SECTION 2

Federal Government Revenue

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Overview

The COVID-19 pandemic has led to a global economic crisis that drastically impacted businesses and livelihood around the world. To mitigate its impact on Malaysia, the Government has implemented countercyclical measures through series of economic stimulus packages and recovery plan in 2020. These measures were aimed at cushioning the impact of the COVID-19 crisis on businesses, households and individuals through among others direct cash assistance, loan repayment moratorium and tax measures.

Total revenue is expected to be severely affected following the decline in business, trade and tourism receipts as the worldwide lockdown actions reduce global trade vibrancy and people's mobility. In addition, due to the lower crude oil prices, the income tax and duties collection will also be impacted. Nevertheless, the expansionary fiscal stance is expected to support and rejuvenate domestic economic activities and ease business cash flows, thus mitigating the impact of the crisis and providing impetus for recovery.

Revenue in 2020

In 2020, the Federal Government's revenue is projected to decrease by 14% to RM227.3 billion (2019: RM264.4 billion) as a result of lower tax collection. Despite the impact of COVID-19 and lower estimated average crude oil price of USD40 per barrel, tax collection continues to be the major contributor to Federal Government's revenue with an estimated collection of RM153.3 billion or 67.4% to total revenue, albeit lower than the previous five-year average of 75.8%. Consequently, total revenue as a percentage to GDP is expected to be lower at 15.8%, of which tax revenue constitutes 10.6%, while non-tax revenue represents 5.2%.

Direct tax, which accounts for 50.6% of total revenue, is expected to decrease by 14.6% to RM115.1 billion (2019: RM134.7 billion). Collections from all direct tax components are projected to decline primarily due to weak economic activities which affected businesses and individuals' incomes as well as lower crude oil price assumption. Companies income tax (CITA), the major contributor to total revenue, is estimated to be lower at RM59.4 billion (2019: RM63.7 billion), which is about 21% shortfall from the original estimate of RM75.5 billion. This is mainly due to lower business income resulting from decelerating economic activities in line with the global movement restriction and preventive measures. In addition, the reduction in revenue collection is partly attributed to several tax incentive announced under the economic stimulus packages. These include deferment of tax payments for all businesses in the tourism sector until December 2020, postponement of tax payments from April to June 2020 for small and medium enterprises (SMEs), and extension of tax incentive period for accelerated capital allowance on capital expenditure on machines and equipment. Other tax measures include stamp duty exemptions for sale and purchase as well as home financing agreement, individual income tax reliefs on domestic travel spending, and the Real Property Gains Tax (RPGT) exemptions on disposal profits from 1 June 2020 until 31 December 2021.

Individual income tax is anticipated to decline by 4% to RM35.9 billion compared with the original estimates of RM37.4 billion. The main factors affecting the collection performance are higher retrenchment incidence as well as salary reductions and unpaid leave offers by employers to manage cash flows and ensure business continuation. Petroleum income tax (PITA) is forecast to decline significantly by 58.9% to RM8.5 billion (2019: RM20.8 billion) in tandem with the lower estimated average crude oil price at USD40 per barrel and slower demand. Other direct tax collections, including stamp duty and RPGT, are estimated to be lower at RM8.2 billion, following the exemptions announced in the economic stimulus packages.

Indirect tax, which constitutes 16.8% of total revenue, is estimated to decrease by 19.4% to RM38.1 billion compared with the original estimate of RM47.3 billion, with all components are expected to decline. Sales Tax and Service Tax (SST) are expected to be lower at RM24.5 billion (2019: RM27.7 billion) with sales tax collection projected to reduce by 21.4% to RM12.1 billion (2019: RM15.4 billion). This is in line with the Government's initiative to provide tax exemptions for the purchase of locally-assembled and fully-imported passenger cars under the PENJANA package. Excise duties collection is estimated at RM8.5 billion (2019: RM10.5 billion), a reduction of 19.1% mainly due to the suspension of operations of a majority of motor assembly plants during the Movement Control Order (MCO) period from March to May 2020. The lower average crude oil price assumption of USD40 per barrel in 2020 coupled with decreased export volume are expected to reduce export duty collection by 28.8% to RM0.8 billion (2019: RM1.1 billion). In addition, other tax exemption measures announced under the economic stimulus packages, which include tourism tax and service tax on hotel accommodation, are expected to further reduce the indirect tax collection.

