

AND INTAN FARHANA ZAINUL

targeted fuel subsidy is likely one of the most bitter pills for Malaysians to swallow, having been a nation that has enjoyed fuel subsidies for decades. In the months leading up to

Budget 2024, there have been re minders to the public about the unsustainably high subsidy bill — some RMSI billion this year — and how it will need to be reduced to ensure the fiscal sustainability of the nation.

Many had anticipated that Budget 2024

would entail some form of targeted petrol subsidy. But the government only announced the removal of the diesel subsidy last Friday.

However, Prime Minister Datuk Seri An-war Ibrahim did say that a retargeted subsidy approach would be implemented in phases. In fact, this has been set into motion with the electricity bills households fork out each month.

In July, Malaysia started to impose higher electricity tariffs on high-consumption house-holds, or those that spend more than RM708 a month on electricity. That meant the end of the blanket rebate of 2 sen/kWh for domestic consumers that was introduced during the

Covid-19 pandemic in 2021. In this budget, the federal government had chosen to start with the rationalisation of diesel prices in stages. The subsidy for diesel makes up about RM1.5 billion a month.

Economists say it makes sense to start with diesel, given the severity of the leakages in the fuel. Anwar highlighted in his speech that the sale of subsidised diesel had increased by up to 40% since 2019, even though the number of vehicles using diesel had only increased by less than 3%, implying smuggling activities taking place in view of the cheap Malaysian diesel.

Experts applauded the government for taking the first step in moving towards subsidy rationalisation by starting with diesel.
"It is good that the government starts by

explaining why it is necessary. For targeted subsidies to work, it needs buy-in from the people. There are three important elements credible, comprehensiveness and communica-tion. The government needs to be transparent in what happens to the net savings from the rationalisation," says Lee Heng Guie, executive director of the Associated Chinese Chambers of Commerce and Industry of Malaysia's So-cio-Economic Research Centre.

The government has also proposed to lift the price controls on chicken and eggs while it continues to apply a targeted subsidy ap-proach for electricity based on consumption, but at the same time provide an electricity bill rebate of RM40 a month for the hardcore poor, with a total allocation of RM55 million.

"The decision to move away from blan-

ket subsidies/controlled prices on electricity, diesel and chicken/eggs produces some sav-ings, though more could be done as a signal of intent on targeting subsidies. That said, there is scope for more targeted subsidies to be implemented when the Padu database is ready, including around RON95," says CIMB Investment Bank regional head of treasury and market research Michelle Chia.

UOB Malaysia Global Economics and Mar

ket Research senior economist Julia Goh says the missing link in the budget are plans to retarget subsidies for RON95, which will have a larger bearing on inflation and the cost of living. "The government mentioned that re-

ing to the prime minister, the initiatives will improve the revenue sustainability, social protection, governance of government-linked companies (GLCs) and the country's debt management.

That includes continuing with the plan to merge the country's four development fi-nancial institutions (DFIs) into a single entity, in a bid to strengthen the development finance ecosystem. It is worth noting that the merger of the country's DFIs started in 2019, when Bank Negara proposed a two-stage re structuring plan to merge the four DFIs into

The first step, which was completed earlier this year, was to merge Bank Pembangunan Malaysia Bhd and Danajamin Nasional Bhd. This time around, the government is looking to merge Bank Pembangunan with Small Medium Enterprise Development Bank Malaysia Bhd (SME Bank) and Export-Import Bank of Malaysia Bhd (Exim Bank).

Sunway University economics professor Yeah Kim Leng reckons that the consolidation of the DFIs is timely in realigning their functions and avoiding a duplication of their rules.

"The consolidation of the DFIs would see a greater impact through pooling of resources and achieving economies of scale," he tells The Edge.



targeting of subsidies will be done in pha hence we expect a gradual approach that will help keep inflation manageable," she adds.

Even as Malaysians managed to avoid the painful targeted fuel subsidy this round, they may have been taken by surprise by the two percentage point increase in service tax proposed by the government. The government plans to raise the service tax to 8% from 6% currently, but it will not include the food and beverage sector as well as telecommunications.

However, it was announced that the scop of taxable services would be expanded logistics, brokerage, underwriting and, oddly

enough, karaoke services.

"The increase in service tax is a surprise. However, as a longer-term solution [to in-crease revenue], the goods and services tax (GST) would have been better," says Lavindran Sandragasu, tax partner at PwC Malaysia.

