Broadening the tax base 'in a more progressive manner'

Critics bemoan similarities between the expanded sale and service tax (SST) and the demonised goods and services tax (GST), but Minister of Finance II Datuk Seri Amir Hamzah Azizan tells *The Edge*'s Cindy Yeap and Esther Lee that the government has taken measures to shield most people from undue price pressure, but he says taxes need to be collected for a better future. The following are excerpts of the interview.

***The Edge*: SST expansion, effective from July 1, though postponed from the initial May 1, is still half a year of additional fiscal boost for Malaysia and a good signal for continued fiscal reforms — just over one year after the blanket subsidy for diesel was lifted in Peninsular Malaysia. Please take us through the thinking behind the move.**

Datuk Seri Amir Hamzah Azizan: It is important to remember the journey that the country is on, in the Ekonomi Madani reform. So, effectively, the journey was threefold: How do you make the cake bigger, lifting the ceiling, which is about re-engineering the economy so that we get better, higher-value industries in Malaysia, focusing on attracting those in [desired areas] anchoring the ecosystem around it, and we can see those translated into either FDI (foreign direct investment) or we then activate DDI (domestic direct investment) to make it better. Those engines are working pretty well.

Even the most recent approved [investment] numbers, which [Minister of Investment, Trade and Industry Tengku Datuk Seri Zafrul Abdul Aziz] has just announced, are pretty solid: RM89.6 billion of approved investments in the first quarter of 2025 (1Q2025) and the conversion rates [into actual investments] are also very solid. The first quarter this year saw nearly 15% GDP growth in the construction sector. So, that is a good sign.

The GLICs (government-linked investment companies) have stepped up with a RM120 billion [commitment], or RM25 billion for this year, and they're working to make sure the mechanism plays through. We're seeing good signs on wages. Average wages are already up. Looking at contribution rates to EPF (Employees Provident Fund), first quarter numbers are up nearly 15.1% year on year. That is a sign that basic wages must be up, and employment must be up in the private sector. So, from a reform point of view, the levers that we are pulling are paying back ... and because of that, we can see fiscal space is also coming back.

Fiscal deficit is dropping, from 6.1% in 2021 to 5.5% in 2022, 4.1% in 2024 and, this year, we are on a trajectory to get to 3.8%. Hopefully, within the next couple of years, we'll get below 3%, and that means new debt is also dropping. So, that gives us [fiscal] space.

To create space, we will have to increase revenue, and this was part and parcel of what [Prime Minister Datuk Seri Anwar Ibrahim] talked about during the budget last year.

In terms of providing the basic elements that governments must provide, we have done the same by looking at repairing things like clinics, fixing toilets in schools — which, however small, makes a huge difference [for the people]. Ask the student what it feels like if he can't even use the toilet at school. If five of the 10 toilets cannot be used, it does something to the individual. Now, we've fixed that. Lifting the service level for the rakyat is the focus of what this government does.

So, when you look at the characteristics of last year's budget, you couldn't find material mega projects because the focus was to get the basics right for this country, and fix the elements around that. Then we can talk about the space to start doing other things, because the engines of what we're creating will create more capacity for us today.

That is an important frame [of mind], because nobody likes taxes. People tell me, you convince people tax is good. Nobody is going to buy [that]. But you need to understand what the money is used for and that, sometimes, the story is not sexy but somebody has to call a spade a spade.

This is what it is. And the role of the government is to be judicious in how it spends and to be smart on how it tries to manage the reform. So, at the moment, I'm in the hot zone. I understand that, but we can see that these reforms, these transformations, are materially making a difference for Malaysia. Just ask the people outside, investors who want to come in. The confidence level of Malaysia is very, very high. Even with geopolitical [tensions], Tengku Zafrul would not be able to announce the approved investments if people had no confidence in Malaysia.

So, sometimes, [one needs to] step back, ask the wider questions, see the progress and understand what we are doing. [The challenge] is the messaging.

