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SECTION 2

Federal Government Revenue

Overview

The Government will continue fiscal reform measures to create ample fiscal space, thereby supporting sustainable development and building a resilient economy which will better withstand external shocks. Therefore, it is imperative for the Government to articulate an effective and efficient fiscal management framework that promotes macroeconomic stability and a conducive business environment. These efforts are intended to secure a stable foundation for future growth while contributing to the overall prosperity of the nation, which align with the principles of Ekonomi MADANI. As one of the fiscal policy components, the overall tax system and revenue management will have to be well-structured and continue to be strategically reformed for sustainable revenue generation. In this regard, the Medium-Term Revenue Strategy (MTRS) will guide the Government in optimising revenue sources and collection in accordance with Section 10(1) of the Public Finance and Fiscal Responsibility Act 2023 [Act 850] which focused on revenue policy formulation based on the principle of efficiency, fairness and equitability.

Several initiatives have been outlined and implemented, reflecting the Government's commitment towards enhancing revenue generation and redistributing it to the rakyat in an equitable and fair manner. During the year, the Government introduced various measures to improve revenue collection, broaden the tax base and minimise revenue leakages, particularly from the shadow economy. The main initiatives include the digitalisation of tax and financial reporting through e-invoicing, implementation of the capital gains tax as well as revision of the service tax rate. Additionally, the sales tax on imported low value goods has been charged on goods valued at RM500 or less beginning 1 January 2024. Furthermore, in addressing tax evasion and avoidance issues, while upholding global best practices, the Government is committed to implementing the Global Minimum Tax (GMT) in 2025.

Revenue in 2024

The Federal Government revised revenue in 2024 is estimated to increase by 2.3% to RM322.1 billion compared to 2023, with tax revenue continuing to be the major contributor to overall revenue collection at RM241 billion, constituting 74.8% of total revenue. Tax revenue remains stable at 12.4% of GDP, reflecting the continued efforts by the Government to broaden its tax base. Meanwhile, non-tax revenue is estimated to decline by 5.5% to RM81 billion, with a lower share of 25.2% to overall revenue.

Direct tax is projected to grow by 3.3% to RM177.1 billion, mainly contributed by individual and companies income tax collection of RM139.3 billion. Individual income tax is estimated to grow by 8% to RM40.8 billion, on account of stable wage growth, coupled with higher number of individual taxpayers. Likewise, revenue from companies income tax (CITA) is projected to increase by 7.4% to RM98.5 billion due to better corporate earnings mainly from services and manufacturing sectors. In addition, the implementation of e-Invoice which has been enforced in stages beginning August 2024 is expected to further enhance efficiency and contribute to better collection. Nevertheless, petroleum income tax (PITA) is estimated to be lower at RM21.8 billion due to reduction in crude oil

TABLE 2.1. *Federal Government Revenue, 2023 – 2025*

COMPONENT	RM MILLION			CHANGE (%)			SHARE (%)		
	2023	2024[1]	2025[2]	2023	2024[1]	2025[2]	2023	2024[1]	2025[2]
Tax revenue	**229,185**	**241,035**	**259,037**	***9.8***	***5.2***	***7.5***	***72.8***	***74.8***	***76.3***
Direct tax	171,336	177,060	188,799	*11.6*	*3.3*	*6.6*	*54.4*	*54.9*	*55.6*
of which:									
CITA	91,743	98,540	106,478	*11.7*	*7.4*	*8.1*	*29.1*	*30.6*	*31.4*
Individuals	37,770	40,776	43,970	*11.8*	*8.0*	*7.8*	*12.0*	*12.7*	*12.9*
PITA	26,096	21,750	20,742	*11.4*	*-16.7*	*-4.6*	*8.3*	*6.8*	*6.1*
Indirect tax	57,849	63,975	70,238	*4.6*	*10.6*	*9.8*	*18.4*	*19.9*	*20.7*
of which:									
SST	35,463	40,914	46,743	*13.1*	*15.4*	*14.2*	*11.3*	*12.7*	*13.8*
Excise duties	13,144	13,684	13,795	*4.7*	*4.1*	*0.8*	*4.2*	*4.3*	*4.1*
Import duty	3,037	3,027	3,269	*-4.9*	*-0.3*	*8.0*	*1.0*	*0.9*	*1.0*
Export duty	2,039	1,974	1,955	*-22.2*	*-3.2*	*-1.0*	*0.6*	*0.6*	*0.6*
Non-tax revenue	**85,774**	**81,015**	**80,669**	***0.2***	***-5.5***	***-0.4***	***27.2***	***25.2***	***23.7***
of which:									
Licences and permits	16,741	16,547	16,659	*7.1*	*-1.2*	*0.7*	*5.3*	*5.1*	*4.9*
Investment income	55,824	49,321	48,213	*-4.1*	*-11.6*	*-2.2*	*17.7*	*15.3*	*14.2*
Total revenue	**314,959**	**322,050**	**339,706**	**7.0**	***2.3***	***5.5***	***100.0***	***100.0***	***100.0***
Share of GDP (%)	***17.3***	***16.5***	***16.3***						