A back-of-the-envelope calculation show

that the two percentage point increase would raise revenue by RM900 million to RM5 billion, according to tax experts.

Deloitte Malaysia's country tax leader Sim Kwang Gek says the immediate impact from the increase is a rise in the cost of doing busi ness as it will be passed on to consumers and businesses at the end of the day.

"As we all know, the sales and service tax regime has a 'tax on tax' effect and will result in higher prices. To cushion this, it is hoped that the government will expand the Business-to-Business Exemptions that are currently applicable to certain prescribed taxable services," she adds.

Likely to affect the T20 group will be the proposed luxury goods tax at a rate of 5% to 10% on certain high-value items such as jewellery and watches, which will be based on the threshold value of the price of the said item.

"It will increase revenue by some measure, but it won't be a significant increase," says Soh Lian Seng, head of tax at KPMG Malaysia.

There is also the introduction of the capital gains tax on the net profit derived from the disposal of shares in local unlisted companies, at a rate of 10% beginning March 1, 2024. It was announced that the government would consider the exemption of the capital gains tax on the disposal of shares related to certain activities such as approved initial public offering, internal restructuring and venture capital companies, subject to stipulated conditions.

The capital gains tax on unlisted shares was mentioned during the retabling of Budget 2023 in February, but it seems that the gov

The government has also proposed to en

hance the country's venture capital scene by

placing state-backed agencies such as Pen-jana Kapital and Malaysia Venture Capital

Management Bhd (Mavcap) under Khazan-ah Nasional Bhd. Khazanah managing di-

rector Datuk Amirul Feisal Wan Zahir says

the collaboration with Penjana Kapital and Mavcap will strengthen the local venture

capital ecosystem. Under Budget 2024, the government has

proposed to consolidate the country's bumi-putera-focused investment institutions under

Yayasan Pelaburan Bumiputera (YPB), a sub-

sidiary of Permodalan Nasional Bhd (PNB),

Malaysia's largest fund manager, following re-

cent experiences where bumiputera agencies fell into losses because of "mismanagement,

negligence and procrastination".

"The main institutions of the country can-

not deviate from the original goals of their

ernment is planning to take a decisive step in implementing it this time round.

"Businesses have to be prepared. It is not new but they have finally pulled the trigger. Most countries in Asean have implemented this and I would say Malaysia has been an outlier in this aspect," says Lavindran.

However, the concern is that it could impact the capital markets down the road, says Lee. "With capital gains tax, one cannot be sure that it will not be widened to include other asset classes in the future," he adds.

Lee believes that Malaysia should move away from taxing capital income and towards indirect tax.

"For a sustainable tax system, it cannot depend on a small group of taxpayers to carry the burden while the rest piggyback on them. The burden must be shared equally," he says.

Meanwhile, the proposed implementation of e-invoicing for taxpayers with an annual income or sales exceeding RM100 million next ear has been deferred to August from June.
Tax experts say the impact from e-invoic-

ing in terms of increasing revenue will not be immediate.

"I don't think there will be a significant

impact from this exercise just yet. When everyone falls into the net by 2027 as planned, that will help increase the level of compliance and those who were previously not in the tax net will then be part of it," says Soh.

Balanced budget with a focu on sustainability

On sustainability
Having said that, many conclude that the
budget, at a whopping RM393.8 billion, is
fiscally sustainable and responsible and puts
the country on the right path towards sustainable economic growth. Experts say the budget reflected the government's commit-ment to fiscal consolidation without strain-

ing the vulnerable groups.

The fiscal deficit target for 2024 stands at 4.3% of the gross domestic product from an estimated 5% of GDP in 2023, which marks the lowest deficit in five years.

"We applaud the fiscal consolidation efforts with the 2024 fiscal deficit to improve to 4.3% of GDP versus 5% in 2023. However, other debt metrics look to worsen as government debt is projected to rise to 64% of GDP (2023: 61.9%) and debt service charges rising to 15.9% of revenue (2023: 15%)," says CGS-CIMB Research economist Ahmad Nazmi Idrus.

"On a more positive note, parliament's passing of the Public Finance and Fiscal Responsibility Act days before the tabling of the

budget somewhat improves the medium-term fiscal outlook."