You wouldn't agree with what the industry is saying, that there are not enough or wide enough exemptions available, would you?

There is no magic number. If I say RM500,000 revenue, they say RM1 million. If I say RM1 million, they say RM2 million, right? And MoF [Ministry of Finance] went through and felt that this was the right level ... If we find that over time, there are challenges still, we are open to explore. For now, the threshold that we set is reasonable enough to manage the impact for where we have parked things.

How about business-to-business exemptions that businesses, construction players say are not wide enough [to eliminate the tax-on-tax effect]?

If you look at construction, the bulk of your cost is your materials. The other parts are services, labour ... So, [give a breakdown of] the bill. Show your service cost, then we tax you on the service cost, but not on the material cost. But the risk of [separating labour cost] is you will be transparent to the buyer, what is the profit margin you take.

That's fair, but accounting-wise, it can be quite difficult ...

Then let's understand the impact to the whole value chain that exists there. You want to manage it, [give a breakdown of] the bill. Be fair and tell the person, actually, I'm charging you a 40% margin for my service.

Is MoF basically saying that businesses that complain will [have] a cascading effect because they cannot claim input tax but can ask for exemptions?

The challenge is that, where do we exclude? The first thing we excluded was residential and impact, so the rakyat won't be affected. So, [tax is on] commercial, and the common man is not going to have a million-dollar building. To people who have the capacity to absorb a little bit [more tax], we say, please share a little bit. Not that I take everything, but you are transparent about your bill, and we tax you on the service element of your bill.

In other words, MoF thinks existing exemptions are sufficient to contain the tax-on-tax impact. But if there is a need for a wider exemption, you might consider it?

This government is practical. We know e-invoicing is the right thing to do and we rolled out the timeline of e-invoicing. We estimated for 5,000 companies to come into the first round [Phase 1 for large companies], starting from August to January to end-December last year. We got about 8,000-plus companies. Second round [mid-sized companies from January this year] registration was in the teens ... The third round that we were supposed to start in July was going to lead to 220,000 entries into e-invoicing. I said to LHDN [Inland Revenue Board of Malaysia], they can't manage the load ... Let's be practical and [extend the implementation timeline further, giving micro and small businesses additional time to adapt to the new digital tax framework].

We did e-invoicing to make financial transactions in the country transparent, particularly big ones, which some people have used as a way to step out of the tax system because they don't declare income.

So, now, I have information to be able to go and tell the person, you [have to pay] tax. You are not going to get angry with me for chasing people who don't pay tax when they're supposed to. E-invoicing will make it transparent. When we refined the timeline, it refined the ability of LHDN to manage the load that's coming in.

We also understood that maybe for the threshold that is low, exclude them for now, because the price is not there for the RM500,000 and below, and it is causing a lot of challenges for MSMEs [micro SMEs] to manage. So, we said we would [delay it] for a while.

So, it shows the government listens; it sees what it needs to do, and manages it, but it doesn't detract from the objective of what it wants to do. If there is a different cut-off line for where the work needs to stop and the marginal returns are similar, we will look at it, but it must be backed on substance of data.

Has the government managed the cascading effects? I think the government has been doing that.

Can you summarise? How is it that you are able to eliminate the tax-on-tax effect on SST?

For SST, say, you are a contractor. You incur a service. You buy architect work and you price it. You are taxed one time. We have exclusions that say you cannot be taxed again when you charge it back to your party outside, because it's a one-tier mechanism; you are allowed the exemption. It is similar to what we've done also in the first round of SST [for the logistics sector].

This would be the bubbles you mentioned previously?

The main contractor would have a sub-contractor to do the work. So, they are taxed 6% one time. Then, they'll have the engineer, the lawyer, the architect and all that — they will just pay once. So, the architect will use another architect or the lawyer may use another lawyer, or the financier may use another loan and so on. We charge at only one level, so it will not cascade down to the lower levels. There will be no cascading 8% on 8%.

But they don't get to claim the 8% or 6%, right? One time, and it goes into the pricing of the final product, right?

