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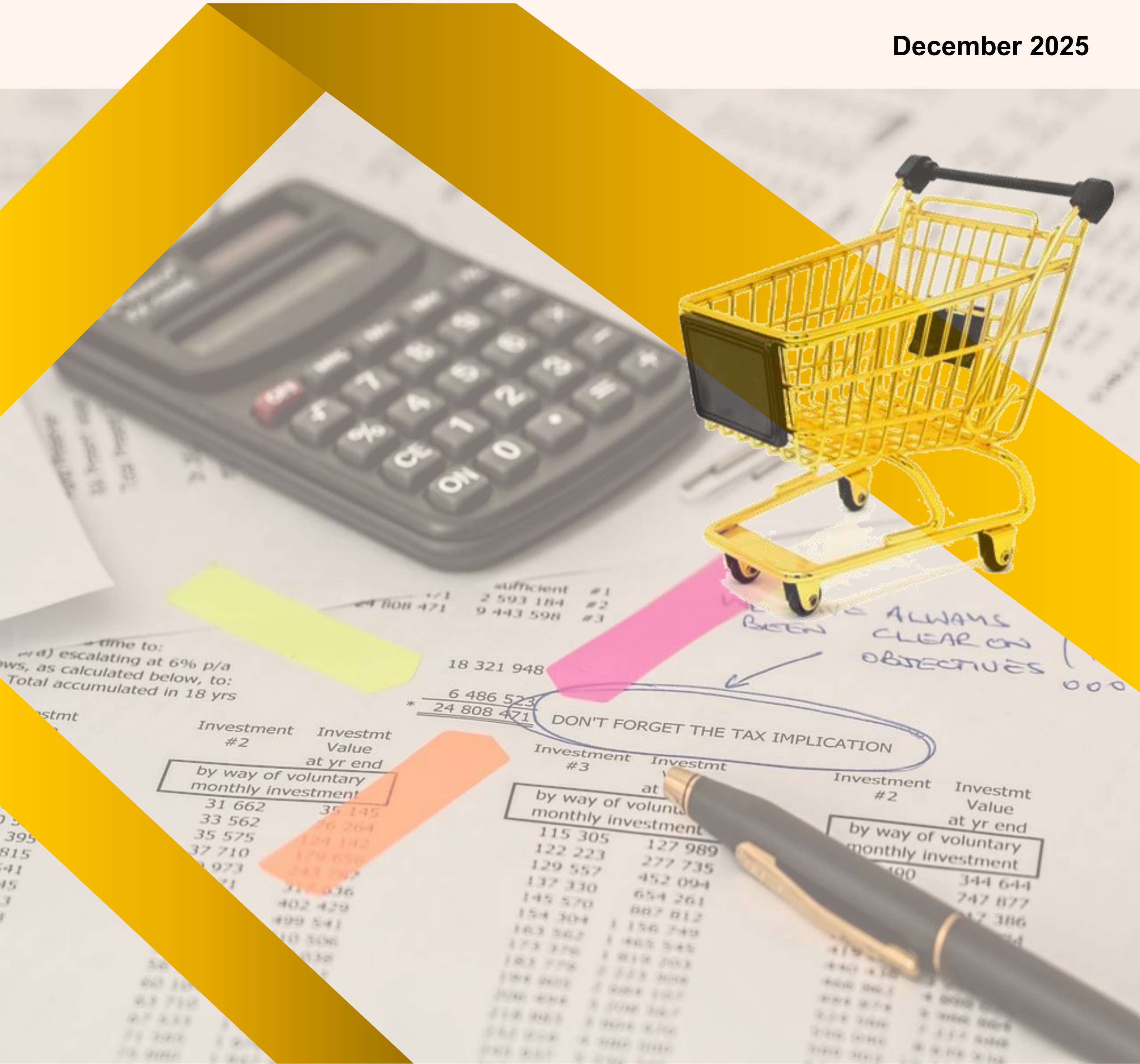
# Assessing the Need of Reintroducing Goods and Services Tax (GST) in Malaysia

December 2025



## Executive Summary

The reintroduction of the Goods and Services Tax (GST) in Malaysia has been a subject of policy debate, particularly in broadening the tax base, strengthening tax efficiency, while ensuring a sustainable and stable source of fiscal revenue.

This report is to discuss reasons for the reintroduction of the GST and factors to consider if the GST were reintroduced. On a net basis, GST has more positives than negatives, and is proven to be a better tax system as it is more effective, efficient, and transparent. It is widely acknowledged to be business friendly and could spur economic growth as well as increase industry competitiveness in the global market.

GST can boost tax revenue collection given its broader tax base as evidenced in the collection of an average RM42.7 billion per year during the full-implementation period 2016-2017.[1] This was higher than an average of RM29.4 billion per year collected from the Sales and Service Tax (SST) in 2019-2023.

A key consideration in the long-term tax strategy is aligning GST with a broader tax reform agenda, that is shifting from direct taxes to indirect taxes, by decreasing direct tax rates and increasing indirect tax rates. Malaysia's current headline corporate income tax rate at 24% is uncompetitive compared to regional peers though the Government has argued that our effective tax rate is much lower given the generous tax incentives, deductions, exemptions, reliefs and capital allowances. The current worldwide trend is shifting from direct taxes to indirect taxes. Many countries that have implemented GST or value-added tax (VAT) to ameliorate the burden of indirect taxes by lowering direct taxation.

The primary concern regarding GST is that it will increase inflation, and higher prices of goods and services, resulting in high cost of living, impacting the low-income households. It is reckoned that there were price increases when the GST was introduced. However, these concerns can be mitigated by expanding the zero-rated scope for essential goods and services, direct cash assistance to the targeted vulnerable groups, and implementing robust price monitoring mechanism to rein in excessive price increases. Strengthening consumer awareness initiatives will enhance public confidence in GST and anchoring inflationary expectations.

A crucial factor in ensuring its smooth implementation will be businesses' readiness and robust technology infrastructure. ACCCIM's survey indicated that businesses would need at least 6 to 12 months of preparation for the GST. Compliance concerns, including cumbersome procedures and high costs, must be addressed through improved GST refund mechanisms, streamlined reporting processes, and user-friendly filing systems. Businesses expect the government's support in areas such as financial grants for system upgrades, tax holidays, and comprehensive training programmes.

In conclusion, a strong narrative backed by an extensive education programme is key to an effective reintroduction of GST for ensuring a sustainable revenue mechanism. Clear guidelines, price surveillance and anti-profiteering enforcement, and stakeholders' engagement are essential in securing public and business confidence in the GST.

[1] The Goods and Services Tax (GST) was first introduced at between 0% and 6% on 1 April 2015 and repealed in 2018, and replaced by the reintroduction of the Sales Tax and Service Tax (SST) on 1 September 2018.

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## List of Abbreviations

| | |
|---|---|
| ACCCIM | The Associated Chinese Chambers of Commerce and Industry of Malaysia |
| B40 | Bottom 40% of Households by Income |
| BNM | Bank Negara Malaysia |
| COICOP | Classification of Individual Consumption According to Purpose |
| CPI | Consumer Price Index |
| DOSM | Department of Statistics Malaysia |
| FG | Federal Government |
| GDP | Gross Domestic Product |
| GFC | Global Financial Crisis |
| GST | Goods and Services Tax |
| M40 | Middle 40% of Households by Income |
| MOF | Ministry of Finance |
| MSMEs | Micro, Small and Medium-sized Enterprises |
| MTFF | Medium-Term Fiscal Framework |
| PETRONAS | Petroliam Nasional Berhad |
| SST | Sales Tax and Service Tax |
| SToDS | Service Tax on Digital Services |
| T20 | Top 20% of Households by Income |
| VAT | Value-Added Tax |

## Chapter 1: Reintroduction of the Goods and Services Tax (GST)

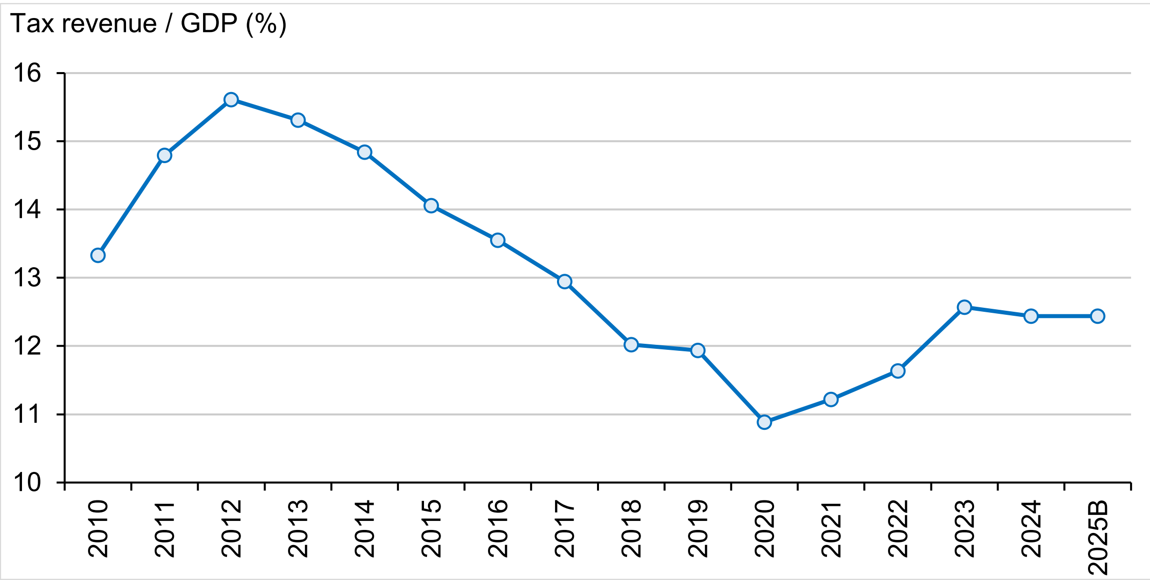
### 1.1 Malaysia's Narrow Revenue Base

A sustainable and equitable taxation system is crucial to fund budgetary fiscal operations comprising the provision of public goods and services as well as investment in public housing, transportation, utilities, education and healthcare.

Malaysia's tax-to-GDP ratio is low to barely cover government's high committed operating expenditure and insufficient to fund reasonable development without resorting to increased borrowing. At only 11.6% of GDP in 2022, it was below the world's average of 14.3% and the Organisation for Economic Co-operation and Development (OECD) members' average of 16.7%.

According to the World Bank, ideally, a country should collect tax revenue that is at least 15% of its GDP.[2] This level of taxation is an important tipping point to make a state viable and put the tax revenue on a sustainable growth path.