[1] Revised estimate
[2] Budget estimate, excluding 2025 Budget measures
Source: Ministry of Finance, Malaysia

production. Meanwhile, other collections from direct taxes, mainly stamp duties and real property gains tax (RPGT), are estimated to increase to RM10.9 billion, attributed to higher property market transactions.

The collection from **indirect tax** is anticipated to increase by 10.6% to RM64 billion, driven by higher collection from sales tax and service tax (SST) as well as excise duties. Service tax is projected to surge by 25.8% to RM21.5 billion, in tandem with the increase of the tax rate from 6% to 8%, coupled with the widening of the scope of services, among others, including logistics, brokerage, and underwriting services effective 1 March 2024. Similarly, sales tax is estimated to grow by 5.7% to RM19.4 billion in anticipation of higher passenger vehicles sales and the implementation of low value goods tax beginning 1 January 2024. According to the Malaysia Automotive Association (MAA) report, passenger vehicles sale during the first eight months of 2024 increased by 8%, compared to the corresponding period in 2023. Similarly, excise duties are forecast to increase by 4.1% to RM13.7 billion in line with increased motor vehicle production, following the surge in demand for new vehicles.

Non-tax revenue is estimated to decline to RM81 billion in 2024, mainly due to lower investment income, particularly dividends from PETRONAS amounting to RM32 billion, reflecting lower reliance on petroleum-related revenue. Receipts from licences and permits are expected to decline slightly to RM16.5 billion, mainly due to lower proceeds from petroleum royalty. In contrast, several components of non-tax revenue are projected to increase, cushioning the impact of lower PETRONAS dividend receipts. The Government has received dividend from Bank Negara Malaysia (BNM) amounting to RM2.85 billion, while RM1 billion is expected to be received from Khazanah Nasional Berhad. Meanwhile, the Government is expected to receive proceeds from asset recovery measures amounting to RM2.3 billion and unclaimed monies estimated at RM2 billion, following the enhancement of Unclaimed Monies Act 1965 [Act 370]. The duration of unclaimed monies credited into the Consolidated Revenue Account was reduced from 15 years to 10 years under Section 11 of the Act. In addition, the Retirement Fund (Incorporated) (KWAP) is expected to contribute RM3 billion to partly finance the current year's retirement charges. Meanwhile, motor vehicle licences collection is forecast to be stable at RM3.3 billion, in tandem with sales hike in passenger vehicles. Similarly, the levy on foreign workers is estimated to remain at RM3.7 billion.

In 2024, the share of **petroleum-related revenue** is projected to be lower at 19.6% of the total revenue or 3.2% of GDP. **Non-petroleum revenue** is projected to improve by 8.3% to RM259 billion, anchored by better collection from tax revenue, reflecting revenue diversification efforts as well as positive economic outlook in 2024.