It will ... There's additional cost, but which sector do you focus on? We exclude the residential sector, which faces the rakyat. It goes to businesses that can manage the cost along the way. So, there is no cascading, it is the first person who will just pay 8%. You probably impute some of that into that cost, [but] only one level will pay.

Speaking of taxing those who can pay more, was there any reason MoF did not take the chance to increase the tax on luxury goods under SST?

Racing bicycles are taxed. So, it is about cut-off points and what we want to do, right?

In this instance, we looked at it; the industry itself is doing quite well already in this area. They have space. They have capacity. They should share a little bit along the way. And then we focus on who we want to protect along the way. So, we didn't go and say, you buy gold, you will be taxed. There are other means that we can look at but, at the moment, that [higher luxury tax] is not the interest.

Everything is already at 10%, your handbags, clothes — it's always been there. For food, avocado, salmon, there is some element of that, but we didn't go overboard with it.

Avocado and salmon are not staple food for B40 but many M40 would consume such items. Would it be fair or wrong to say that the middle-income bears the brunt of the impact of SST?

It is not accurate to say the middle-income is bearing the brunt ... Take the fruits, right? People made a lot of noise on the imported fruits but Malaysia has a wealth of fruits. Push the local fruits. We should be looking to help our local industry. In Thailand, they don't promote other fruits. Even for dessert, they push mango sticky rice, and the mango is Thai mango, because they're pushing a local element. There are local alternatives and we should use this as a driver to promote local fruits.

Those who buy cheaper imported fruits and vegetables complain now they have to pay more. Has MoF measured the effective SST tax impact on different income groups, especially the middle-income? What do you have to say to people who complain?

We apply the sales tax on imported goods. So, if it is imported and falls under the category, it will be taxed. But there are a lot of those things that are also locally sourced. Maybe we are a bit more nationalistic in these days, but it's not because we want to be nationalistic, but locally sourced produce is also good for sustainability and we also want the farmers in this country to have better incomes.

When GST was implemented, there were cash transfers ...

So, let's talk about cash transfers. This government has given the biggest assistance ever by any government along the way. Last year during the budget, we raised our STR [Sumbangan Tunai Rahmah cash aid] support to RM13 billion from RM10 billion. That's a 30% increase in cash assistance. The SARA [Sumbangan Asas Rahmah] programme went up from 700,000 people to 5.4 million people.

What do you have to tell those in the middle-income level who say 'We are not getting anything and you're going to take away our petrol subsidy as well'?
The reality is there's some realignment that has to happen but the government has not finalised thresholds. What you've seen us do is that we'll check the impact before we roll it out — like we did with diesel last year. We also gave assistance along the way. We mitigated it for the groups that need it and we got a fair amount of savings from that because we cut out the people who are really not eligible for this — the businesses that were taking from retail [quota] to subsidise their businesses, the smuggling that occurred across the border. That was taking back good money for us. If you have an imperfect system and are supporting it, just because you want to maintain a little bit, you leak a lot to protect that portion — that's not right. There are other means to intervene. That's why STR went up.

Again, it's important for people to just step back and say, 'What else happened?' STR went up. Improvement of services on the ground. Do more things to repair the basics. Put a bit more allocation into repairing roads and all these things. Those are important. Those go to the masses. And the masses doesn't mean the rich don't [benefit]. The rich also use the same roads.

A lot of the businesses have been asking for a delay in the implementation because they don't have enough time to implement SST. What do you have to say to that?
What do you mean by 'time'? Sales and service tax has already been in place. The system already runs in that mechanism, right? If you're already on the system, you're paying, only maybe a new category will be added in. It doesn't take anything to change. If you're not eligible, we're giving you time to come in.

We are giving them the next couple of months to register, if they are above the threshold. Don't charge until you're confirmed that you're above the threshold. Then we also said in the statement that we put out that, in the first six months of the rollout, enforcement is not going to be with penalties and so on.

