Malaysian government under pressure to reintroduce goods and services tax

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Malaysia's government of Prime Minister Anwar Ibrahim is confronting mounting debt. In response, the administration is introducing various tax increases and cost-cutting measures, which include behind-the-scenes discussions over the reintroduction of the widely despised goods and services tax (GST). This means intensifying the cost-of-living crisis facing Malaysian workers and the poor.

The key concern for the Pakatan Harapan coalition government, the Malaysian ruling class and global investors is the high central government debt of RM1.5 trillion ($US318 billion) and its ability to repay. This is coupled with historically high budget deficits that necessitate further government borrowing. The deficit for 2024 is forecast to be about RM85 billion ($US18 billion), which represents only a marginal reduction of the last three years of budget deficits, with each exceeding RM90 billion ($US19.1 billion).

The government plans to increase Malaysia's service tax rate from 6 percent to 8 percent on March 1, which is expected to raise an additional RM900 million this year. This tax is a component of the sales and service tax (SST) introduced by a previous Pakatan Harapan government on September 1, 2018.

While the tax on food, beverages, and telecommunication services will remain at 6 percent, Anwar's government has already slashed subsidies on key foodstuffs, fuel, and utilities. Chicken price subsidies, for example, were removed in October with prices rising by as much as 17 percent by November.

The working class, the poor, and even less well-off layers of the middle class rely on these subsidies to make ends meet as cost-of-living increases. However, Anwar has targeted the subsidies for drastic reduction in order to foist the government debt onto the shoulders of the most vulnerable. The subsidy program for 2023 was estimated to cost RM81 billion ($US17.2 billion). The 2024 budget has allocated only RM52.8 billion ($US11.2 billion).

In a January 22 article, the *Straits Times* quoted a 40-year-old middle-income earner, saying: "I am surprised that now, when I buy daily goods such as milk, eggs, bread, and vegetables, the bill is already between RM50 and RM100, which is double (what it was) six months ago. About 30 per cent of my total expenditure goes into buying groceries."

The government also plans to introduce a targeted subsidy mechanism for petrol in the second half of 2024, Minister of Economy Rafizi Ramli announced on November 27. At present, regular petrol is subsidised and sold at RM2.05 per litre. Without subsidies, the cost could increase by 57 percent. The government estimates it could save between RM9.8 billion to RM12.2 billion ($US2.1 billion to $US2.6 billion).

In this context the Anwar administration is contemplating a new GST, which it has hinted at but then denied. The long-planned reintroduction of the GST is a political hot potato that the government needs to carefully stage manage. Rafizi indicated as much on January 9 when he noted that "we are open [about GST], but we need to consider every angle before making a decision."

At the same time, the ruling elites both in Malaysia and abroad are pressuring Anwar to move more quickly in imposing the debt crisis on workers and the poor. In September, for example, Sim Kwang Gek, the country tax analyst at major accounting firm Deloitte Malaysia, demanded a cut in the corporate tax rate from 24 to 20 percent in line with the reintroduction of the GST.

Sim noted, "Until and unless GST is reintroduced, the corporate income tax rate may remain at 24 percent, which is not competitive with countries in the region such as Singapore (17 percent), Thailand (20 percent) and Vietnam (20 percent).” The Federation of Malaysian Manufacturers has also consistently called for such a reduction, along with the reintroduction of the GST.

In its yearly assessment of Malaysia in mid-2023, the International Monetary Fund (IMF) lists “fiscal policy consolidation,” that is major government spending cuts, as its first policy recommendation. Further into its report, the IMF notes that “with no plans to reinstate the GST this year, the preparatory work for its reintroduction should be promptly initiated to lay the ground for effectively activating this indispensable source of revenue.”

With talk of GST’s reintroduction heating up last year, Anwar provided a written parliamentary statement on November 1 to head off mounting criticism. He stated that “the government has yet to revive the GST. Any changes to tax policy will have to take into account the impact on the economy and the cost of living of the people.” Anwar’s carefully worded statement did not rule out the re-introduction of the widely hated tax.

The repeal of the GST was Pakatan Harapan’s first out of ten campaign pledges when it defeated the United Malays National Organisation (UMNO) in the May 9, 2018 election. UMNO had previously ruled Malaysia since independence in 1957. The new government repealed the GST while imposing the SST scheme.

The former UMNO government of Prime Minister Najib Razak introduced the GST on April 1, 2015, setting it at a rate of 6 percent on goods and services. Unlike the current SST, which only covers approximately 38 percent of goods and services, the GST was much broader, covering approximately 68 percent of goods and services.

In 2016 and 2017, the first and second full years of the GST, the government collected RM41 billion ($US8.7 billion) and RM44 billion ($US9.3 billion), contributing approximately RM25 billion ($US5.3 billion) more in revenue than under the previous tax system. In a tweet on X/Twitter on October 4, Apurva Sanghi, the World Bank Lead Economist for Malaysia, estimated that the reintroduction of the GST would raise approximately RM19 billion ($US4 billion) in additional revenue.

One of the key reasons for the first introduction of the GST was falling dividend revenue from the state-owned petroleum company, Petronas. Faced with another growing economic crisis, the Pakatan Harapan government and the business elite promote the idea that the regressive impact of the GST can be mitigated through cash and other transfers to poorer households. This, however, is a fraud since the aim is to increase government revenue overall by taxing everyday goods and services.

No one should be fooled by the government’s cynical expressions of concern for the “people’s welfare.” If the GST is introduced, the winners will be the wealthy few and the financial markets at the expense of workers and the poor who will be forced to bear the brunt of the economic crisis.