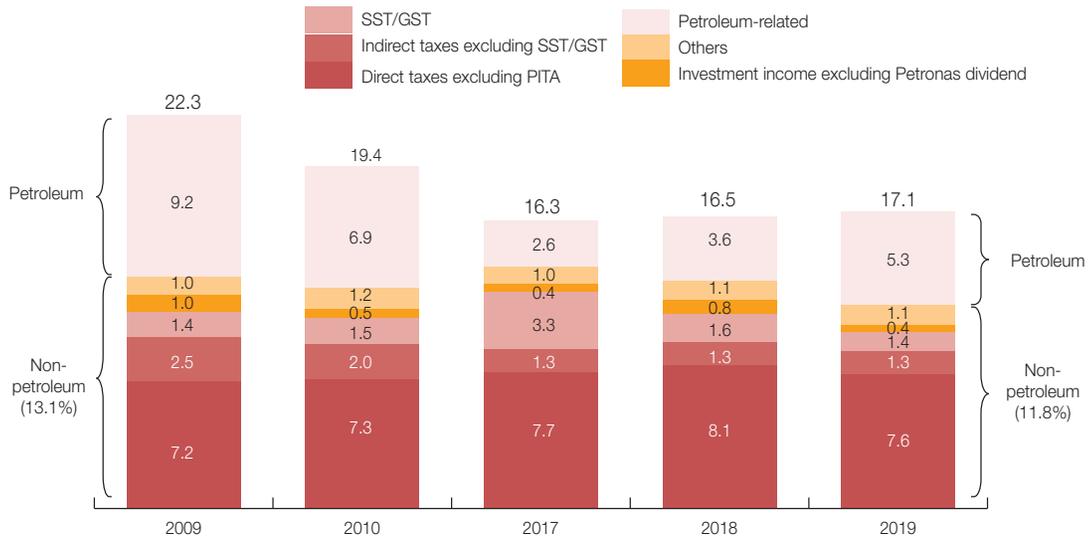


Figure 2.2. Revenue as Percentage to GDP



Note: 2018: Revised estimate.
2019: Budget estimate, excluding 2019 tax measures.

Source: Ministry of Finance, Malaysia.