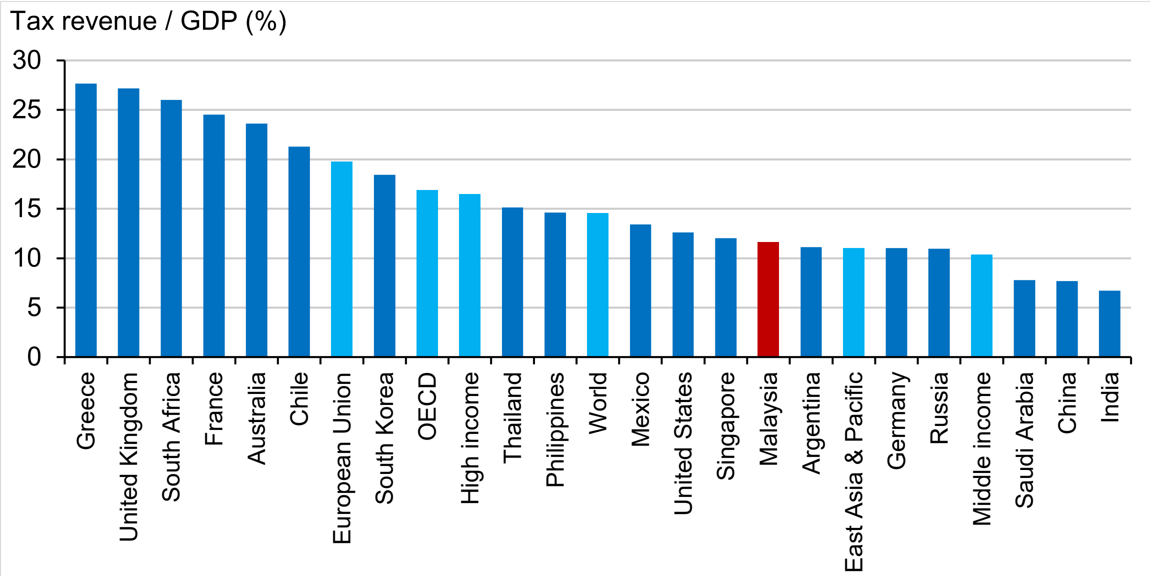
**Figure 1: Malaysia's tax revenue to GDP ratio in 2010-2025B**




Source: Ministry of Finance (MOF)

[2] Notwithstanding, this threshold typically includes social contributions, which are not part of Malaysia's tax structure, making direct comparison less straightforward.

**Figure 2: Comparison of tax revenue to GDP ratio in selected economies in 2022**




Source: World Bank

The Government has explicitly stated that there is no plan to bring back the GST. Instead, the Government will prioritise on new sources of revenue, reviewing the existing SST framework and targeted subsidies as a means to manage revenue and rationalise operating expenditure to keep the fiscal deficit at bay.

In the 2024-2025 Budget, the Government has announced some revenue enhancement measures to broaden the tax base, which their potential to generate tax revenue is assessed to be very limited.

a) Increasing the excise duties on sugary drinks from RM0.40/litre to RM0.50/litre.

b) Raising the Service Tax rate by an additional 2 points, now standing at 8%, with the exception of some services, e.g. food and beverages services, and telecommunication services, at 6%, which were expected to generate an additional RM3.45 billion in revenue.[3]

c) Introducing a 5% excise duty on chewing tobacco, alongside an additional RM27/kg.

d) Implementing a 10% capital gains tax on the disposal of unlisted shares of local companies, with RM800 million additional revenue.[4]

e) Expanded scope of SST, which was originally scheduled to be effective on 1 May 2025[5], were expected to generate an additional revenue of RM5 billion, of which RM2.2 billion from sales tax and RM2.8 billion from service tax.[6]

f) A 2% dividend tax applicable to individuals receiving dividend income in excess of RM100,000.

[3] Malay Mail (Source), dated 6 March 2024
[4] The Edge (Source), dated 7 November 2023
[5] The Sales Tax expansion was implemented on 1 July 2025, and the Service Tax expansion was implemented on 1 September 2025.
[6] Malay Mail (Source), dated 11 December 2024

## 1.2 Time to Reinstate GST

There is growing chorus that it is time to bring back the GST to enhance the revenue buoyancy. After all, GST is widely acknowledged around the world as an effective and efficient as well as transparent tax system to collect indirect taxes.

Globally, at least 170 territories have implemented the Value-Added Tax (VAT), GST, or similar multi-stage systems as their primary form of consumption tax. In contrast, a very small number of territories rely on other forms of consumption tax, including single-stage sales taxes; while some operate without any consumption tax.[7] The current worldwide trend is shifting from direct taxes to indirect taxes, by decreasing direct tax rates and increasing indirect tax rates.

The GST was introduced in Malaysia on 1 April 2015 and replaced the SST. GST, a broad-based tax, was levied at 6% on most supplies of goods and services consumed within Malaysia. During the years of its implementation, GST raised approximately RM42.7 billion per year (2016-2017), contributing 19.8% of Malaysia's total Federal government revenue during the period.

The GST was repealed in 2018, and replaced by the reintroduction of the SST on 1 September 2018. The scope and rate of SST have undergone significant expansions covering digital services, logistics services, and low-value goods, along with an increase in the service tax rate from 6% to 8% as of March 2024, with the exception of some services. In the 2025 Budget, the scope of SST was expanded further.[8] Following these expansions and rate adjustments, SST revenue is expected to reach RM46.7 billion in 2025, much higher than RM27.7 billion in 2019. While actual SST revenue collection has always been higher than estimated Budget, SST's revenue yield is lower compared to GST and there are limitations in its taxation scope.

## 1.3 GST – What to Consider?

The Government has indicated that it will prioritise improving the current tax system before assessing the need to reintroduce GST. Businesses and manufacturers have called for a reintroduction of GST as it is a more transparent and efficient tax system compared to SST. SST has some inherent structural limitations given its narrow base to enhance revenue growth sustainability and also its compounding effect on businesses and consumers. Businesses do not get to claim a credit for incurring it, it creates a tax-on-tax effect along the supply chains.

The primary concern about the GST is increasing prices of goods and services (inflation) and its regressive impact on lower-income households. Broadly, the issues related to the reintroduction of GST can be categorised into four key areas.

[7] Refer to Appendix 1 for the detailed tax type and rate.

[8] The SST expansion includes new items at 5% and 10% sales tax, respectively and between 6% and 8% service tax on leasing and rental of goods and premises, construction services, financial services, private healthcare services, and education services.

### A) Business Sector's Concerns and Stakeholders' Preferences

Generally, businesses are more favourable for GST. Its input tax credit mechanism allows them to recover the tax paid on inputs, minimising tax layering, especially for manufacturers and exporters, GST enhances cost competitiveness.

The Associated Chinese Chambers of Commerce and Industry of Malaysia (ACCCIM)'s survey conducted in June 2022 revealed that over three-quarters (75.4%) of total 398 respondents supported the reintroduction of GST, especially among manufacturers (87.6%) see advantages in tax reclaim ability. In fact, countries like Honduras and Jordan implementing sales tax featured with an input tax claim.

Some microenterprises (35.6%) have indicated their preference for SST, citing concerns and challenges in implementing GST, which included cumbersome procedures and documentation as well as compliance costs.

The survey found that 64.1% of total respondents who agreed with the reintroduction of GST, prefer the GST regime to kick start at a rate of 4%. This was echoed by the consumer groups, namely the Federation of Malaysian Consumers Associations (FOMCA) and Muslim Consumers Association of Malaysia (PPIM), whose indicated conditional support for GST if the rate is adjusted to minimise impact on lower-income households.[9]

### B) Revenue Constraints and Implications on Fiscal Policy

The primary consideration is ensuring sustainable revenue growth to support fiscal policy. It is acknowledged that GST yields higher revenue than SST. SST's narrower base has led to reduced revenue compared to GST, with SST yielding an average of RM31.9 billion annually from 2019 to 2024, which accounted for 11.6% of total Federal Government (FG)'s revenue. This was markedly lower than 19.8% share of total revenue during the GST period (2016-2017). Reduced tax collection under SST has contributed to Malaysia's fiscal deficit pressures. For example, the Medium-Term Fiscal Framework (MTFF) targets a sustainable deficit level of 3.5% for 2025–2027, aiming to reach a deficit of 3.0% by 2033 under the MADANI Economic Framework. Under the Thirteenth Malaysia Plan (2026-2030), the fiscal deficit to GDP ratio is projected to be less than 3% by end-2030. In this regard, reintroducing GST not only helps to strengthen the country's fiscal position but also restructure the direct taxes on capital and income to enhance Malaysia's tax competitiveness in attracting investment.

Tax reform has suggested fundamentally altering the tax base, shifting towards taxing consumption instead of income. The current worldwide trend is shifting from direct taxes to indirect taxes, by decreasing direct tax rates and increasing indirect tax rates.

When the GST was implemented in Malaysia, the share of direct taxes to total tax revenue had decreased to an average of 65.0% per annum during the period 2016-2017 from an average of 75.9% in 2010-2014. When the SST was reinstated to replace GST in 2018, the share of direct taxes to total tax revenue was higher at an average of 73.7% per annum in 2019-2024.

[9] Bernama (Source), dated 4 October 2019

### C) Political and Social Challenges

Reintroducing GST poses political challenges, particularly for Pakatan Harapan-led government, which had abolished GST to fulfil its election promises. The GST became unpopular and was blamed for rising prices following its introduction in 2015. Additionally, there were fears about political backlash stemming from the pain endured by the people and businesses due to poor execution. In October 2024, Prime Minister stated that the reintroduction of GST will be reconsidered only when income levels reach a more comfortable threshold of RM3,000-RM4,000 per month.[10]

### D) Alternative Proposals and Enhancements of SST

Since the abolishment of GST, tax experts have proposed various alternatives to its reintroduction, focusing on enhancing the existing SST to address its limitations. One key proposal is to transform the SST into a harmonised, multi-stage tax system, which would enable input tax claims and reduce the cascading tax effects. This transformation also includes standardising rates across the system to promote fairness and efficiency. Additionally, there is a suggestion to broaden the tax scope to include a wider range of goods and services. These changes aim to create a more transparent and equitable tax structure, allowing businesses to offset taxes paid on inputs. Furthermore, the ongoing implementation of e-invoicing could improve transparency, tackle under-reporting in the economy, and potentially boost SST revenue, reducing the need for a GST reintroduction.

[10] New Straits Times (Source), dated 13 October 2024

## Chapter 2: Weighing the Pros and Cons Between GST and SST

Consumption taxes are a fundamental component of modern taxation systems, serving as a critical source of revenue for governments worldwide while influencing economic behaviour and resources allocation.

In Malaysia, the debate between the SST and GST has been surrounding their fairness, efficiency, and economic competitiveness. While both taxes are designed to generate revenue by taxing consumption, their structures, mechanisms, and impacts differ significantly, leading to contrasting views among policymakers, businesses, and consumers.