We'll be practical about it. But we want to see you try. You cannot sit back and say, 'I'll do nothing. Wait six months, then I'll start.' You can't do that. You have show that you try — you're trying to change your POS system, you've gone a step to try and register, then LHDN will be practical.

For those new to the system, the law says you have 30 days to register, from July 1 to 30. You have 30 days to make your calculations, to think about whether you need to register. Then for the whole month of August, you have time to calculate. So, 30 days to register, 30 days' calculation. You charge only from Sept 1. You cannot say 'I don't know' because you already have your past 12 months' data. You do have a trend of what your performance will look like.

Do you have an estimate of how many new businesses MoF thinks will be eligible for this new category of new services?
We have the numbers, but it's for internal use.

CONTINUES NEXT PAGE

More exemptions needed for widened SST scope, say tax consultants, businesses

BY **ESTHER LEE**

The widened scope of the sales and service tax (SST) signifies one of the moves the government is making to broaden the tax base shore up the country's fiscal position.

Under the wider scope of the sales tax, it is estimated that over 3,000 categories of goods, based on tariff codes that were previously exempted from sales tax, will be subject to a tax of 5% from July 1. Meanwhile, the widened scope of service tax means that several previously exempted sectors have been added to the fold.

A comparison of the list of taxable goods and services under the previous goods and services tax (GST) regime against the expanded list of taxable goods and services under the widened scope of the SST, shows that the gap between the two has narrowed, says Deloitte Malaysia indirect tax leader Tan Eng Yew.

Nevertheless, tax experts point out that the two tax regimes are structurally very different, so a direct comparison is not entirely straightforward. While the GST was a comprehensive multi-stage tax that encompassed a wide range of goods and services across the supply chain, the SST presents a more limited tax base, with a tax on certain manufactured and imported goods and prescribed services.

"The recent SST expansion reflects the government's aim to broaden the tax base in a more targeted and progressive manner, without placing undue burden on the rakyat," says KPMG Malaysia head of indirect tax Ng Sue Lynn.

However, the inherent weakness of the SST remains — this being the cascading effect of the tax system because of the absence of credit for tax paid in previous stages of the supply chain — which means costs could trickle down to the consumer.

The government has tried to remedy the situation and provided business-to-business (B2B) exemptions for the service tax on certain services, upon certain criteria being met.

Does this help to mitigate the cascading effect of the tax?

Yes, to a certain extent, say tax consultants. But the present exemptions for businesses do not entirely eliminate the cascading effect because its scope of exemption is not as broad as in the GST environment. The cascading effect tends to result in rising costs of doing business.

EY Asean tax leader Amarjeet Singh says the current scope of exemptions provided to businesses have inherent limitations and certain businesses may not be able to utilise these exemptions due to their business arrangements.

"It is good that the government has initiated exemptions, but it's not broad enough to mitigate the cascading effects. There is a need to review the current B2B exemptions and where gaps are identified, the government should consider further enhancements to the exemptions. Businesses need to be competitive. If the SST creates a significant increase in cost to businesses [because of the cascading effect], it will affect the cost of doing business. But of course, competitiveness isn't just caused by taxes," he explains.

While the SST primarily targets manufacturers and prescribed services, says PwC Malaysia indirect tax director Annie Thomas, taxable goods and services that are not exempted may still encounter some cascading effect if involved in multiple transactions.

"For businesses to fully capitalise on the mitigating provisions of the SST, understanding industry-specific exemptions is crucial, and consulting with tax authorities or advisors is often necessary to effectively navigate the complexities of the tax regime," she says.

Steel industry facing challenges on several fronts

The Malaysian Iron and Steel Industry Federation (Misif) is one of many industries that are feeling the heat of the expanded SST scope. In a June 13 press statement, it said the industry was already struggling with low utilisation rate at around 39% amid overcapacity in the region. The upcoming SST expansion will subject previously exempted items to tax, including coking coal and coke (5%), steel components (5% to 10%), steel scrap (5%) and industrial machinery (10%), on top of the 8% on services like rental or leasing services, it added.