Economists agree that there has been a big emphasis on social and environment. For example, cash assistance for the B40 group will be increased to RM10 billion from RM8 billion last year.

The education sector continues to be a prime beneficiary, with an allocation of RM58.7 billion going to the Ministry of Education. The allocation will be used to build, upgrade and maintain schools all over the country as well as to imple-

ment measures for the well-being of students.
The development of Islamic affairs has received a significant allocation this time around, with RM1.9 billion for the management and development of Islamic affairs.

The budget also reflected the government's commitment to the sustainability agenda with measures like a tax deduction of up to RM50,000 for each year of assessment for ESG-related expenditure, green technology tax incentives being extended up to 10 years, a four-year extension on the tax deduction for Sustainable and Responsible Investment (SRI) sukuk and a tax exemption on the fee income for SRI fund management servic

"As Malaysia strives to be a preferred investment destination, the focus on sustainability is something of a necessity in order to attract investment," says EY Asean tax leader Amarjeet Singh.

Push for automation not centre stage There were some measures aimed at encour-

aging the move to automation, but some have voiced out that the incentives are not enough. The targeted group was the micro, small and medium enterprises (MSMEs), with the government encouraging them to move towards automation and digitalisation.

A total of RM100 million in grants have been allocated for digitalisation, which will benefit 20,000 MSME entrepreneurs while a RM900 million loan fund under Bank Negara Malaysia is provided to encourage SMEs to increase productivity through automation and digitisation.

Capital allowances for the purchase of information and communications technology equipment and software packages have been reduced to three years from four years, beginning the year of assessment 2024.

Big corporate restructuring amo GLICs and GLCs

The government has proposed a slew of initiatives to streamline its agencies. Accord-

from the government, especially in Kuala Lumpur, for housing developments.

What about the emoluments?

Many agree that the budget has taken into consideration many aspects of reforms when it comes to the fiscal position of the country. One thing that was missing was the touchy subject of emoluments and retirement charges.

Emoluments are expected to increase by 4.8% to RM95.64 billion next year while retirement charges will amount to RM32.4 billion. To put it in perspective, companies income tax collection is projected to reach RM106.42 billion in 2024, less than the total amount needed for emoluments and retirement charges.

It was proposed that civil servants re-ceive an early incentive payment of the Public Service Remuneration System (SSPA). amounting to RM2,000 for all civil servants Grade 56 and below, while RM1,000 will be given to all key public sector positions and pensioners.

The government is in the midst of reviewing the salary and fixed allowance scheme for civil servants through the study of the SSPA and it is expected to be finalised by the end of 2024. This means emoluments can only continue to rise in the years to come.

A former fund manager with a govern establishment. Past mismanagement had ment-linked investment company (GLIC) points out that the consolidation of DFIs forced the government to bear the losses of Lembaga Tabung Haji (RM20 billion), FELDA would expand their balance sheet and provide more stability to their operations. "When it (RM10 billion) and Lembaga Tabung Angkatan Tentera (LTAT). In the face of problems, it is not appropriate for key institutions to have to undertake strategic asset sales," Anwar said comes to financial institutions, risk management is the top priority. If they face any during his Budget 2024 speech last Friday. Key institutions should be managed well loan defaults, a bigger balance sheet would provide greater risk management and better governance," he adds.

and professionally to realise their long-term stment potential for the benefit of its stakeholders.

The government is planning to place Ekuiti Nasional Bhd (Ekuinas) under YPB to strengthen the development of bumiputera businesses, with the cooperation of PNB and Perbadanan Usahawan Nasional Bhd (PUNB). an agency established to enhance the participation and involvement of bumiputera

in entrepreneurship.
Ekuinas is a private equity fund management company that was set up by the government in a bid to enhance bumiputera economic participation and wealth cre-ation towards the development of Malaysia's next-generation leading companies. The government also wants to consolidate Pelaburan Hartanah Bhd, a fully-owned sub-

sidiary of Yayasan Amanah Hartanah Bumi-putera (YAHB), under PNB and be strengthened by the injection of strategic land assets

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What captains of industry have to say COMPILED BY CHERYL POO

Tan Sri Nor Mohamed Yakcop

Chairman, Khazanah Research Institute

Boost to the existing social protection framework is timely. This includes measures to raise government contribution

Scheme and matching contribution limit for the EPF's i-Saraan and i-Suri schemes. The increased allocation for Sumbangan Tunai Rahmah (STR) as well as the expansion of the Sumbangan Asas Rahmah (SARA) programme are timely as well.