Understanding the advantages and drawbacks of each system is essential to evaluating their suitability in achieving Malaysia's fiscal and socio-economic objectives. This section delves into a detailed comparison of SST and GST, exploring their operational framework, revenue generation capabilities, compliance mechanisms, and broader implications for the government, businesses and consumers.

### 2.1 Comparing the Characteristics and Features

In its Fiscal Outlook and Federal Government Revenue Estimate 2024, Ministry of Finance (MOF) has outlined a comparison between SST and GST in terms of theoretical base, transparency, cascading effect, and other features. An updated version is shown in Table 1.

Comparing the features of two taxes, it is clear that GST mechanism outperforms SST regime in most aspects, particularly in terms of its broader tax base, enhanced transparency, and ability to eliminate cascading tax effects through input tax credits. These features make GST a more robust and efficient consumption tax system, contributing significantly to Federal Government (FG)'s revenue while promoting fairness in taxation by taxing based on consumption levels.

Notwithstanding these advantages, GST also poses implementation challenges for businesses. Compliance costs under GST are considerably higher compared to SST, especially for micro, small and medium-sized enterprises (MSMEs). Additionally, a much higher number of businesses have to be involved in the tax compliance process due to a multi-stage tax structure amid cash flow problems caused by slow input tax refunds. The requirements for detailed record-keeping, periodic tax filings, and adherence to complex rules can impose significant administrative and financial burdens on these businesses. For micro and small enterprises with limited resources, these compliance demands often outweigh the benefits of GST, making it a contentious issue in any discussion on its reintroduction.

**Table 1: Comparison between SST and GST in Malaysia**

| Features | SST | GST |
|---|---|---|
| **Theoretical base** | • Single-stage sales tax levied at the manufacturing level and on imports. Service tax is imposed when any taxable service is provided by a taxable person.<br>• Applies to specific goods and services, often with varying tax rates for different categories.<br>• Narrower tax base. | • Multi-stage tax levied on goods and services at each stage of the supply chain.<br>• Broad-based consumption tax imposed on the value added of goods or services at each stage of the production and distribution chain.<br>• The tax does not constitute a cost (other than compliance costs) to business, as the tax on inputs is claimable. |
| **Tax rate** | • Sales Tax: 10%, with a reduced rate of 5% for selected goods and 0% for exempt goods.<br>• Service Tax: 6%-8%. | • Standard rate: 6%, with selected zero-rated goods and some exempt supplies. |
| **Cascading effect** | • Cascading effect occurs when the tax element is embedded into the cost at each successive stage in the supply chain. Additionally, the overlapping of two separate tax systems, can cause a cascading effect, where an item may be taxed twice. | • No cascading effect as tax on inputs is recoverable and not embedded in the cost. |
| **Relief for exports** | • Exports are not taxed, yet a cascading effect may increase the cost of exports. | • All exports are zero-rated, allowing for the identification of hidden consumption taxes that are eligible for rebates. |
| **Transparency** | • Less transparent to consumers, as the tax may be embedded in the price of goods and services. | • More transparent to consumers, as the tax is explicitly shown in the final price of goods and services. |
| **Impact on Consumers** | • Sales tax is only charged at the manufacturer's level, which is indirectly compounded along the distribution chain, adding to the tax element and the cost of product sold. However, tax scope is narrower and less consumers are affected. | • Costs to business owners can be reduced, as businesses can claim input tax credits from the Government, no tax cascading effect to consumers. Final price is not conclusive, as it depends on margin level along the supply chain. However, tax scope is broader and will affect more consumers. |

| Features | SST | GST |
|---|---|---|
| **Revenue Generation** | • SST will generate less revenue due to its narrower tax base. | • GST has the potential to generate more revenue with a broader tax base. |
| **Tax Evasion and Compliance** | • SST is only imposed on certain goods and services; therefore, the classification of the taxable status of an item or service may contribute to compliance issues, leading to tax evasion. | • The self-policing mechanism in GST can encourage better compliance and reduce tax evasion. |
| **Economic Impact** | • As the scope of tax is limited, SST may not pose a significant impact on consumers. | • As the scope of tax is broader, the GST impact on consumers may be significant. However, mitigating measures such as cash handouts and zero-rated on essential goods to shield its impact on lower income households. Nevertheless, additional revenue collection can support economic activities and enhance socio-economic welfare.<br>• GST has the capacity to reduce the size of shadow economy, hence benefitting the economy. |
| **Red Tape for Tax Free Materials** | • Registered manufacturers are required to apply for an exemption certificate to purchase tax free materials. | • GST is self-policing, and taxable persons may offset any input tax credit incurred against their output tax liability. |

### 2.2 Number of Registrations and Tax Scope

The GST's multi-stage tax mechanism encompasses all businesses along the supply chain, including intermediaries such as wholesalers and retailers in the sale of goods while the sales tax under SST has a narrower scope, which applies primarily to the manufacturers and importers.

As illustrated in Table 2, GST's broader tax net resulted in more than 460,000 business registrations during its implementation in 2017 (431,753 in 2016).[11] This figure was significantly higher than the approximately 78,000 registrations under the SST regime in 2023, which comprised around 21,000 registrations for Sales Tax and about 57,000 for Services Tax. This implies that about 85% of businesses in 2017 were no longer required to comply with the administration of this consumption tax, primarily the distributive traders (wholesalers and retailers). Moreover, micro or small traders who are not GST registrants will also benefit, as

[11] Refer to Appendix 2 for number of registrations by industry.

they were unable to claim back the GST input tax and had to absorb the tax amount as costs during the GST implementation.

In 2023, the number of registrations for Sales Tax increased by 7.7% to 21,094, following three consecutive years of decline from 2020 to 2022, which primarily attributed to the COVID-19 pandemic crisis. Meanwhile, the number of registrations for Service Tax grew by 11.9% from 50,569 in 2022, driven largely by the expansion of its taxable scope. Subject to the available of data, we expect the number of registrations to increase in 2024 due to the expanded coverage of taxable services category. These include services provided by karaoke centres, brokerage and underwriting services unrelated to financial services, maintenance or repair services, and logistics services. A comprehensive overview of taxable persons and services, as detailed in the First Schedule to the Service Tax Regulations 2018, is outlined in Table 4, providing further insights into the evolving landscape of Service Tax.

**Table 2: Number of registrations under GST (year 2017) and SST (year 2023)**

| | GST (2017) | Sales Tax (2023) | Service Tax (2023) |
|---|---|---|---|
| **Kuala Lumpur** | 95,486 | 1,571 | 16,246 |
| **Selangor** | 87,711 | 7,107 | 17,993 |
| **Johor** | 59,885 | 4,357 | 4,918 |
| **Pulau Pinang** | 32,913 | 2,329 | 3,383 |
| **Perak** | 30,982 | 1,075 | 1,402 |
| **Sarawak** | 30,547 | 523 | 2,680 |
| **Sabah** | 24,552 | 428 | 2,417 |
| **KLIA** | 24,126 | 1,694 | 2,384 |
| **Pahang** | 16,033 | 170 | 947 |
| **Kedah** | 15,411 | 589 | 873 |
| **Negeri Sembilan** | 14,113 | 463 | 849 |
| **Melaka** | 12,325 | 600 | 948 |
| **Kelantan** | 8,395 | 93 | 493 |
| **Terengganu** | 7,591 | 70 | 816 |
| **Perlis** | 1,801 | 22 | 118 |
| **Labuan** | 913 | 3 | 96 |
| **Total** | **462,784** | **21,094** | **56,563** |

Source: Laporan Tahunan JKDM (2017, 2023)

**Table 3: Number of SST registrations in 2019-2023**

| | Sales Tax | Service Tax | Service Tax on Digital Services (SToDS) |
|---|---|---|---|
| **2019** | 20,509 | 46,236 | Not applicable |
| **2020** | 20,110 | 46,221 | 295 (14 Jan 2021) |
| **2021** | 19,634 | 47,936 | 346 |
| **2022** | 19,585 | 50,569 | 403 |
| **2023** | 21,094 | 56,563 | 436 |

Note: Service Tax on Digital Services (SToDS) effective on 1 Jan 2020.
Source: Laporan Tahunan JKDM (2019, 2020, 2021, 2022, 2023)

When the SST was reintroduced in 2018, the range of taxable goods and services was estimated at approximately 6,400 items and 43.5% of services, compared to about 11,000 items and 64.8% of services under GST. Over the years, the scope of SST has been progressively expanded to include additional categories, such as imports of low-value goods (effective 2024), digital services (effective 2020), and logistics services (effective 2024). Nevertheless, service tax exemptions are granted for intra-group services (group relief) and specific business-to-business (B2B) services, i.e. selected professional services, advertising services, and logistic services. In terms of coverage of goods and services in the Consumer Price Index (CPI) basket, SST accounted for 46% of goods and services currently, whereas GST encompassed 60%.[12]

The taxable threshold for SST is generally set at an annual revenue of RM500,000, similar to the threshold under GST, with the exception of food and beverage services (Group B of taxable services), where the threshold is RM1.5 million.

In terms of the tax returns period, SST follows a bi-monthly schedule, whereas GST adopts a differentiated approach: a three-month return period for businesses with an annual taxable turnover not exceeding RM5 million, and a one-month return period for those exceeding RM5 million.

