SECTION 2

Federal Government Revenue

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Overview

The geopolitical tensions, global supply chain disruptions and inflationary pressures have adversely impacted economies around the world in 2022. Malaysia has also been affected albeit at a lesser extent. As a commodity-producing nation, the ensuing higher commodity prices and depreciation of the ringgit against the US dollar have benefitted Malaysia through better commodity-related revenue. Notwithstanding, Malaysia still needs to have a more balanced revenue structure by reducing the reliance on non-tax and commodity-based revenues. In order to address these challenges, a sustainable revenue collection anchored by predictable revenue policies is needed to finance socio-economic measures which ensure the *rakyat*'s wellbeing.

In this regard, Malaysia could capitalise on the potential to increase tax revenue and seize opportunities from the opening up of the economy and international borders that have revitalised businesses and strengthened job markets. In the Budget 2022, the Government has announced several tax measures namely the Tax Identification Number (TIN), the Special Voluntary Disclosure Programme (SVDP) under the Royal Malaysian Customs Department (RMCD) and the widening of excise duties scope on sugar-sweetened beverages. Meanwhile, the tax legislation is constantly improved in tandem with the Government's efforts to enhance tax transparency and administration. In addition, efforts will be continuously directed towards strengthening revenue management, improving existing tax structure and addressing revenue leakages due to cross-border tax evasion and double non-taxation practices.

In enhancing the effectiveness of public finance management, the Government continues to strengthen its engagement with business communities and the public. In this regard, public consultation papers were issued for the preparation of Budget 2023 as an effort to improve transparency and inclusivity. The consultation paper on The Implementation of Global Anti-Base Erosion (GloBE) Rules in Malaysia solicits views to ensure competitive environment for foreign and domestic direct investment as well as prevent cross-border tax evasion. Inputs from this paper will provide fresh perspectives from the public and businesses which would guide the Government in generating sustainable revenue through the enhancement of tax policies to support the national agenda.

Revenue in 2022

Federal Government revenue in 2022 is projected to increase significantly by 22% to RM285.2 billion or 16.7% of GDP contributed by both tax and non-tax revenue. Tax revenue remains as the major contributor at 69.5% of total revenue or 11.6% of GDP, driven by strong economic recovery and higher commodity prices. Non-tax revenue collection is expected to increase its share of total revenue from 25.7% in 2021 to 30.5% in 2022 on account of higher dividend payment.

TABLE 2.1. *Federal Government Revenue 2021 – 2023*

COMPONENT	RM MILLION			CHANGE (%)			SHARE (%)		
	2021	2022[1]	2023[2]	2021	2022[1]	2023[2]	2021	2022[1]	2023[2]
Tax revenue	**173,704**	**198,227**	**205,583**	***12.5***	***14.1***	***3.7***	***74.3***	***69.5***	***75.4***
Direct tax	130,116	147,206	152,392	*15.6*	*13.1*	*3.5*	*55.7*	*51.6*	*55.9*
of which:									
CITA	79,829	84,760	88,870	*59.5*	*6.2*	*4.8*	*34.2*	*29.7*	*32.6*
Individual	27,051	30,640	33,630	*-30.6*	*13.3*	*9.8*	*11.6*	*10.7*	*12.3*
PITA	11,570	19,302	16,189	*-9.4*	*66.8*	*-16.1*	*4.9*	*6.8*	*5.9*
Indirect tax	43,588	51,021	53,191	*4.1*	*17.1*	*4.3*	*18.6*	*17.9*	*19.5*
of which:									
SST	25,616	29,710	32,060	*-4.3*	*16.0*	*7.9*	*11.0*	*10.4*	*11.8*
Excise duties	10,241	10,720	11,970	*3.9*	*4.7*	*11.7*	*4.4*	*3.7*	*4.3*
Import duty	2,645	3,020	3,220	*12.7*	*14.2*	*6.6*	*1.1*	*1.1*	*1.2*
Export duty	2,057	2,200	1,450	*175.7*	*7.0*	*-34.1*	*0.9*	*0.8*	*0.5*
Non-tax revenue	**60,048**	**86,990**	**66,987**	***-15.0***	***44.9***	***-23.0***	***25.7***	***30.5***	***24.6***
of which:									
Licences and permits	10,578	13,330	13,788	*-3.2*	*26.0*	*3.4*	*4.5*	*4.7*	*5.1*
Investment income	35,018	63,442	42,710	*-24.0*	*81.2*	*-32.7*	*15.0*	*22.2*	*15.7*
Total revenue	**233,752**	**285,217**	**272,570**	***3.9***	***22.0***	***-4.4***	***100.0***	***100.0***	***100.0***
Share of GDP (%)	***15.1***	***16.7***	***15.0***						