KRI applauds the reformist nature of the

KRI applauds the reformist nature of the 2024 budget in the context of the nation's development strategy. We are confident that Budget 2024 will set Malaysia on a growth trajectory that will safeguard the rakyat's well-being while advancing the nation's economic and industrial transformation agenda as well as its resilience.

Tan Sri Dr Tay Ah Lek Managing director and CEO, Public Bank Rbd

While Budget 2024 will see a total expenditure bill of RM393.8 billion, the government's resolve to continue to champion fiscal prudence is to be applauded.

For those in need, various social assistance frameworks have been strengthened through wealth reallocation from subsidy rationalisation. With an estimated 20% of the M40 group having fallen into the B40 category due to the Covid-19 pandemic, it is imperative that social safety nets are widened. On this note, allocation to the Sumbangan Tunal Rahmah (STR) initiative will be increased to RM10 billion from RM8 billion, benefiting nine million recipients. For 2024, a total of RM58.1 billion will be set asked for the purpose of financing various ald to the rakyat, encompassing subsidies, incentives and financial aid.

We welcome the continued support extended to the MSMEs. Some RM1.5 billion will be set aside by government-linked corporations (GLCs) and government-linked investment corporations (GLICs) to encourage start-ups, including bumiputera MSMEs to venture into high-growth high-value industries.

Datuk Khairussaleh Ramli Group president & CEO, Malayan Banking Bhd

The allocation of an additional RM10 million to enhance the effectiveness of the National Scam Response Centre (NSRC) is highly important. The banking industry is committed to working closely with Bank Negara Malaysia on the setting up of a national fraud portal by mid-2024, where key data collected can be used to detect patterns and connections between the accounts used by scammers.

The initiative to develop the National Digital Identity will spur digital economic activities in the country and will certainly boost financial transactions and payment activities, apart from promoting greater efficiency and enhanced security for digital transactions. Banks are committed to participating actively in this initiative.

Datuk Abdul Rahman Ahmad Group CEO of

We are pleased to see the government's continued focus on driving sustainable economic growth through the second Madani budget.

In accelerating economic growth, we are encouraged to see measures to support micro, small, and medium enterprises (MSMEs) as well as the start-up ecosystem. These include, among others, RM2.2 billion in total funding support for MSMEs to automate business processes, digitalise their operations and increase their international footprint. In addition, we laud the focus on environmental sustainability and food security with specific allocation for MSMEs that operate within these two crucial areas. This will help support their growth and resilience and subsequently future-proof the socioeconomic well-being of

Mohd Rashid Moham Group MD and group CEO, RHB Banking Group

The government's steadfast dedication to strike a balance between economic development and fiscal sustainability is noteworthy. This approach will ensure that the nation prospers while safeguarding financial stability.

The goal of transforming the nation into an Islamic investment hub is a commendable move as it will attract investments to stimulate economic growth and is very well aligned with the theme of "Economic Reformation, People Empowerment".

We will support government aspirations under the National Energy Transition Roadmap (NETR) towards net carbon zero emissions by 2050 and will continue to play a significant role in elevating the nation's economic growth and development, particularly the growth of SMEs, and driving financial inclusivity among the underserved segments by providing access to financial services that are digital secure and nimble.

Datuk Wan Razly Abdullah President and group CEO. Affin Bank Bhd

We welcome the RM350 million allocation for the promotion and marketing of our tourism industry, including Visit Malaysia 2026, [and] relaxation of the Malaysia My Second Home (MMZH) programme conditions.

We also support the government's initiative to facilitate the growth and development of MSMEs and SMEs through loan and financing facilities. Tax exemption for those involved in Islamic securities selling and buying must also be lauded.

Additionally, the high-tech industrial area in the northern region for the electrical and electronics (E&E) cluster will be one of the key drivers of economic growth and technological advancement.

The implementation of tiered reinvestment tax incentives, offering investment tax allowances ranging from 70% to 100%, will be a strategic move to empower the high-growth and high-value sector.

Kevin Lam Group managing director and CEO, Hong Leong Bank

We are very encouraged to see the follow-through announcement of additional details and actionable plans outlined in Budget 2024, covering not only the welfare of the rakyat but also enhancing the MSME ecosystem, strengthening the Islamic banking positioning, combating financial scams and fraud and providing welcoming policies to attract FDI.