**Table 4: Taxable services under SST**

| Group | Provision of Services | Tax rate |
|---|---|---|
| A | Accommodation | 8% |
| B | Food and beverage | 6% |
| C | Night clubs, dance halls, cabarets, karaoke centre, health and wellness centres, massage parlours, public houses and beer houses | 8% |
| D | Private club | 8% |
| E | Golf club and golf driving range | 8% |
| F | Betting and gaming | 8% |

[12] Based on Parliament's written reply from Ministry of Finance dated 19 December 2024. (source)

| Group | Provision of Services | Tax rate |
|---|---|---|
| G | Professionals or skills, including legal services; accounting and auditing services; surveying services; engineering consultancy services; architectural services; consultancy, training, and couching services; information technology services; management services; employment services; security services; operation of online platform or market place; and maintenance or repair services. | 8% |
| H | Credit card and charge card | RM25 per card |
| I | Other services, including insurance and takaful; telecommunication services; parking; services and repair of motor vehicles; hire and drive car services; advertising services; electricity provision (above 600 kWh per billing cycle); domestic air services; brokerage and underwriting; cleaning services; and digital services | 8%, except telecommunication services and parking services at 6% |
| J | Logistics services, including courier services; and customs agent | 6% |

Source: Service Tax Regulations 2018 and related amendments

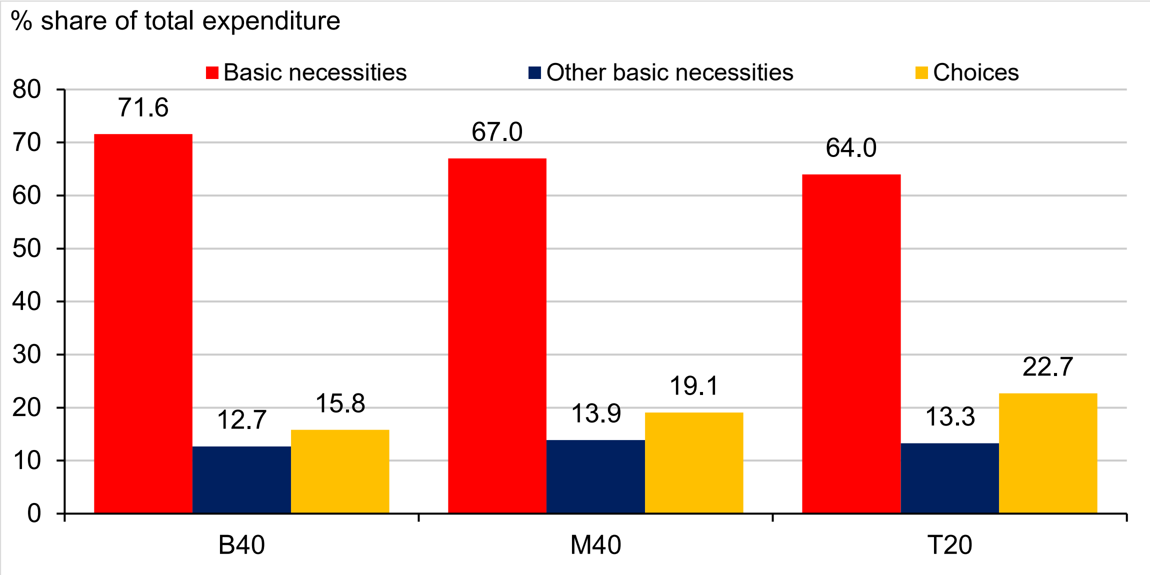
### 2.3 Impact on Consumers

Overall, both GST and SST, a form of indirect tax levied on consumers for consumption of goods or services. It is undeniable that GST covers a broader base compared to SST, as evidenced by significantly higher tax collection under GST (an average of RM42.7 billion in 2016-2017) compared to SST (an average of RM31.9 billion in 2019-2024). While the general tax burden on consumers is smaller under SST, the specific impact on the different groups of consumers, such as lower-income households varies and remains a topic of debate.

In general, single-stage sales tax is perceived as more regressive for lower-income households and is prone to cascading tax, which amplifies the final cost of goods and services by imposing tax on tax through the production and distribution channels. In the Malaysian context, however, the regressive impact on lower-income households is mitigated by granting zero-rated on most necessities, particularly daily food items. This zero-rated approach eliminates tax cascading effects on these zero-rated goods.

Nevertheless, the regressivity and cascading effects persisted for some non-zero-rated items essential to lower-income households. For example, lower-priced passenger cars and certain household goods may still contribute to higher cost burden, disproportionately affecting those with limited financial resources.

**Figure 3: Percentage of monthly household consumption expenditure by household group in 2022**




Note: For CPI grouping, please refer to below:
Basic necessities cover "01 Food & Beverages"; "04 Housing, Water, Electricity, Gas & Other Fuels"; "07 Transport"; and "11 Restaurant & Accommodation Services";
Other basic necessities cover "03 Clothing & Footwear"; "06 Health"; "08 Information & Communication"; and "10 Education"; and
Choices cover "02 Alcoholic Beverages & Tobacco"; "05 Furnishings, Household Equipment & Routine Household Maintenance"; "09 Recreation, Sport & Culture"; "12 Insurance & Financial Services"; and "13 Personal Care, Social Protection & Miscellaneous Goods & Services"
Source: Department of Statistics Malaysia (DOSM)

The extent of sales tax impact depends on the cost and margin (markup) of businesses along the supply chains before reaching end-consumers. Additionally, since the sales tax is embedded in the selling price, it creates a psychological perception that sales tax is less burdensome than GST.

As illustrated in Figure 4 and Figure 5, **the final price paid by consumers depends on a company's cost structure and profit margin setting approach**. Retail prices tend to be cheaper under GST (with a sales tax rate of 10% and a GST rate of 6%) when intermediaries' fixed profits are 66.67%, or two-thirds lower, than a factory's gross selling price (Scenario A in Figure 4). Conversely, higher intermediaries' costs or profits alter this comparison (Scenario B in Figure 4). For instance, assuming a factory's gross selling price (before sales tax or GST) of RM10 and a combined gross profit of RM6.66 (66.67% or two-thirds of the factory price) for the wholesaler and retailer, the final retail price under both sales tax and GST would be identical at RM17.66 (Scenario C in Figure 4).

**Figure 4: Illustrations of final price and tax effect with profit margin at fixed amount under sales tax and GST regimes**

| **Scenario** (<u>Profit margin at fixed amount</u> by wholesaler and retailer) | **A** Profit margin: RM2.00 each (totalled RM4.00) | | **B** Profit margin: RM5.00 each (totalled RM10.00) | | **C** Profit margin: RM3.33 each (totalled RM6.66) | |
|---|---|---|---|---|---|---|
| *Sales Tax at 10%*<br>*GST at 6%* | **Sales Tax** (RM) | **GST** (RM) | **Sales Tax** (RM) | **GST** (RM) | **Sales Tax** (RM) | **GST** (RM) |
| **Manufacturer** | | | | | | |
| Gross Sale Price | 10.00 | 10.00 | 10.00 | 10.00 | 10.00 | 10.00 |
| **Sales Tax / GST** | 1.00 | 0.60 | 1.00 | 0.60 | 1.00 | 0.60 |
| Total Sale Price | 11.00 | 10.60 | 11.00 | 10.60 | 11.00 | 10.60 |
| **Wholesaler** | | | | | | |
| Purchasing Price | 11.00 | 10.60 | 11.00 | 10.60 | 11.00 | 10.60 |
| Claim Back GST Input Tax | - | -0.60 | - | -0.60 | - | -0.60 |
| Gross Profit | 2.00 | 2.00 | 5.00 | 5.00 | 3.33 | 3.33 |
| Gross Sale Price | 13.00 | 12.00 | 16.00 | 15.00 | 14.33 | 13.33 |
| **GST** (Output Tax) | - | 0.72 | - | 0.90 | - | 0.80 |
| Total Sale Price | 13.00 | 12.72 | 16.00 | 15.90 | 14.33 | 14.13 |
| **Retailer** | | | | | | |
| Purchasing Price | 13.00 | 12.72 | 16.00 | 15.90 | 14.33 | 14.13 |
| Claim Back GST Input Tax | - | -0.72 | - | -0.90 | - | -0.80 |
| Gross Profit | 2.00 | 2.00 | 5.00 | 5.00 | 3.33 | 3.33 |
| Gross Sale Price | 15.00 | 14.00 | 21.00 | 20.00 | 17.66 | 16.66 |
| **GST** (Output Tax) | - | 0.84 | - | 1.20 | - | 1.00 |
| **Final Sale Price** | **15.00 (Higher)** | **14.84** | **21.00** | **21.20 (Higher)** | **17.66 (Same)** | **17.66 (Same)** |
| **Tax Collection** | **1.00 (Higher)** | **0.84** | **1.00** | **1.20 (Higher)** | **1.00 (Same)** | **1.00 (Same)** |

However, when **the intermediaries calculate their margins as a percentage**, the final retail price under GST is consistently lower than that under sales tax due to tax cascading effects embedded in sales tax, as illustrated in Figure 5. For total tax collection, GST yields a lower total tax amount when the overall profit margin percentage falls below 29.1% each (Scenario A in Figure 5). Conversely, when the margin level exceeds this threshold, sales tax generates a lower total tax collection (Scenario B in Figure 5). A company’s pricing strategy and profit margin ultimately depends on the nature of its business.

**Figure 5: Illustrations of final price and tax effect with profit margin at percentage term under sales tax and GST regimes**

| **Scenario** (Profit margin at percentage term by wholesaler and retailer) | **A** Profit margin: 20% each | | **B** Profit margin: 50% each | | **C** Profit margin: 29.1% each | |
|---|---|---|---|---|---|---|
| *Sales Tax at 10% GST at 6%* | **Sales Tax** (RM) | **GST** (RM) | **Sales Tax** (RM) | **GST** (RM) | **Sales Tax** (RM) | **GST** (RM) |
| **Manufacturer** | | | | | | |
| Gross Sale Price | 10.00 | 10.00 | 10.00 | 10.00 | 10.00 | 10.00 |
| **Sales Tax / GST** | 1.00 | 0.60 | 1.00 | 0.60 | 1.00 | 0.60 |
| Total Sale Price | 11.00 | 10.60 | 11.00 | 10.60 | 11.00 | 10.60 |
| **Wholesaler** | | | | | | |
| Purchasing Price | 11.00 | 10.60 | 11.00 | 10.60 | 11.00 | 10.60 |
| Claim Back GST Input Tax | - | -0.60 | - | -0.60 | - | -0.60 |
| Gross Profit | 2.20 | 2.00 | 5.50 | 5.00 | 3.20 | 2.91 |
| Gross Sale Price | 13.20 | 12.00 | 16.50 | 15.00 | 14.20 | 12.91 |
| **GST** (Output Tax) | - | 0.72 | - | 0.90 | - | 0.77 |
| Total Sale Price | 13.20 | 12.72 | 16.50 | 15.90 | 14.20 | 13.68 |
| **Retailer** | | | | | | |
| Purchasing Price | 13.20 | 12.72 | 16.50 | 15.90 | 14.20 | 13.68 |
| Claim Back GST Input Tax | - | -0.72 | - | -0.90 | - | -0.77 |
| Gross Profit | 2.64 | 2.40 | 8.25 | 7.50 | 4.13 | 3.76 |
| Gross Sale Price | 15.84 | 14.40 | 24.75 | 22.50 | 18.33 | 16.67 |
| **GST** (Output Tax) | - | 0.86 | - | 1.35 | - | 1.00 |
| **Final Sale Price** | **15.84 (Higher)** | **15.26** | **24.75 (Higher)** | **23.85** | **18.33 (Higher)** | **17.67** |
| **Tax Collection** | **1.00 (Higher)** | **0.86** | **1.00** | **1.35 (Higher)** | **1.00 (Same)** | **1.00 (Same)** |

In terms of service tax, the rate for both service tax and GST were initially set at 6%, charged directly to consumers utilising taxable services. However, during its initial implementation, the coverage of service tax was significantly narrower, taxing only 43.5% of services compared to 64.8% under GST. Despite subsequent expansions in the scope of taxable services under the service tax regime, its coverage remains well below that of GST, resulting in a lighter burden on consumers.