FEATURE ARTICLE

Malaysia's Approach to Implementing the Global Minimum Tax: An Overview

Introduction

The Government has undertaken a series of fiscal reforms aimed at strengthening public finances for long-term fiscal sustainability. As one of the reforms, the introduction of Public Finance and Fiscal Responsibility Act 2023 [Act 850] on 1 January 2024 among others, mandates the Government to establish an efficient tax system and fair legislative framework, as well as formulating Medium-Term Revenue Strategy (MTRS). In this regard, a comprehensive review of well-designed tax policy and system are essential to generate sufficient revenue and rebuild fiscal space, providing the flexibility needed for countercyclical measures during the time of economic crises, thereby enhancing macroeconomic stability and resilience.

Generally, more than 50% of the Federal Government revenue is contributed by direct tax collection, of which approximately 85% is generated from income taxes. These taxes are imposed on the income of companies and individuals derived from Malaysia or income received by companies in Malaysia from overseas. Companies are taxed at 24% on chargeable income, with micro, small, and medium enterprises (MSMEs) benefit from concessional rates of 15%, 17% and 24%. At the same time, the Government has offered various types of incentives to attract investments, including the provision of tax incentives such as Pioneer Status and Investment Tax Allowance under the Promotion of Investments Act (PIA) 1986 which results a much lower effective tax rate. With the evolving international tax policies, the Government continues to adapt and align its domestic tax policy with global best practices, while ensuring Malaysia remains competitive and relevant as the preferred investment destination, thus supporting the nation's development goals.

Participation in the Global Fora

International tax cooperation aims to promote tax transparency, combat tax evasion and avoidance, and ensure equitable taxation practices. Malaysia's active participation in international initiatives and adherence to global standards demonstrates the country's commitment and enhances Malaysia's standing in the global community. In addition, Malaysia's adoption to the internationally agreed tax standards supports economic development by providing a stable and predictable tax system for businesses and investors. The Government has taken significant steps to comply with international tax standards, particularly the relevant Base Erosion and Profit Shifting (BEPS) initiatives, which outline a framework to address tax avoidance and harmful tax practices by companies that conducts cross-border businesses.

The Importance of Global Minimum Tax in the International Tax Framework

Since 2013, the OECD/G20 Inclusive Framework on BEPS has developed an agreement on a two-pillar approach to ensure consistent and transparent tax legislation and environment. The purpose of this agreement is to apply equal tax treatment on the profits of multinational enterprises (MNEs) in the participating countries, regardless of the location of the business. Pillar One changes the rules for profit allocation and for the nexus, while Pillar Two sets the Global Minimum Tax (GMT) at effective rate of 15% for MNEs with global revenues exceeding EUR750 million. This game-changing international taxation policy is expected to achieve several objectives as follows:

1. **Addressing Tax Avoidance and Profit Shifting**: The primary goal of the GMT is to counteract aggressive tax planning strategies employed by MNEs to shift profits from high-tax jurisdictions to low-tax jurisdictions. By imposing a minimum tax rate on global profits, the GMT reduces the possibility of MNEs engaging in profit shifting. This ensures that countries where economic activities genuinely take place are able to maintain their tax base and MNEs contribute equitably to national revenue.

2. **Promoting Fairness and Equity**: The GMT establishes a level playing field, ensuring all MNEs contribute fairly to the economies, in which they operate. This approach will result in alleviating discrepancies from tax competition among jurisdictions that offer excessively low tax rates, which can undermine fiscal stability and create economic distortion.

3. **Enabling Sustainable Development**: Reducing profit shifting and enhancing tax compliance under the GMT will increase government revenue for the funding of public services, infrastructure, and social programmes. This is particularly critical for developing countries whereby revenues from taxation are essential to achieve sustainable development.

4. **Strengthen Global Cooperation**: The implementation of GMT necessitates a globally coordinated efforts, which foster transparent tax practices, strengthen tax administrations and build trust among jurisdictions. This collaborative approach aligns tax policies by providing a structured platform to effectively address cross-border tax avoidance.

5. **Creating Certainty and Stability for Businesses**: The GMT provides a more stable and predictable business environment by standardising tax liabilities and regulatory framework across jurisdictions, thereby encouraging long-term investment and economic growth.