Non-tax revenue is envisaged to register RM74 billion (2019: RM83.8 billion), largely contributed by higher dividends from PETRONAS amounting to RM34 billion, of which RM10 billion is a special payment mainly from their divestment exercise in 2019. The Government has received RM3.5 billion from Bank Negara Malaysia and is expected to

TABLE 2.1. *Federal Government Revenue 2019 – 2021*

COMPONENT	RM MILLION			CHANGE (%)			SHARE (%)		
	2019	2020[1]	2021[2]	2019	2020[1]	2021[2]	2019	2020[1]	2021[2]
Tax revenue	**180,566**	**153,260**	**174,370**	***3.7***	***-15.1***	***13.8***	***68.3***	***67.4***	***73.6***
Direct tax	134,723	115,105	131,870	*3.6*	*-14.6*	*14.6*	*51.0*	*50.6*	*55.7*
of which:									
CITA	63,751	59,385	64,596	*-4.1*	*-6.8*	*8.8*	*24.1*	*26.1*	*27.3*
Individual	38,680	35,906	42,439	*18.6*	*-7.2*	*18.2*	*14.6*	*15.8*	*17.9*
PITA	20,783	8,551	13,000	*3.5*	*-58.9*	*52.0*	*7.9*	*3.8*	*5.5*
Indirect tax	45,843	38,155	42,500	4.1	-16.8	*11.4*	*17.3*	*16.8*	*17.9*
of which:									
SST	27,668	24,533	27,900	*7.7*	*-11.3*	*13.7*	*10.5*	*10.8*	*11.8*
Excise duties	10,511	8,507	8,768	*-2.5*	*-19.1*	*3.1*	*4.0*	*3.7*	*3.7*
Import duty	2,733	2,035	2,050	*-5.7*	*-25.5*	*0.7*	*1.0*	*0.9*	*0.9*
Export duty	1,126	802	922	*-31.0*	*-28.8*	*15.0*	*0.4*	*0.4*	*0.4*
Non-tax revenue	**83,849**	**74,010**	**62,530**	***42.5***	***-11.7***	***-15.5***	***31.7***	***32.6***	***26.4***
of which:									
Licences and permits	14,499	13,237	12,736	*3.4*	*-8.7*	*-3.8*	*5.5*	*5.8*	*5.4*
Investment income	60,058	48,666	36,775	*88.3*	*-19.0*	*-24.4*	*22.7*	*21.4*	*15.5*
Total revenue	**264,415**	**227,270**	**236,900**	***13.5***	***-14.0***	***4.2***	***100.0***	***100.0***	***100.0***
Share of GDP (%)	***17.5***	***15.8***	***15.1***						

[1] Revised estimate
[2] Budget estimate, excluding 2021 Budget measures
Source: Ministry of Finance, Malaysia

receive dividends from Khazanah Nasional Berhad amounting to RM2 billion. In addition, a special payment of RM5 billion was received from the Retirement Fund (Incorporated) (KWAP) to partly finance the current year's retirement charges. In contrast, receipts from licences and permits are estimated to decline by 8.7% to RM13.2 billion (2019: RM14.5 billion), mainly due to lower proceeds from petroleum royalty.

Petroleum-related revenue is forecast to decline by 40.3% to RM50 billion in 2020 (2019: RM83.8 billion), due to exclusion of special dividend for tax refund as well as reduction in PITA and royalty amounting to RM8.5 billion and RM4.2 billion, respectively, based on lower global crude oil prices. Consequently, the share of petroleum-related revenue is also expected to decline from 31.7% in 2019 to 22% in 2020. Given the significant impact of the economic slowdown, **non-petroleum revenue** is estimated to decrease by 1.8% to RM177.3 billion (2019: RM180.6 billion), cushioned by special payments from government entities. As a percentage to GDP, non-petroleum revenue is forecast to increase by 0.3 percentage points to 12.3% from 2019 position (12%).

Outlook for 2021

The COVID-19 pandemic has severely impacted revenue collection capacity of the Federal Government. This is particularly due to shrinking corporate earnings and individual incomes as well as the introduction of temporary tax exemption measures to ease cash flows and support businesses. Nonetheless, the year 2021 is expected to be a transition year as the nation will shift from the recovery phase towards achieving its growth potential in the new normal. In this regard, the Government is anticipating an improvement in tax revenue collection and the overall revenue performance to return to the pre-crisis level. The economy is expected to attain full economic recovery in the medium term.