Starting 1 March 2024, the service tax rate increased to 8% for most taxable services, except for key consumer items, particularly food and beverage services, which accounted for 13.4% of the CPI weight for food away from home and 2.7% for restaurants. Other exemptions include telecommunication services (5.4% of CPI weight for information and telecommunication services), logistics services (0.1% of CPI weight for delivery of goods), and parking services (0.1% of CPI weight). These exemptions collectively accounted for 21.7% of the CPI weight, covering nearly half of the taxable services under the CPI basket.

Similar to GST, the taxable income threshold for service tax is set at RM500,000 annually. Restaurants and eateries, however, have a higher threshold of RM1.5 million.

Figure 6 illustrates inflation rate by main group for both overall population and lower-income group, covering the year 2014 (before the implementation of GST) and the implementation years of GST (2015 to 2017). The data indicated that most of the main groups under basic necessities category recorded a lower inflation rate for the lower-income group, largely due to the application of the zero-rated GST. "Other basic necessities" category showed mixed results, while lower-income group experienced a relatively higher inflation rate for non-essential consumption under the "Choice" category.

This showed that the structure of GST, with exemptions and zero-rated items, had partially helped in shielding the lower-income group from general price increases, particularly for basic necessities. However, the inflation rate for lower-income group remained slightly higher at 2.3% compared to 2.1% for overall population in both 2015 and 2016, suggesting some trade-offs in other areas of consumption.

**Figure 6: Illustration of final price and tax effect with profit margin at percentage terms under the sales tax and GST regimes**

| | | **2014** | | **2015** | | **2016** | | **2017** | |
|---|---|---|---|---|---|---|---|---|---|
| **Weight** | **Main Group** | Overall | Low-income | Overall | Low-income | Overall | Low-income | Overall | Low-income |
| | **Basic necessities** | | | | | | | | |
| 29.8 | Food & Beverages | 3.3 | 3.1 | 3.6 | 3.5 | 3.8 | 3.7 | 4.0 | 4.0 |
| 23.2 | Housing, Water, Electricity, Gas & Other Fuels | 3.4 | 3.1 | 2.5 | 2.2 | 2.4 | 2.3 | 2.2 | 1.8 |
| 11.3 | Transport | 4.9 | 5.2 | -4.5 | -4.6 | -4.6 | -5.0 | 13.2 | 13.6 |
| 3.4 | Restaurant & Accommodation Services | 4.7 | 4.7 | 4.1 | 4.3 | 2.8 | 2.9 | 2.5 | 2.5 |
| | **Other basic necessities** | | | | | | | | |
| 2.7 | Clothing & Footwear | -0.2 | -0.1 | 0.5 | 0.6 | -0.4 | -0.2 | -0.3 | -0.4 |
| 2.7 | Health | 2.9 | 3.1 | 4.5 | 4.1 | 2.7 | 2.6 | 2.5 | 2.3 |
| 6.6 | Information & Communication | -0.7 | -0.7 | 1.9 | 2.6 | -1.5 | -3.1 | -0.4 | -0.3 |
| 1.3 | Education | 2.4 | 2.0 | 2.4 | 2.1 | 2.1 | 1.7 | 1.7 | 1.4 |
| | **Choices** | | | | | | | | |
| 1.9 | Alcoholic Beverages & Tobacco | 11.6 | 12.7 | 13.5 | 14.3 | 17.2 | 18.3 | 0.2 | 0.1 |
| 4.3 | Furnishings, Household Equipment & Routine Household Maintenance | 1.0 | 0.9 | 2.7 | 2.4 | 2.4 | 1.9 | 2.1 | 1.8 |
| 3.0 | Recreation, Sport & Culture | 1.5 | 1.8 | 1.7 | 1.4 | 2.5 | 2.1 | 1.9 | 1.9 |
| 4.0 | Insurance & Financial Services | 1.5 | 1.8 | 4.1 | 4.9 | 2.3 | 3.2 | 0.3 | 0.5 |
| 5.8 | Personal Care, Social Protection & Miscellaneous Goods & Services | 0.7 | 0.8 | 4.1 | 4.3 | 2.9 | 3.0 | 1.2 | 1.3 |
| | **Total** | | | | | | | | |
| 100.0 | Total | 3.2 | 3.2 | 2.1 | 2.3 | 2.1 | 2.3 | 3.7 | 3.5 |

Note: Low-income refers to the income group earning below RM3,000. A cell highlighted in light blue indicates an inflation rate lower than the overall rate, while a cell in light red indicates a higher rate.

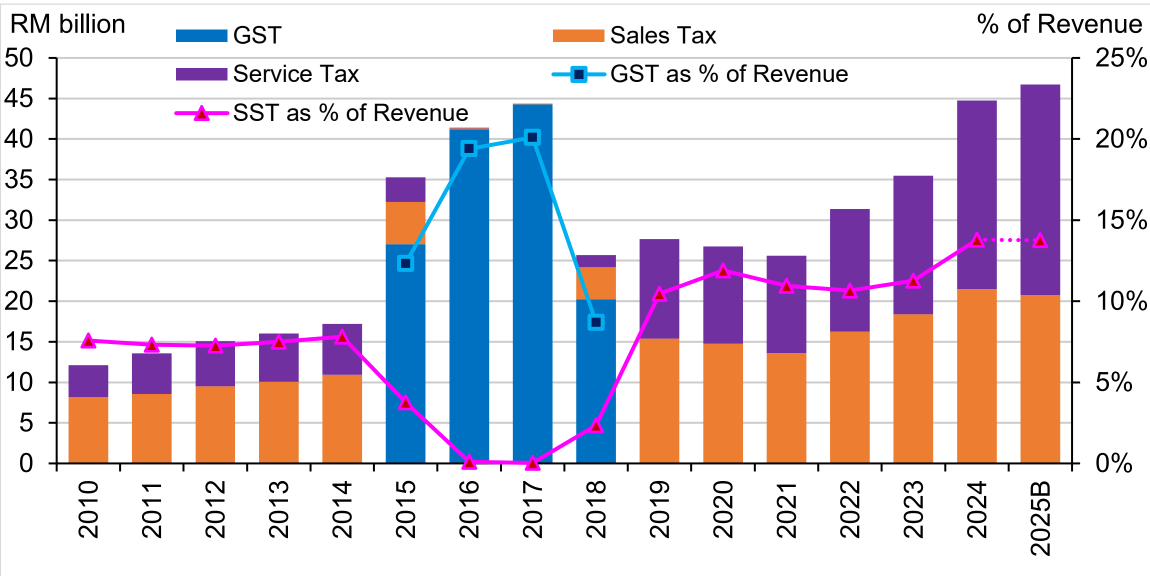
Source: Department of Statistics Malaysia (DOSM)

### 2.4 Fiscal Revenue Collection

In Budget 2025, SST collection is projected to increase by 14.2% from revised estimate of RM40.9 billion in 2024 (12.7% of total revenue) to RM46.7 billion in 2025 (13.8% of total revenue). Over the past few years, the scope of SST has been expanding, with the service tax rate increasing from 6% to 8% starting 1 March 2024. As a result, revenue collection from SST is projected to grow by an average rate of 16.2% annually, from RM25.6 billion in 2021 to RM46.7 billion in 2025. Of the total, service tax is expected to account for more than half of the total at 55.6% (44.4% in 2019 and 36.5% in 2014), while sales tax will contribute 44.4% (55.6% in 2019 and 63.5% in 2014).

Going by actual SST collection of RM44.8 billion (13.8% of total revenue) in 2024 was 9.4% higher than revised estimate in the Budget 2025, the projected figure for 2025 should be even higher. Nevertheless, revenue collections from SST are still incomparable to that of GST due to its narrower tax scope. Back in 2016-2017, GST revenue collections have averaged RM42.7 billion per annum (19.7% of total revenue). If the GST was still in force, revenue collections would likely be significantly higher today, contributing significantly to Malaysia's fiscal revenue enhancement to help narrow its budget deficit. Additional revenue can be channelled into increased social assistance programs to better support those vulnerable groups in need. Enhanced tax revenue from GST and better management of expenditure would help to achieve the government's fiscal deficit target of 3.5% under the Medium-Term Fiscal Framework (MTFF) for 2025–2027, and 3.0% by 2033 under the MADANI Economic Framework.

**Figure 7: FG Revenue from GST and SST in 2010-2025B**




Source: Bank Negara Malaysia (BNM)

A detailed breakdown of actual and estimated SST collection in 2013-2014 shown that uncategorised SST accounted for an average of 10.0% of total SST, whereas for 2023, 2024RE, and 2025B, this figure has risen significantly to an average of 55.9%, as shown in Table 5.[13]

**Table 5: Breakdown of actual and estimated revenue from SST in 2023, 2024RE, and 2025B**

| RM million | **YR2023 (Actual)** | % of SST | **YR2024 (Rev. est.)** | % of SST | **YR2025 (Budgeted)** | % of SST |
|---|---|---|---|---|---|---|
| **Sales Tax - Local** | **7,693** | **21.7** | **8,069** | **19.7** | **8,635** | **18.5** |
| Commercial Motor Vehicle | 538 | 1.5 | 538 | 1.3 | 576 | 1.2 |
| Machine and Spare Parts | 430 | 1.2 | 420 | 1.0 | 449 | 1.0 |
| Plastic Products | 637 | 1.8 | 644 | 1.6 | 690 | 1.5 |
| Electrical Goods | 705 | 2.0 | 736 | 1.8 | 787 | 1.7 |
| Papers | 324 | 0.9 | 328 | 0.8 | 351 | 0.8 |
| Others | 5,059 | 14.3 | 5,403 | 13.2 | 5,782 | 12.4 |
| **Sales Tax - Import** | **10,680** | **30.1** | **11,344** | **27.7** | **12,139** | **26.0** |
| CBU Motor Vehicles | 918 | 2.6 | 969 | 2.4 | 1,037 | 2.2 |
| Clothes | 513 | 1.4 | 516 | 1.3 | 552 | 1.2 |
| Canned Food and Others | 533 | 1.5 | 537 | 1.3 | 575 | 1.2 |
| Other Household Electrical Appliance | 354 | 1.0 | 413 | 1.0 | 442 | 0.9 |
| Machine and Spare Parts | 1,546 | 4.4 | 1,831 | 4.5 | 1,960 | 4.2 |
| Others | 6,817 | 19.2 | 7,078 | 17.3 | 7,574 | 16.2 |
| **Service Tax** | **17,090** | **48.2** | **21,501** | **52.6** | **25,970** | **55.6** |
| Accommodation | 809 | 2.3 | 1,069 | 2.6 | 1,291 | 2.8 |
| Insurance Policy | 1,778 | 5.0 | 2,214 | 5.4 | 2,674 | 5.7 |
| Telecommunication Service | 1,490 | 4.2 | 1,531 | 3.7 | 1,849 | 4.0 |
| Management Services | 1,491 | 4.2 | 1,699 | 4.2 | 2,052 | 4.4 |
| Food & Drink | 2,524 | 7.1 | 2,737 | 6.7 | 3,306 | 7.1 |
| Information Technology | 1,326 | 3.7 | 1,616 | 3.9 | 1,952 | 4.2 |
| Others | 7,672 | 21.6 | 10,634 | 26.0 | 12,844 | 27.5 |
| **Total SST** | **35,463** | | **40,913** | | **46,744** | |

Source: Ministry of Finance (MOF)

[13] Refer to Appendix 3 for the breakdown of SST in 2013-2014.