[1] Revised estimate
[2] Budget estimate excluding Budget 2023 measures
Source: Ministry of Finance, Malaysia

Tax revenue is projected to grow by 14.1% to RM198.2 billion with both direct tax and indirect tax are estimated to register double-digit growth. **Direct tax** collection is forecast to grow by 13.1% to RM147.2 billion, contributed mainly by higher companies income tax (CITA) collection at RM84.8 billion resulting from higher corporate earnings following the strong economic recovery. In addition, as announced in the Budget 2022, the one-off Prosperity Tax on companies with taxable income of more than RM100 million for year assessment 2022 is expected to boost the CITA collection. Individual income tax is also expected to improve to RM30.6 billion in line with better employment and wage prospects. Meanwhile, petroleum income tax (PITA) is projected to surge by 66.8% to RM19.3 billion in tandem with higher global crude oil prices averaging USD100 per barrel (2021: USD71 per barrel). Likewise, stamp duty and real property gains tax (RPGT) are estimated to improve 4.7% and 8.5% to RM6.6 billion and RM2 billion, respectively (2021: RM6.3 billion; RM1.8 billion) reflecting stronger property market activities through among others, the Government's initiatives under Premium Visa Programme and Keluarga Malaysia Home Ownership Initiative (i-MILIKI).

Indirect tax is projected to improve by 17.1% to RM51 billion led by higher contributions from sales tax and service tax (SST), windfall profit levy and excise duties. The higher estimates on SST collection amounting to RM29.7 billion is in line with the strong economic recovery in 2022 driven by private consumption. Of this, service tax is estimated at RM14.7 billion, primarily contributed by higher collection from food and beverages (F&B), insurance, management and telecommunication services. Sales tax collection is expected to be higher at RM15 billion following higher demand for passenger vehicles as well as machines and spare parts. According to the Malaysia Automotive Association (MAA) report[1], Total Industry Production (TIP) and Total Industry Volume (TIV) on passenger vehicles in the first half of 2022 increased by 31.4% and 31.2% respectively, compared with the corresponding period in 2021. Likewise, excise duties collection is anticipated to improve by 4.7% to RM10.7 billion. In addition, windfall profit levy on oil palm fruit is estimated to increase substantially by 70.9% to RM3.3 billion in consonance with higher crude palm oil (CPO) price averaging at RM5,000 per metric tonne. Similarly, export duty is expected to increase to RM2.2 billion on account of higher crude oil and CPO prices as well as CPO export volume.

Non-tax revenue is expected to surge by 44.9% to RM87 billion, largely contributed by higher proceeds from interest and return on investments. The bulk of the proceeds is from PETRONAS dividend totalling RM50 billion, of which RM25 billion is an additional dividend resulting from better profitability, while dividend from Bank Negara Malaysia amounted to RM5 billion. In addition, the Government received RM3 billion from Retirement Fund Incorporated (KWAP) to finance part of the retirement charges. Proceeds from licences and permits are expected to expand by 26% to RM13.3 billion, mainly contributed by higher receipts from petroleum royalty, motor vehicle licences and levy on foreign workers. Collection from motor vehicle licences is expected to improve by 6.1% to RM3 billion driven by the increase in car registration and the termination of relief on renewal of licences on 31 December 2021. Likewise, income from levy on foreign workers is estimated to improve by 10.9% to RM2.2 billion following the increase of new registered foreign workers.

In 2022, **petroleum-related revenue** is forecast to grow substantially by 80.5% to RM77.8 billion with a share of 27.3% to total revenue, mainly supported by the additional dividend from PETRONAS. Nevertheless, the share of petroleum-related revenue in 2022 is lower than the record high of 41.3% in 2009. Meanwhile, **non-petroleum revenue** is projected to increase by 8.8% to RM207.4 billion attributed to higher tax collection in tandem with the better economic performance and the new tax measures in 2022.

Outlook for 2023

The International Monetary Fund (IMF) reported that global economic growth is forecast to grow at a slower pace at 2.9% in 2023 compared to 3.2% in 2022 amid expectations that pent-up global demand dissipates, geopolitical tensions prolonged and monetary policies tightened. In line with this, Malaysia's expected economic growth between 4% and 5% coupled with the anticipated moderation in global commodity prices, will result in a slower growth of the Federal Government's tax revenue at 3.7% amounting to RM205.6 billion or 11.3% of GDP. However, non-tax revenue is estimated to decline to RM67 billion or 3.7% of GDP, offsetting the increase in tax revenue. Consequently, the Federal Government's revenue is projected to decline by 4.4% to RM272.6 billion.