The Federal Government's revenue in 2021 is envisaged to turn around by 4.2% to RM236.9 billion or 15.1% of GDP, on the back of improving economic growth and business prospects. The higher revenue is largely attributed to better **tax revenue** collection, which is estimated to increase by 13.8% to RM174.4 billion. As a percentage to GDP, tax revenue constitutes 11.1% while non-tax revenue at 4%.

Direct tax collection is forecast to increase by 14.6% to RM131.9 billion, constituting 55.7% to total revenue. The expected higher collection are largely contributed by CITA, PITA and individual income taxes. CITA, as the major contributor to direct tax and total revenue, is projected to rebound by 8.8% to RM64.6 billion. This is in tandem with improving economic activities and higher earning expectation, coupled with continuous efforts by the Inland Revenue Board (LHDN) to enhance auditing and tax compliance. Similarly, PITA is anticipated to rebound by 52%, on account of improved demand and slightly higher average crude oil price assumption at USD42 per barrel. For individual income tax collection, it is estimated to be higher at RM42.4 billion attributed to stable employment prospect and sustained wage growth. Revenue from other direct tax consist of stamp duty, RPGT and other taxes is expected to increase by 7% to RM8.8 billion.

Collection from **indirect tax** is anticipated to rebound by 11.4% to RM42.5 billion, mainly contributed by higher SST collection. In 2021, SST collection is forecast at RM27.9 billion, an increase of 13.7% contributed by higher consumption spending. Likewise, excise duties are estimated to expand by 3.1% to RM8.8 billion in tandem with higher demand for motor vehicles. The Malaysia Automotive Association (MAA)[1] forecasts that the total industry volume for vehicles will increase by 17% in 2021, following the introduction of new models and ongoing promotional campaigns by automotive sector. Export duty are forecast to remain stable at RM0.9 billion.

Non-tax revenue is projected to decline by 15.5% to RM62.5 billion in 2021, primarily due to lower proceeds from investment income. Dividends from PETRONAS and Khazanah are estimated at RM18 billion and RM1 billion,

[1] Malaysia Automotive Association. Market review 1st half 2020. Retrieved from http://www.maa.org.my/news.html

respectively. In addition, the Government will continue to receive a special payment from KWAP amounting to RM5 billion to partly finance the retirement charges. For licences and permits, it is estimated to decrease by 3.8% to RM12.7 billion. However, petroleum royalty is forecast to reach RM4.3 billion in consonance with higher average of crude oil prices. Likewise, collection from motor vehicle licences is anticipated to record RM3.1 billion in line with higher estimated vehicles registration.

With continued efforts to reduce the reliance on **petroleum-related revenue**, its share to total revenue is forecast to decline further to 16% in 2021. Petroleum-related revenue is forecast to be lower at RM37.8 billion or 2.4% of GDP, compared with RM50 billion or 3.5% in 2020. Consequently, **non-petroleum revenue** is envisaged to increase by 12.3% to RM199.1 billion.

Conclusion

The Government will continue to strengthen and maximise its tax revenue collection and enhance its buoyancy via tax reform initiatives. These include efforts to broaden the revenue base, tap the informal sector, curtail under-reporting and under-declaring practices, reduce tax leakages as well as to enhance tax administration through effective data management and integration with relevant agencies. In addition, the tax incentive packages will be consolidated and further strengthened to be more targeted, based on a higher impact and cost-benefit approach. In the medium term, the Federal Government will enhance its revenue strategy that is anchored by the Medium-Term Revenue Strategy (MTRS) to ensure sustainable revenue generation.