Currently, all 147 member countries of the OECD/G20 Inclusive Framework on BEPS have agreed to a GMT of 15% on the global profits of large MNEs. As of 7 June 2024, 45 countries have either introduced draft legislation or passed final legislation incorporating Pillar Two's model rules into their legal framework. An additional 10 jurisdictions intend to implement Pillar Two, though they have yet to propose any legislation. In the ASEAN region, Malaysia and Viet Nam have started to implement and adopt the GMT in their domestic tax policies, while Indonesia, Singapore, and Thailand are in the process of drafting their legislation.

Global Minimum Tax in Malaysia

In 2017, Malaysia joined the OECD/G20's Inclusive Framework on BEPS as an associate member. While the discussion on Pillar One implementation is yet to be concluded, most jurisdictions including Malaysia had agreed to implement Pillar Two. Subsequent to the announcement in Budget 2024, the Government gazetted the Finance (No. 2) Bill 2023 in December 2023 [Finance (No. 2) Act 2023]. The Finance (No. 2) Act 2023 incorporates the legislative provisions of the OECD Pillar Two rules into all revenue acts in Malaysia, namely the Income Tax Act 1967, the Petroleum (Income Tax) Act 1967, and the Labuan Business Activity Tax Act 1990. The Malaysian Pillar Two Model Rules which was introduced under the Finance Act (No. 2) Act 2023 are drafted to be closely aligned with the OECD Pillar Two Model Rules.

Malaysia has already incorporated the legislative provisions of the OECD Pillar Two Model Rules into its tax laws and will be effective for the financial year beginning on or after 1 January 2025. These provisions from the GMT framework include the Income Inclusion Rule and Undertaxed Profits Rule. The amended laws also permit the Government to implement a Qualified Domestic Minimum Top-up Tax. This ensures that sufficient tax is collected domestically before international rules apply.

According to a study by the United Nations Conference on Trade and Development (UNCTAD) in 2022, countries that offer tax incentives leading to an effective tax rate of below 15%, in effect, may give away tax revenues to other jurisdictions where the MNEs are based. Thus, the decision to implement GMT in Malaysia will mitigate the risk of possible tax revenue loss arising from this global policy shift. The introduction of GMT in Malaysia marks a significant phase in the context of international tax cooperation. By embracing the GMT, Malaysia could strengthen its tax base, uphold global tax equity, encourage fair tax competition, and support sustainable development.

Way Forward

The implementation of the GMT requires the Government to continue improving the relevant tax laws and administrative system. This initiative involves amending the existing legislation to align with global best tax practices. In addition, effective implementation of GMT also requires substantial resources, including skilled talents and appropriate technology, to ensure the compliance and enforcement of the tax reform. Simultaneously, the Government needs to enhance and formulate a more robust national investment strategy in line with the aspiration of Ekonomi MADANI framework.

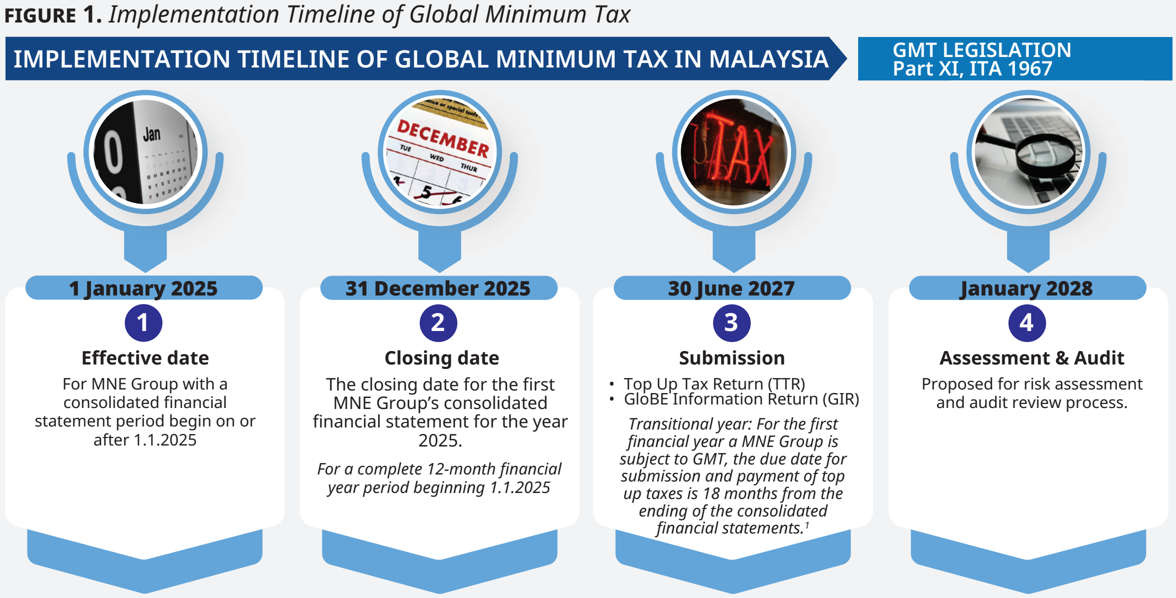
Based on the OECD's recommendations to address the challenges of GMT implementation, countries should emphasise strategies that promote better integration with regional and global markets while reducing restrictions on FDI inflows. Furthermore, there should be policy shifts relating to ease of doing business by simplifying bureaucracy and regulations, combatting corruption, and advancing research and development. This policy would allow strong entrepreneurial and innovation ecosystems, and strengthen domestic industries' linkages. The recommendations also highlight the importance of strengthening institutions, upholding the rule of law, protecting property rights, enhancing transparency, fostering political stability, as well as providing a stable legal and regulatory environment.