Direct tax is estimated to increase by 3.5% to RM152.4 billion, representing 74.1% of total tax revenue. The bulk of the increase is attributed to better collection expected from CITA and individual income tax. The higher CITA, estimated at RM88.9 billion is in line with stable corporate earnings prospects, as well as the Prosperity Tax due to be collected in 2023. Similarly, individual income tax is expected to grow by 9.8% to RM33.6 billion on account of steady wage growth and anticipated further strengthening of

[1] Malaysia Automotive Association. Market Review First Half 2022. Retrieved from http://www.maa.org.my/news.html

the job market. Meanwhile, revenue from other direct tax comprising of stamp duty, RPGT and other taxes is expected to register RM9.9 billion consistent with continuous growth of residential building subsector, the increase supply of affordable houses and the Government's initiatives to address property overhang.

Indirect tax is estimated to increase by 4.3% to RM53.2 billion in tandem with steady consumption and trade growth. SST is forecast to record RM32 billion or about 1.8% of GDP of which sales tax and service tax are projected to increase to RM16.3 billion and RM15.7 billion, respectively, while excise duties is expected to improve to RM12 billion or 0.7% of GDP. The expected increase in service tax will be mainly from the tourism sector in anticipation of higher tourists arrival in 2023 supported by the implementation of the Tourism Recovery Framework. Similarly, the projected increase of sales tax and excise duties collection are primarily contributed by continuous demand for motor vehicles as well as machines and spare parts. The MAA anticipates TIV for 2023 to reach 636,300 units due to the introduction of new model as well as fulfillment of backlogged vehicles orders and promotional campaigns by car companies.

Non-tax revenue is estimated to decline by 23% to RM67 billion or 3.7% of GDP. The lower collection is due to lower proceeds from investment income, particularly dividend from PETRONAS which is projected to be lower at RM35 billion. In contrast, licences and permits is expected to increase steadily by 3.4% to RM13.8 billion despite lower contribution from petroleum royalty. The increase is mainly driven by motor vehicle licences and levy on foreign workers. Revenue from motor vehicle licences is estimated to increase to RM3.2 billion in tandem with higher car registration in 2023. Likewise, levy on foreign workers is projected to rise to RM2.9 billion on account of the anticipated greater number of foreign workers. Meanwhile, the Government is expected to receive RM3 billion from KWAP and RM5 billion dividend from Bank Negara Malaysia.

In 2023, **petroleum-related revenue** is expected to register RM58.9 billion or 21.6% of total revenue in line with the assumption of lower global crude oil prices averaging at USD90 per barrel. However, **non-petroleum revenue** is projected to increase by 3% to RM213.7 billion, supported largely by CITA, individual income tax and SST, in tandem with sustained trade and economic activities. As a percentage of GDP, non-petroleum revenue is expected to remain resilient at 11.8%. The Government is committed to widen its non-petroleum revenue to generate a sustainable revenue stream through the adoption of the Medium-Term Revenue Strategy (MTRS) and the review of tax expenditure.

Conclusion

In providing fiscal support for the development of the country and protecting the wellbeing of the *rakyat*, the Government will implement an effective revenue policy coupled with efficient revenue administration. The policy will not only generate sustainable revenue streams but also contribute towards achieving stronger economic growth, attracting higher investment and enhancing equality. However, an effective revenue policy is not attainable without a solid fiscal reform. Hence, in terms of revenue enhancement, the Government is committed to accelerate efforts to execute MTRS, rationalise tax incentives, diversify revenue resources and enhance tax compliance. The planned fiscal reforms, including the enactment of the Fiscal Responsibility Act, will ensure the country's fiscal and debt sustainability in the medium and long term. These reforms will improve revenue generation, which will facilitate the Government to pursue the national aspiration of becoming a high-income nation.