"For instance, with the 5% sales tax on scrap, the entire supply chain bears the cost. When a scrap dealer purchases scrap with 5% sales tax, that additional burden is not absorbed — it is passed on to steel mills. As the industry faces rising input costs, their margins tighten and they are either forced to raise prices or absorb losses, undermining their competitiveness," it explained, adding that the industry was already facing various challenges such as the upcoming carbon tax on iron and steel in 2026 and the US tariff on steel.

"A key concern is the inconsistent treatment of goods under Chapters 72 and 73 of the Customs Tariff, which respectively cover upstream and downstream steel products. For example, previously exempted essential steel materials, steel wire mesh are now suddenly subject to a 10% sales tax, while stainless steel and even perforated cable trays have been unexpectedly slapped with a 5% sales tax — all without a clear rationale. This sudden shift raises input costs unpredictably and adds needless complexity to manufacturing operations, exactly when the industry needs stability and transparency most," Misif's statement reads.

Deloitte's Tan suggests that perhaps in the coming days, the government can consider broadening the B2B relief to better cushion the impact of the expansion.

Notably, Minister of Finance II Datuk Seri Amir Hamzah Azizan tells *The Edge* in an interview that the door to potentially introduce more exemptions in the future is still open. He says the government is practical.

"If we find that over time, there are still challenges, we are open to explore. But for the moment, the threshold that we set is reasonable enough to manage the impact for where we have parked things," he adds.

"So similar to the e-invoicing [where we delayed the implementation for businesses with below RM500,000 in annual sales], we will look at it [more B2B exemptions]. But it must be backed by substance and data."

Businesses have also been voicing their concerns about the lack of clarity and guidance when it comes to the widened SST scope.

"Businesses often feel the need for more detailed information and clearer communication regarding SST policies and exemptions. A related concern involves uncertainty about which goods and services are subject to SST and whether they fall within exemptions or taxable categories," says PwC's Thomas.

KPMG's Ng also hopes for greater clarity and guidance from the authorities, including practical examples that would help to support better compliance. She says that, ultimately, certainty and ease of application will help provide greater confidence to taxpayers.

There have been calls from various industries subjected to the wider service tax for the government to defer or lower the tax rate, given its wider scope now. Businesses say they feel the cost pressures which have intensified in recent times, with the rising minimum wage, electricity tariff and now the expanded SST.

Can the government lower the tax rate?

If the aim is to reduce the deficit and improve the country's fiscal position, some think that it would be difficult to do so.

Amarjeet highlights that the SST collected-to-GDP (gross domestic product) ratio in 2024, before the current expanded scope, stood at 2%. Whereas, under the GST regime that was implemented from 2015 to 2018, the GST collected-to-GDP ratio stood at 3% in the year with the highest GST collection.

"This is an indication that — without taking into account the SST expansion —we're not there yet in terms of matching the GST potential. This is because certain categories are not captrured under SST, for example, IP rights and licensing fees, commercial property sales and others. This just means the government cannot afford to tax at a lower rate of tax at this juncture if the objective is to achieve a better fiscal position," he says.

Others have highlighted the issue of the limited time frame for implementation and compliance. While many are willing and ready to comply, the compressed timeline poses practical challenges in updating systems, training staff and understanding the revised scope, says KPMG's Ng.

Nonetheless, she commends the government for having engaged with the relevant associations and affected industries before the announcement to gather feedback, and hopes that the open and candid consultations will continue to address any implementation issues.

Amir Hamzah disagrees that the time given is insufficient, saying that SST is not a new system to businesses, that it is a mechanism already in place.

"The sales and service tax is already in place. If you are in the system, you're already paying, maybe only a new category will be added. It doesn't take anything to change. We are giving businesses the next couple of months to register if they are above the threshold. We have also said in the press statement that in the first six months of the rollout, enforcement is not going to be with penalties," he says.

"We'll be practical about it. But we want to see you try and start doing something about it."