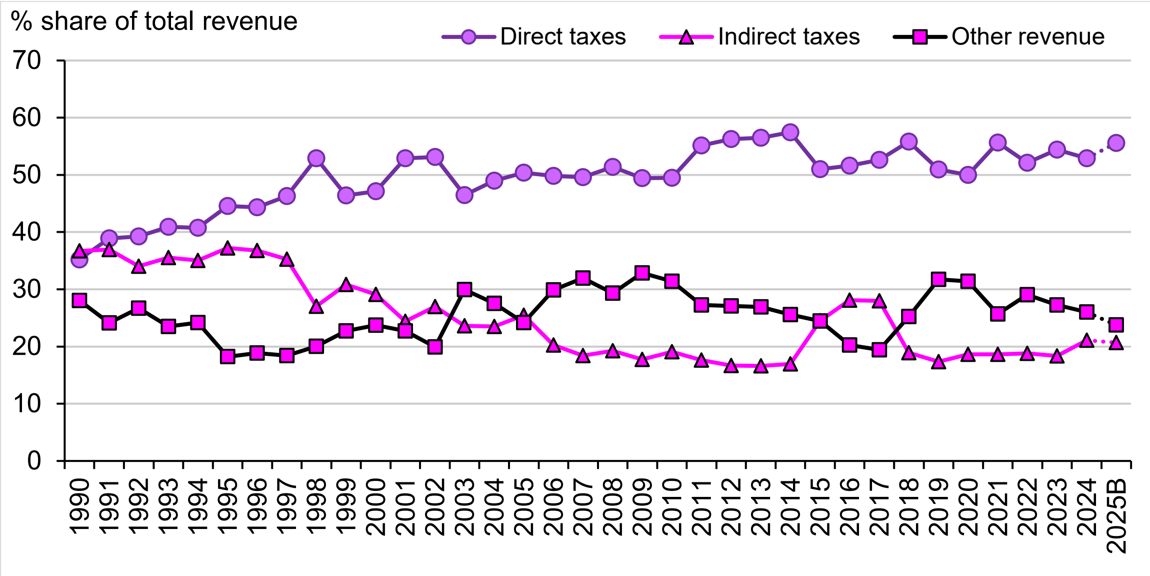
While GST has contributed as much as one-fifth share of total FG revenue (20.1% in 2017), the share of indirect taxes in total revenue was about 28.0%, significantly higher than an average share of 17.4% during 2010-2014. However, with the reinstatement of SST in 2018, the share of indirect taxes fell back to 17.3% before rebounded to 21.1% in 2024, supported by the expanding tax scope and higher service tax rate. This trend is further affected by a decline in excise duties and international trade duties (export and import duties), which are also main components of indirect taxes. This reduction aligns with global shifts towards trade liberalisation and evolving tax structures, underscoring the changing composition of indirect tax revenue over the years.

During the years of GST implementation, there was a notable reduction in Federal revenue's dependency on direct taxes and other revenue sources, particularly petroleum-related revenue such as PETRONAS dividends, petroleum income tax, and petroleum royalty. PETRONAS dividends averaged RM16.0 billion per annum in 2016-2017, compared to an average of RM28.0 billion per annum in 2010-2015, despite the oil price crashed. Additionally, the corporate income tax rate was lowered by one percentage point from 25% to 24% since 2015. This had resulted in lower companies' income tax collections averaging RM63.9 billion per annum during 2015-2017 (RM65.2 billion in 2014), partly attributable to slower economic growth.

As the SST revenue collection was significantly lower than GST, Federal revenue shortfall from indirect taxes following the reinstatement of SST was partially compensated by higher petroleum-related income, particularly PETRONAS dividends. During the period 2019- 2023, PETRONAS had distributed an average of RM42.6 billion annually, including a one-off dividend of RM30.0 billion (totalling RM54.0 billion) in 2019. Even excluding the one-off dividend of RM30.0 billion, PETRONAS's annual dividends averaged as high as RM36.6 billion per annum. This has, to some extent constrained PETRONAS's future reinvestment activities. The negotiation of gas resource rights between PETRONAS and Petroleum Sarawak Bhd (PETROS) will have implications on the Federal budget. If Sarawak's claims to gas resources are accepted without considering the existing overall financial structure, PETRONAS risks losing between RM15 billion and RM20 billion annually, and hence, would contribute less to Federal Government.

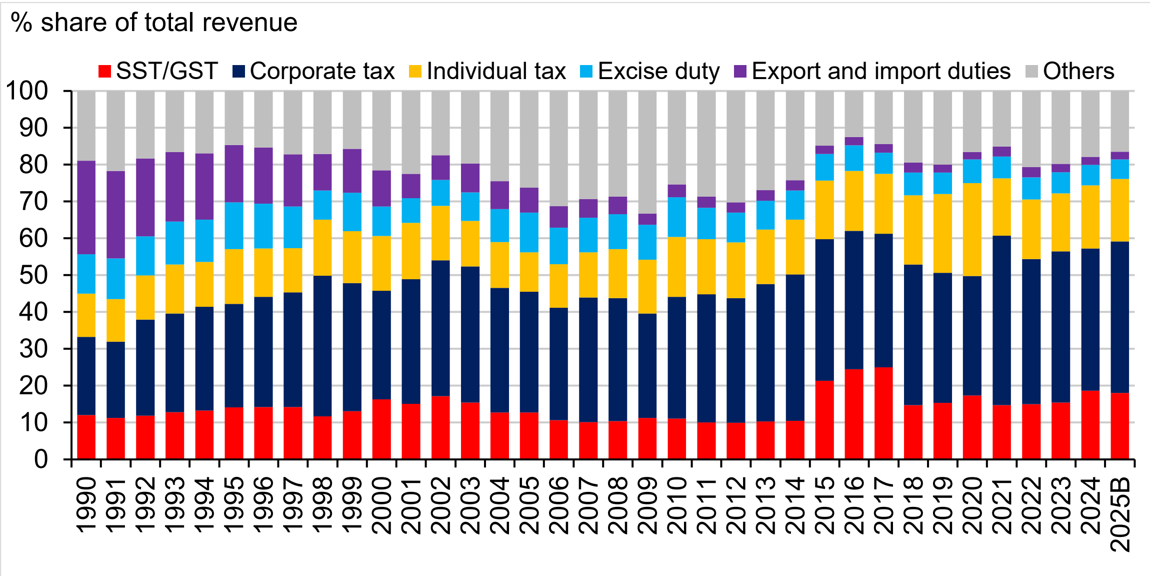
Summing up, there is compelling reason to reintroduce GST to boost revenue collection as it not only provides more fiscal space due to higher revenue collection but also reduces over-dependency on direct taxes, moving towards a worldwide's trend of relying on indirect taxes, in particular, a broad-based consumption tax. Furthermore, the Government can lower both personal and corporate tax rates accordingly when the GST was introduced and adjusted over time, and this tax reform would reward taxpayers' performance and productivity as well as enhances Malaysia's tax competitiveness in the region.

**Figure 8: Share of revenue streams in FG revenue (1990-2025B)**



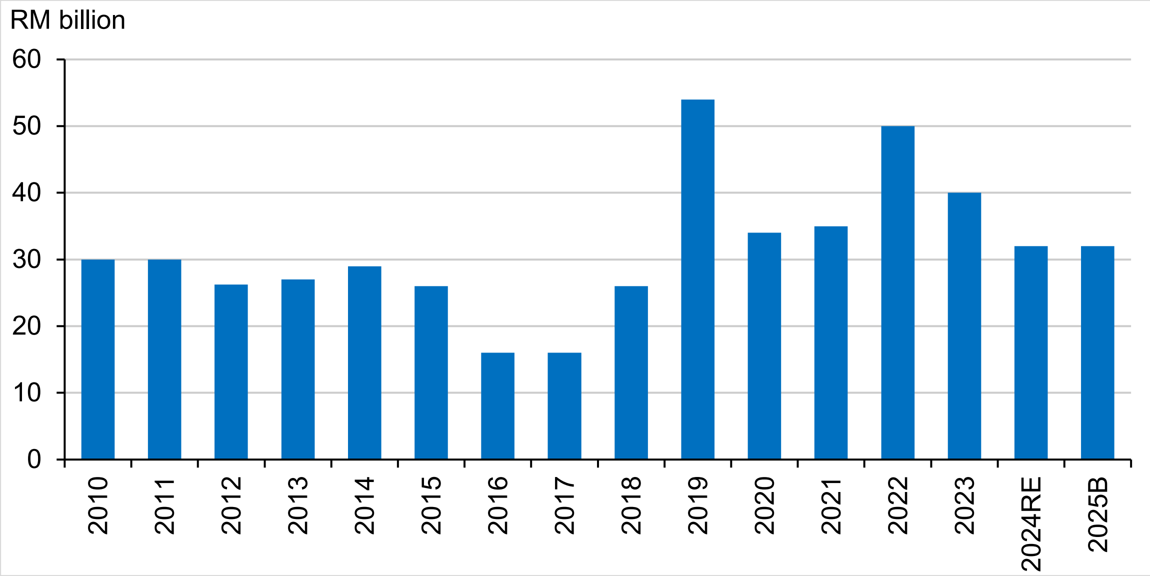

Source: Bank Negara Malaysia (BNM)

**Figure 9: Share of tax revenue by major components (1990-2025B)**




Source: Bank Negara Malaysia (BNM)

**Figure 10: Dividend from PETRONAS**




Source: Ministry of Finance (MOF)