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

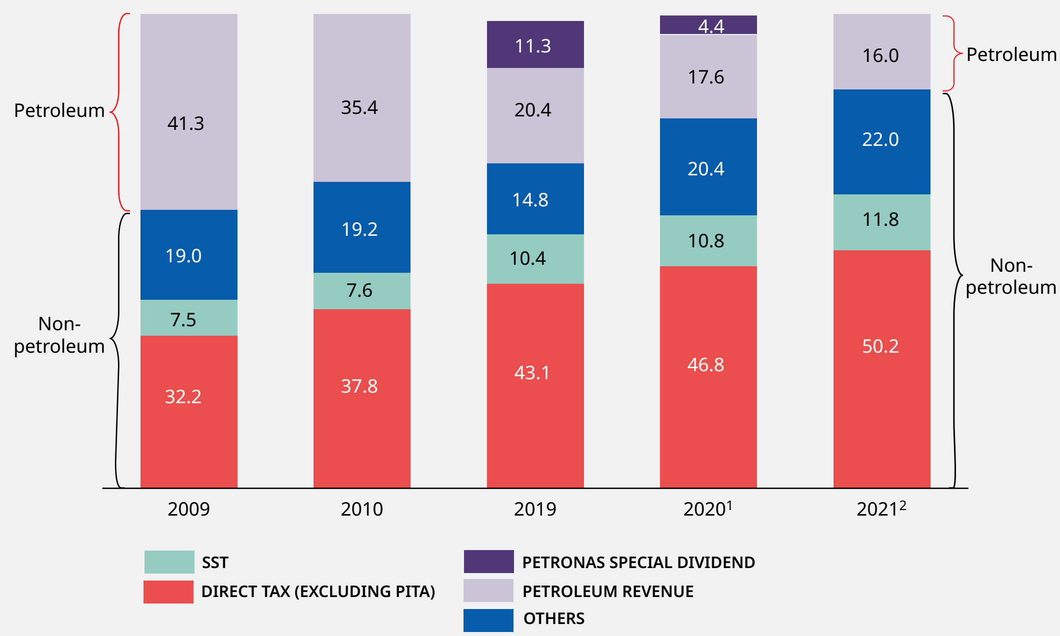
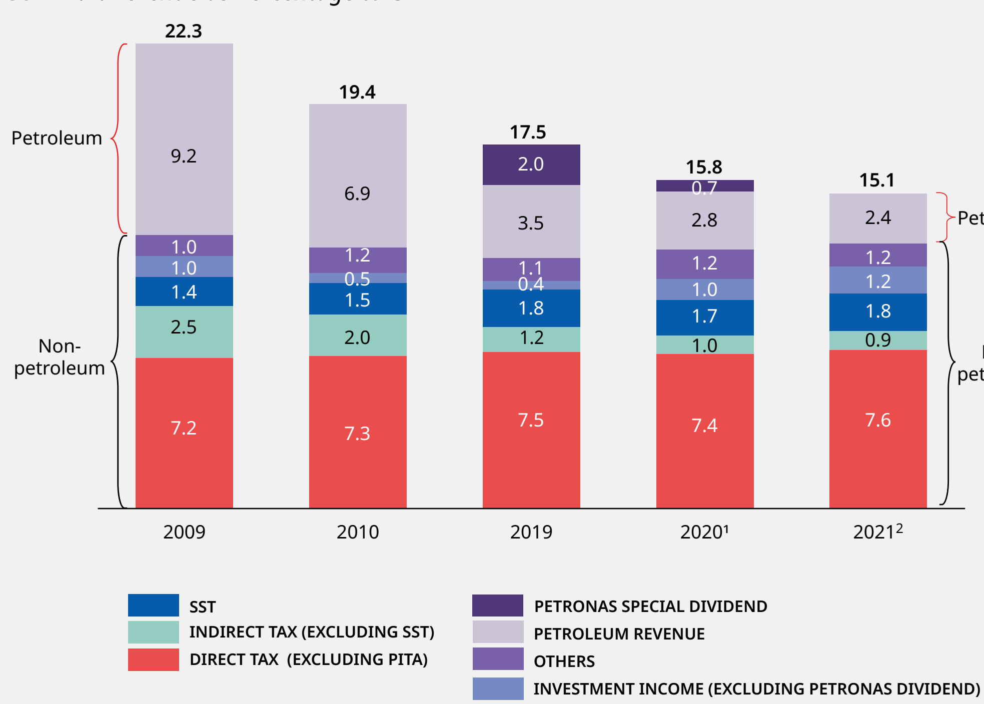


FIGURE 2.2. *Revenue as Percentage to GDP*



[1]Revised estimate
[2]Budget estimate, excluding 2021 Budget measures

Source: Ministry of Finance, Malaysia