In line with the New Industrial Master Plan 2030 (NIMP 2030) which outlines the Government's transformative investment policy that focuses on high growth high value (HGHV) sectors, the existing tax incentive framework will continue to be reviewed. The Ministry of Finance has established a task force to develop a new tax incentive framework consisting of representatives from the Ministry of Investment, Trade and Industry, the Inland Revenue Board of Malaysia, the Malaysian Investment Development Authority, and other relevant ministries and agencies. The Chartered Tax Institute of Malaysia is also invited as a member of the task force, representing the relevant industry and tax practitioners. In developing the intended tax incentive framework, the Government will ensure it aligns with the GMT and international tax policies which focuses on long-term value creation. This initiative will reduce any potential negative impact on investment flows as the Government moves towards this outcome-based approach. Continuous collaboration with investment promotion agencies and ministries is also crucial to maintaining investor confidence and economic stability.

Malaysia will continue participating in international tax initiatives, including the OECD/G20 Inclusive Framework on BEPS, which potentially enhances Malaysia's role to be among the main contributors in the formulation of international tax regulations, thereby safeguarding national interests. Active participation in international taxation forums will support and facilitate the effective implementation of GMT, hence adhering to international standards. Close cooperation with other tax authorities and international organisations will facilitate the effective exchange of information and coordinated enforcement efforts.

Tax administration should also provide greater certainty and predictability in the tax legislation and system, with tax incentives granted based on predetermined objectives as well as clear and transparent criteria. Administrative procedures must be streamlined by reviewing and strengthening the overall governance of tax administration to ensure effectiveness in attracting investment relative to the implied revenue forgone. This is to ensure that GMT can be implemented effectively and that investment attractiveness, especially to MNEs, can be maintained or refined.

FIGURE 1. *Implementation Timeline of Global Minimum Tax*



[1]Based on OECD Global Anti-Base Erosion Model Rules (Pillar Two)
Source: Inland Revenue Board of Malaysia

Conclusion

Malaysia stands to benefit from active participation in the implementation of GMT, which will enhance the country's international reputation, protect the tax base, and promote a stable business environment. It is equally important for Malaysia to have an effective tax framework for investment promotion in a more challenging global environment. Therefore, with the introduction of specific legislative measures and collaboration with other jurisdictions, Malaysia can ensure the successful implementation of GMT while continuing to monitor global developments. The implementation of GMT may enhance tax compliance among MNEs and ultimately enhance the Government's revenue collection in the long term. Sustainable revenue generation enables the Government to improve the public finances, provide better facilities for the rakyat and ensure macroeconomic stability.