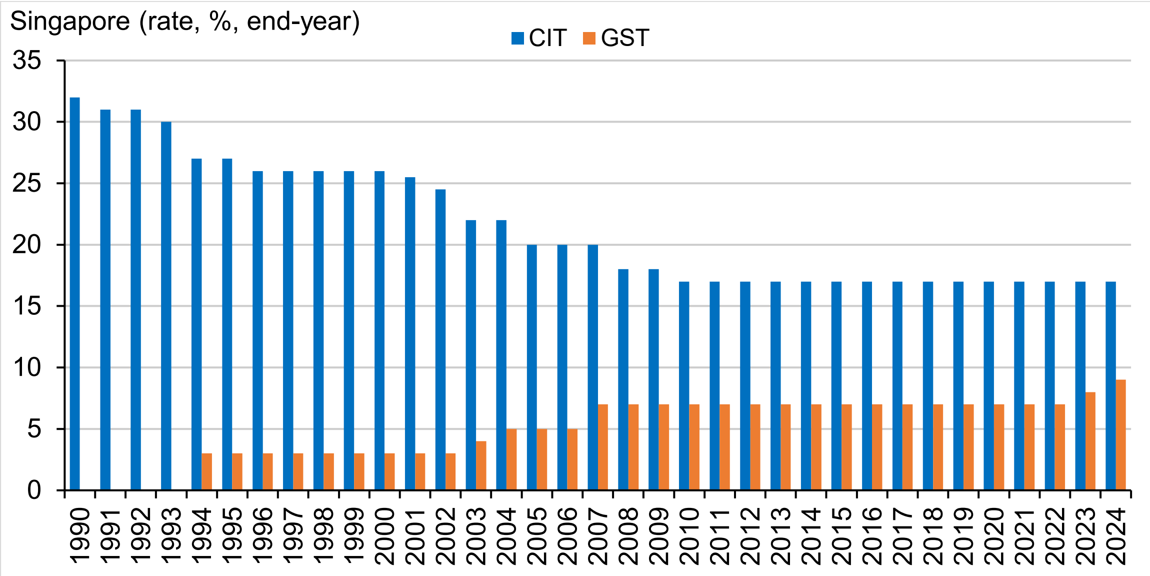
### Case Study on the Implementation of GST in Singapore

Singapore stands out as a noteworthy example of an effective implementation of GST model, showcasing the advantages of gradual implementation and strategic rate adjustments. The GST was introduced at a modest rate of 3% in 1994, allowing the economy and taxpayers to adapt before normalising the rate after nearly a decade. The GST rate was first increased to 4% in 2003 and then to 5% in 2004, before further adjusted to 7% in 2007.

A significant observation was that the introduction of GST in 1994 coincided with a significant reduction in corporate income tax rates, which had declined from an average of 31.0% in 1990-1993 to 27.0% in 1994. This downward trend continued, with the rate dropping to 24.5% in 2002, when GST was still at 3%, and eventually to 17.0% in 2010, following further adjustments of GST rate.

Similarly, GST reforms have reshaped the contribution of corporate income tax and GST to total government revenue. Before the GST rate normalised to 7%, corporate income tax contributed an average of 24.7% per annum of total revenue between 1997 and 2006. This share had declined to 22.6% on average per annum from 2007 to 2022 as GST's contribution grown steadily. During the GST rate adjustments, its contribution to total revenue had increased from an average share of 7.0% per annum in 1997-2002 to 12.6% in 2003-2006 and further to 16.0% in 2007-2022, indicating a shift in reliance towards indirect taxes for revenue generation. This strategic shift not only strengthened Singapore's fiscal position but also enabled the nation to gradually lower corporate tax rates, positioning itself as a globally competitive hub for business and investment by having one of the lowest corporate tax rates in the region. Additionally, Singapore has been providing GST rebates to eligible households as part of its efforts to support rising cost of living and promote equitable tax contributions.

**Figure 11: Singapore's corporate income tax rate and GST rate in 1990-2024**

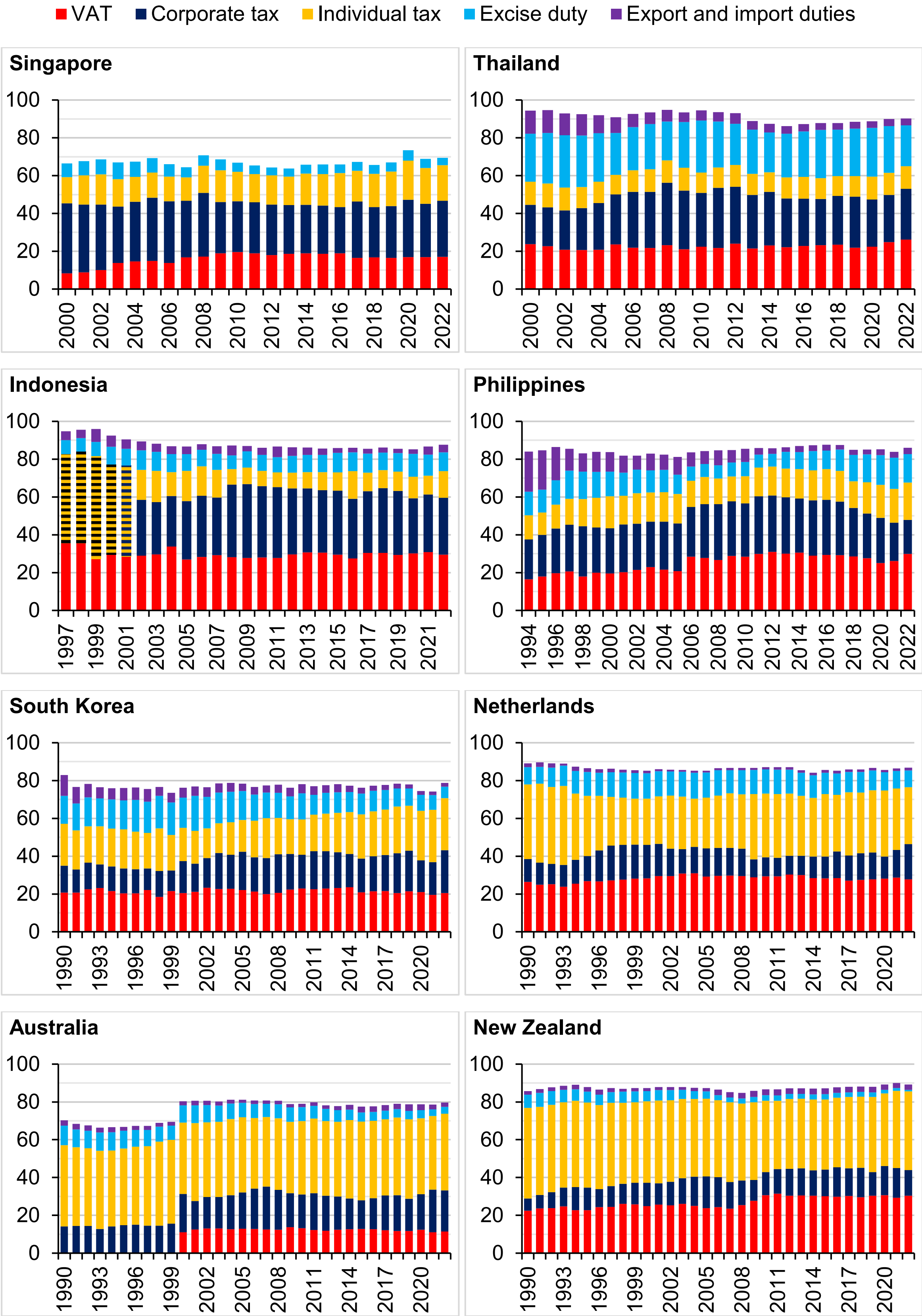



Source: Tax Foundation; Inland Revenue Authority of Singapore (IRAS)

It has been observed that the introduction of GST/VAT in several countries is often linked to the ability to reduce corporate income tax rates. This shift not only enhances revenue generation through more efficient consumption taxes but also fosters a more competitive business environment by reducing the tax burden on corporations. In addition, this shift aligns with a global trend of reduced contributions from excise duties and export and import duties, often driven by the liberalisation of trade, as shown in Figure 12.

- **New Zealand**: Corporate income tax rate was lowered from mainly 45% in the 1980s to 33% after introducing GST, and further reduced to 28% when the GST rate increased to 15% in 2011.
- **Australia**: Corporate income tax rate had dropped from 36% to 30% following the implementation of GST.
- **Netherlands**: Corporate income tax rate has consistently decreased several times, from 35% in 2000 to 25% in 2012, coinciding with VAT rate adjustments from 12.5% in 2000 to 19% in 2001, and further to 21% in 2012.

**Figure 12: Share of tax revenue (excluding social security contributions) by major components in selected countries**




Source: OECD

## Chapter 3: Reintroduction of GST

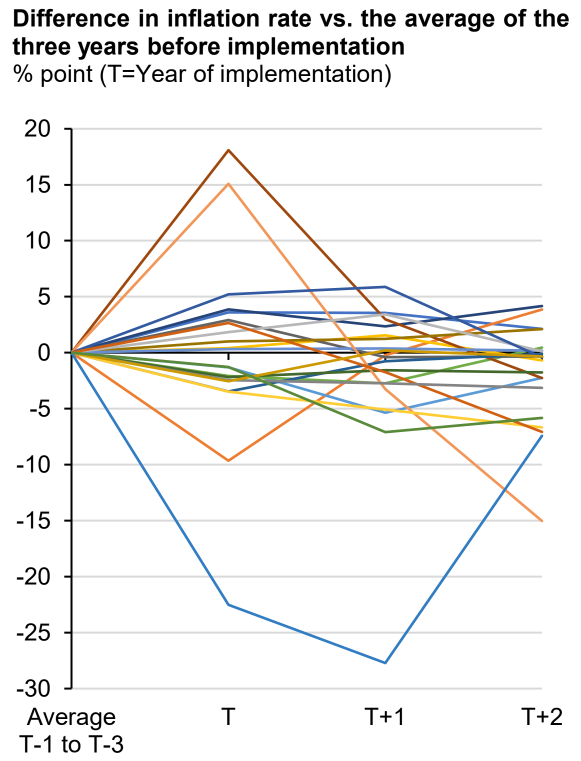
This section analyses the potential reintroduction of GST, examining its effects on various economic indicators and fiscal revenue collection. The evaluation draws insights from the performance observed in selected countries worldwide following their implementation of VAT/GST.

### 3.1 Inflationary Effect Post GST Introduction

One common argument against the reimplementation of GST is the cause of price increases in goods and services due to its inflationary impact. This will in turn will have a knock-down impact on low-and middle-income households.

It is undeniable that the GST can contribute to inflation, but it is not always the cause. It is a normal initial price increase when a new tax is introduced, prices may increase due to a natural market reaction. The chart below showed that inflation rates tended to experience a slight uptick during the year of implementation, reflecting adjustments in pricing structures and transitional market responses.