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

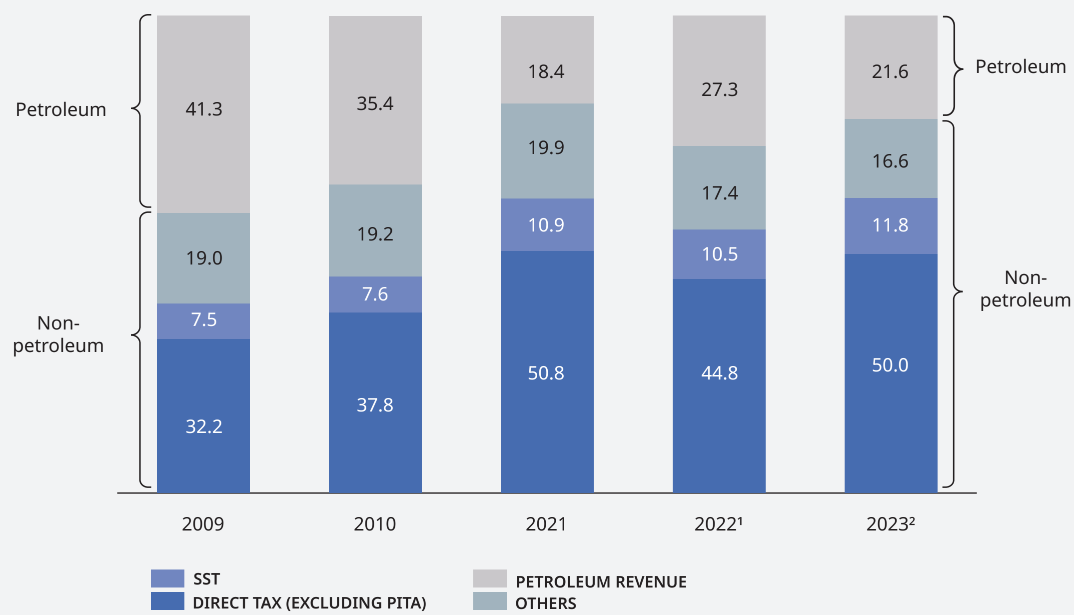
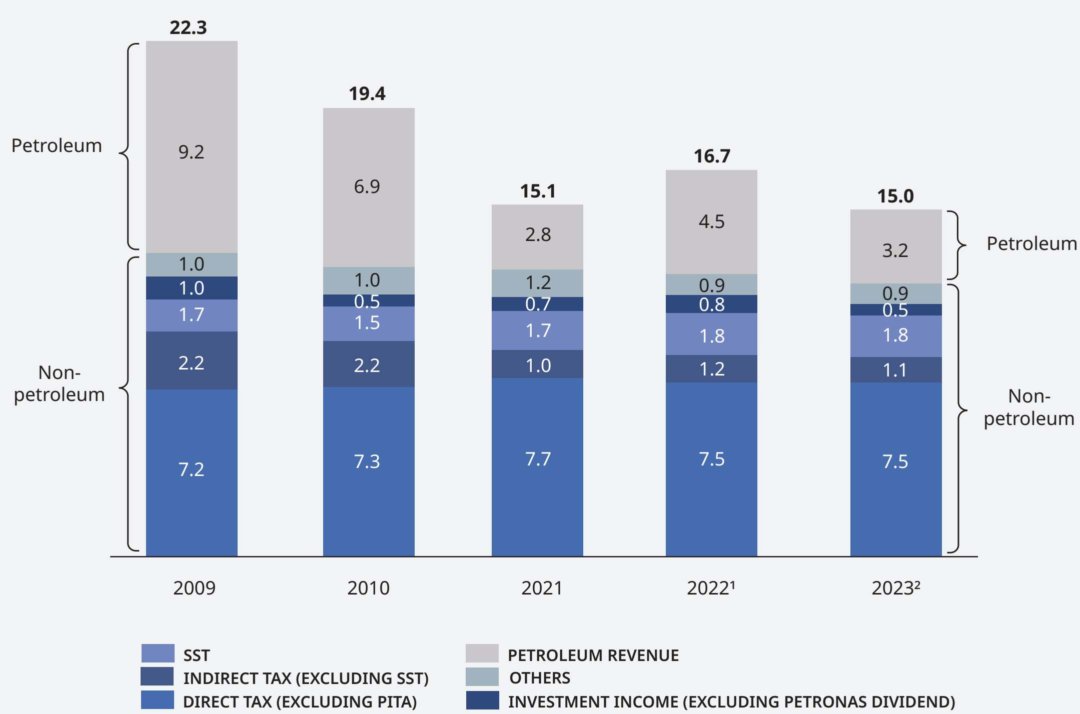


FIGURE 2.2. *Revenue as Percentage of GDP*



[1]Revised estimate
[2]Budget estimate excluding Budget 2023 measures

Source: Ministry of Finance, Malaysia