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Outlook for 2025

The Federal Government revenue is estimated to grow by 5.5% to RM339.7 billion in tandem with a better economic outlook in 2025. Tax revenue, projected at RM259 billion, continues to be the major contributor to overall revenue with a share of 76.3% or 12.4% of GDP. Meanwhile, non-tax revenue is anticipated at RM80.7 billion or 3.9% of GDP.

Direct tax collection is projected to increase by 6.6% to RM188.8 billion, constituting 72.9% of total tax revenue, in anticipation of better income tax collection. CITA remains the largest contributor at RM106.5 billion in 2025, attributed to phased implementation of e-invoicing and improving economic outlook. This is followed by individual income tax, which is projected to improve by 7.8% to RM44 billion, in line with the stable job market and improved wages. In addition, the increase in salaries for civil servants is expected to have a positive impact on the collection of individual income tax, with more civil servants to be included in the taxable bracket. Meanwhile, PITA is projected to record a lower collection of RM20.7 billion, in expectation of lower crude oil price. Furthermore, revenue from other components of direct tax, namely stamp duties and RPGT, are expected to be higher at RM10.1 billion and RM1.8 billion, respectively, based on the expectations of continued expansion in the real estate market.

Indirect tax is forecast to improve further by 9.8% to RM70.2 billion, with the SST collection contributing the highest share of 66.5% to the total, amounting to RM46.7 billion or 2.2% of GDP. Of this, RM20.8 billion is from sales tax, while RM26 billion from service tax, in tandem with the full implementation of new service tax rate as well as improving consumer sentiment and business confidence. In concordance with the expected pick-up in motor vehicle production in 2025, excise duties collection are projected to improve to RM13.8 billion.

Non-tax revenue is estimated to decline by 0.4% to RM80.7 billion, primarily due to lower proceeds from investment income. Annual dividends are expected mainly from PETRONAS, BNM and Khazanah Nasional Berhad at RM32 billion, RM4 billion, and RM2 billion, respectively. Meanwhile, a total of RM4 billion is anticipated from KWAP to partly finance the retirement charges. The collection from licences and permits is projected to increase slightly to RM16.7 billion, contributed by higher proceeds from levy on foreign workers at RM3.7 billion and motor vehicle licences at RM3.4 billion.

In 2025, **petroleum-related revenue** is expected to register lower collection of RM62 billion or 18.3% to total revenue, contributing to 3% of GDP, with PETRONAS dividends accounting for more than half of the total. In contrast, **non-petroleum revenue** is projected to increase by 7.2% to RM277.7 billion, reflecting better revenue diversification on the back of a favourable economic outlook. The Government will continue to ensure sustainable non-petroleum revenue generation to meet expenditure commitments, particularly to serve the needs of the rakyat.

Conclusion

The Government will continue strengthening revenue management, while enhancing efficiency through the use of technological advancements and innovative approaches. These initiatives aim to streamline tax administration by improving service delivery and simplifying processes, thereby facilitating tax compliance. Key reform initiatives, particularly through the adoption of the MTRS, will take a comprehensive approach to assess the revenue ecosystem, develop effective revenue policies and reinforce the legal framework to align with international best practices. In upholding the principle of accountability, the formulation of revenue policy will be based on efficiency, fairness and equitability. Overall, these initiatives are essential for generating sustainable revenue, creating a conducive and competitive business environment, promoting new investments and supporting long-term growth.