As a community bank, we are also pleased to see the government's dedicated commitment to fortify the SME ecosystem through an array of ongoing tax and non-tax incentives, coupled with financing grants that are poised to significantly bolster the competitiveness of SMEs within the global value chain. This will pave the way towards doubling the share of exportoriented SMEs to 25% of vendor development by 2030, and lifting the share of domestic value-added in manufacturing to 65% by the same time frame.

Tan Chor Sen CEO, OCBC Bank (Malaysia) Bhd

Being part of a financial institution with strong reach in the Asean-Greater China region, we can see the wisdom behind the big picture of fostering greater economic integration with our neighbouring countries, nurturing more competitive companies to penetrate the Asean market and facilitating trading activities.

Budget 2024 also ensures that the nation's economic backbone — MSMEs — continues to grow through the RM44 billion allocation in loans and guarantees, including grants for digitalisation.

The move to improve efforts to

The move to improve efforts to encourage the adoption of sustainable practices such as installing solar panels is on the right track and OCBC Bank will lend its utmost support to this. And we are excited about the government's proposal to extend support and tax benefits to those involved in sustainable and responsible investments.

Datuk Sulaiman Mohd Tahir Group CEO, AMMB Holdings Bhd

The RM2.4 billion earmarked for micro-entrepreneurs and small traders through agencies such as Bank Negara Malaysia, Bank Simpanan Nasional and Tekun Nasional is expected to spur greater opportunities and ease the financial burden of SMEs, which is certainly timely amid the current economic volatility.

Supporting this, the allocation of

Supporting this, the allocation of additional funds of up to RM25 million in matching grants with financial institutions under the existing i–Tekad social finance programme is set to benefit more entrepreneurs. Alongside this, the RM900 million loan fund available under Bank Negara will unlock potential for SMEs to move up the global value chain and increase productivity through automation and digitalisation.

Ng Wei Wei CEO, UOB Malaysia

We welcome the measures to improve Malaysia's competitiveness and ease the cost of doing business, which will spur high-impact investments in targeted sectors. These will help elevate foreig direct investment, broaden domestic linkages

spur industrial development and reinforce
Malaysia's diversified economic structure.
The RMZ billion fund under Dana Mudah Cara
Perallihan Tenaga Negara [and] additional tax cuts
of up to RM300,000 for measurement, reporting
and verification (MRV) expenses relating to the
development of carbon projects are positive
moves to build a green economy for a sustainable
future. Further efforts to boost the development
of electric vehicles and installation of solar panels
in the budget are also in line with UOB's focus on

Mak Joon Nien CEO, Standard Chartered Malaysia

encouraging a low-carbon lifestyle

We believe that tax reformation measures such as raising the sales and service tax to 8%, with the exception of the food and beverage and telecommunications industries, as well as introducing the luxury goods tax, will positively contribute to Malaysia's revenue efficiently and effectively.

We support the government's commitment to move the country towards a digital economy via the allocation of RM900 million to encourage SMEs to increase business productivity through automation and digitisation, among other initiatives.

We laud the government's benchmark of increasing the participation rate of women in the labour force to 60%, as well as the tax incentive (extended until December 2027) to encourage women to return to work. We also welcome the government's allocation of RM720 million for women and youths to start their own businesses under Tekun Nasional to lift and drive greater economic participation from this segment.

Soh Lian Seng Head of Tax, KPMG in Malaysia

A clear approach to

expanding the tax revenue base with the introduction of the capital gains tax, which will be imposed at the rate of 10% on the net profit arising from the disposal of unlisted shares by local companies from March 1, 2024, and the high value goods tax at a rate of between 5% and 10% on selected high value goods such as jewellery and watches based on the threshold value of the goods. It is hoped that clear regulations and guidelines with a reasonable transition plan will accompany these tax reforms to facilitate successful implementation.

Based on the fiscal outlook and federal government revenue estimates 2024, the estimated service tax revenue for 2023 is RM16.6 billion. Taking a simple and direct mathematical extrapolation, a 2% increase could result in about RM5.5 billion more — however, this 2% increase does not cover all taxable services. Food and beverage and telecommunications, which are significant contributors to the service tax collection, will still be subject to 6% service tax.