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

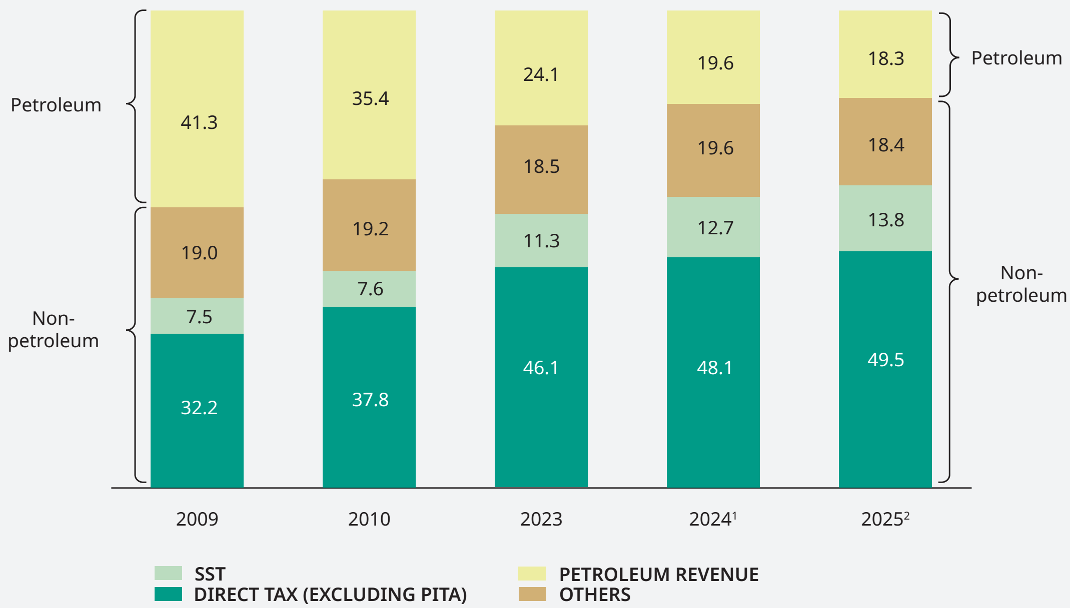
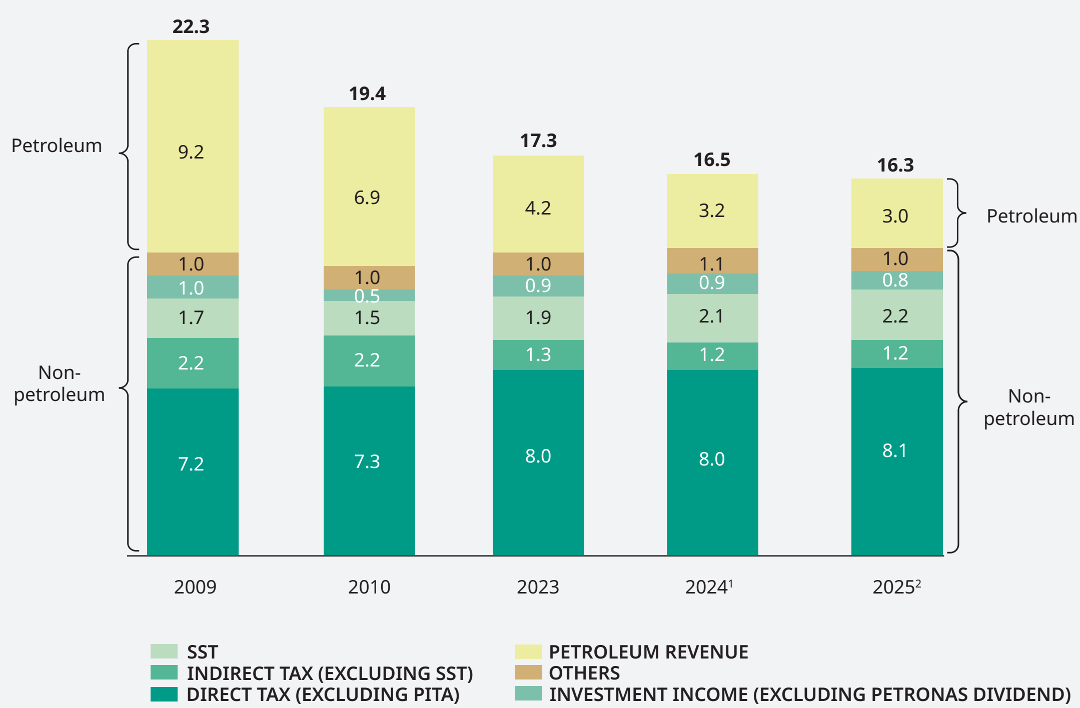


FIGURE 2.2. *Revenue as Percentage of GDP (% of GDP)*



[1] Revised estimate
[2] Budget estimate, excluding Budget 2025 measures

Source: Ministry of Finance, Malaysia