**Figure 13: Comparison of inflation rates before and after VAT/GST implementation in selected territories in 1999-2017**




| Selected territories | |
|---|---|
| Australia (2000) | Jordan (2001) |
| Belize (2006) | Kyrgyzstan (1999) |
| Bosnia and Herzegovina (2006) | Laos (2010) |
| Botswana (2002) | Lesotho (2003) |
| Burundi (2009) | Montenegro (2003) |
| Cameroon (1999) | Namibia (2000) |
| Central African Republic (2001) | Papua New Guinea (1999) |
| Egypt (2017) | Serbia (2005) |
| Eswatini (2012) | Sierra Leone (2009) |
| Gambia (2013) | Slovenia (1999) |
| Guyana (2001) | Sudan (2000) |
| India (2017) | Vietnam (1999) |

Note: Figure in brackets represents the year of implementation. Countries excluded from the analysis are labelled in grey due to data unavailability or exceptionally high or low values that fall outside the analysis scope.

Source: World Bank; SERC's calculations

Empirical research on the GST found that it only triggers inflation when it is introduced in economies that were already predisposed to inflation due to other factors like constraints on the supply of goods and services or an easy money policy (Tait 1988, 1990)[14].

A detailed study[15] of countries that successfully minimized the one-time impact on the general price level like New Zealand, South Korea, Germany, the United Kingdom, and Ireland showed that they either designed the GST to be revenue-neutral initially and/or introduced auxiliary measures to neutralize the pressure on prices. These measures included temporary price and wage freezes, education campaigns designed to prod consumers to act against unjustified price increases, penalties for unjustified price hikes, and well-designed price monitoring mechanisms. Consumer groups have played a key role in moderating unjustified price increases. In countries like Denmark, where scant attention was given to similar measures, prices did rise beyond expectations.

The Australian Treasury found that the GST led to a once-off change in the prices of many items. The prices of many goods and services have increased as a result of the indirect tax reforms contained in the tax package, although some prices remained largely unchanged or even declined.

In Malaysia, price increases were not solely due to the GST as the GST was implemented at a time when the Malaysian economy has already faced price pressures. The upward pressures on consumer inflation were caused by subsidies cut on basic goods such as cooking oil, flour, sugar, and fuel. In addition, there were hikes in electricity and water tariffs. The weakening of the Ringgit also resulted in higher cost imported food items.

The price hike occurred due to natural shock reaction in the market when traders who are yet familiar with the GST raised the prices and secondly, due to consumers' panic buying ahead of the implementation before the prices go up.

An analysis of selected countries that introduced VAT/GST between 1999 and 2017 suggested that GDP growth and household consumption growth have remained largely neutral. Some economies have experienced a modest degree of additional growth, while others saw slight declines. Similarly, overall unemployment rates did not show substantial increases, indicating limited adverse effects on the labour markets.

In terms of "political stability and the absence of violence or terrorism", the implementation of VAT/GST tends to correlate with a slightly negative impact. This relationship is often attributed to public resistance to the tax reform, particularly when it is perceived as burdensome or leads to heightened cost of living pressures. Political tensions may also arise from disagreements over the tax's structure or its implementation, especially in countries with existing political vulnerabilities.

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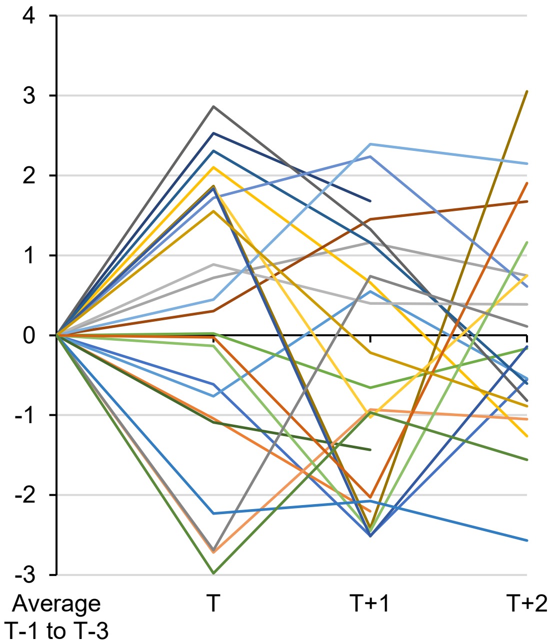
[14] (A) Tait, Alan A. 1988. Value-added Tax: International Practice and Problems. Washington, DC: International Monetary Fund. (B) Tait, Alan A. 1990. VAT Policy Issues. Paper prepared for the IMF/UNDP seminar on Value-added Tax in Asia and Resource Mobilization, Jakarta, Indonesia, 13–16 March.

[15] Suresh Narayanan and Abdul Rais Abdul Latiff. 2024. The Untimely Demise of the Goods and Services Tax (GST) in Malaysia: A Postmortem and the Way Forward. *Asian Economic Papers* 23 (1): 1-26.

**Figure 14: Comparison of GDP and household consumption growth, unemployment rates, and political stability before and after VAT/GST implementation in selected territories in 1999–2017**

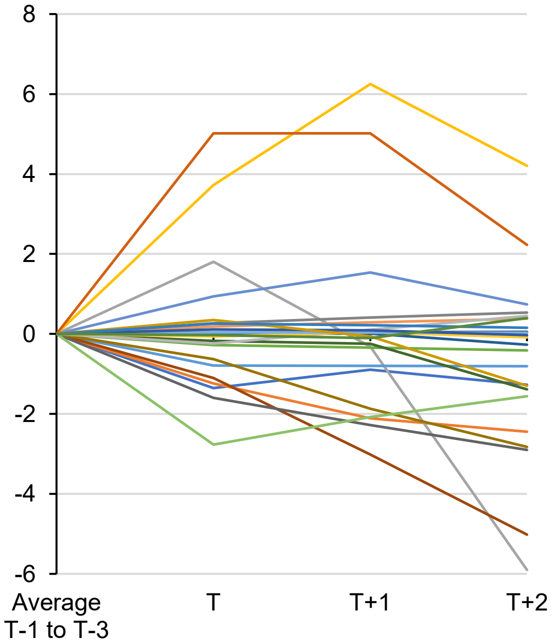
**Difference in GDP growth vs. the average of the three years before implementation**
% point (T=Year of implementation)




| Selected territories | |
|---|---|
| Australia (2000) | Jordan (2001) |
| Belize (2006) ^ | Kyrgyzstan (1999) |
| Bosnia and Herzegovina (2006) | Laos (2010) |
| Botswana (2002) | Lesotho (2003) |
| Burundi (2009) | Montenegro (2003) |
| Cameroon (1999) | Namibia (2000) |
| Central African Republic (2001) ^ | Papua New Guinea (1999) |
| Egypt (2017) | Serbia (2005) |
| Eswatini (2012) | Sierra Leone (2009) |
| Gambia (2013) | Slovenia (1999) |
| Guyana (2001) | Sudan (2000) |
| India (2017) ^ | Vietnam (1999) |

^ Data for these territories have excluded the T+2 period due to major events that would significantly distort the analysis.

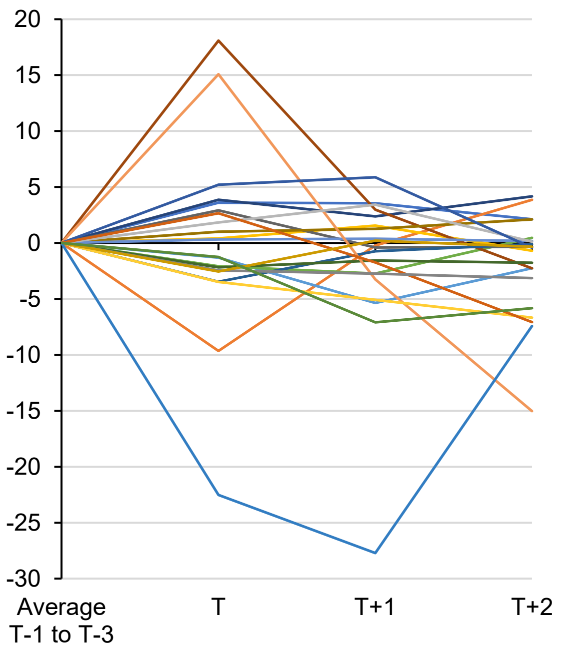
**Difference in unemployment rate* vs. the average of the three years before implementation**
% point (T=Year of implementation)




| Selected territories | |
|---|---|
| Australia (2000) | Jordan (2001) |
| Belize (2006) | Kyrgyzstan (1999) |
| Bosnia and Herzegovina (2006) | Laos (2010) |
| Botswana (2002) | Lesotho (2003) |
| Burundi (2009) | Montenegro (2003) |
| Cameroon (1999) | Namibia (2000) |
| Central African Republic (2001) | Papua New Guinea (1999) |
| Egypt (2017) | Serbia (2005) |
| Eswatini (2012) | Sierra Leone (2009) |
| Gambia (2013) | Slovenia (1999) |
| Guyana (2001) | Sudan (2000) |
| India (2017) | Vietnam (1999) |

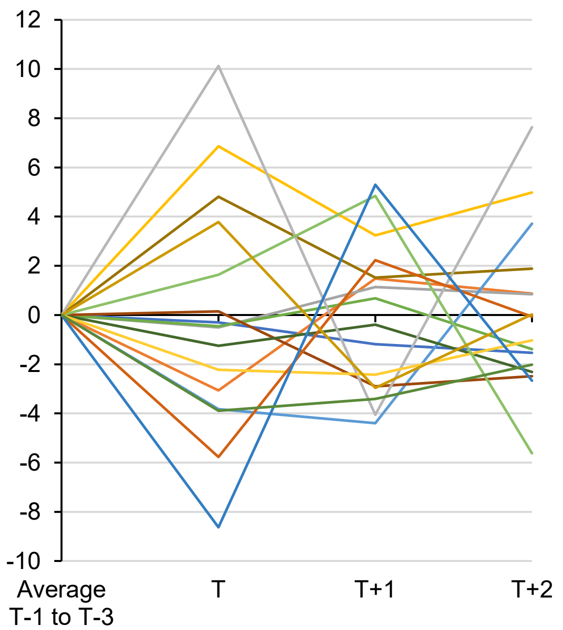
* Unemployment rate under ILO modelled estimates.

**Difference in inflation rate vs. the average of the three years before implementation**
% point (T=Year of implementation)




| Selected territories | |
|---|---|
| Australia (2000) | Jordan (2001) |
| Belize (2006) | Kyrgyzstan (1999) |
| Bosnia and Herzegovina (2006) | Laos (2010) |
| Botswana (2002) | Lesotho (2003) |
| Burundi (2009) | Montenegro (2003) |
| Cameroon (1999) | Namibia (2000) |
| Central African Republic (2001) | Papua New Guinea (1999) |
| Egypt (2017) | Serbia (2005) |
| Eswatini (2012) | Sierra Leone (2009) |
| Gambia (2013) | Slovenia (1999) |
| Guyana (2001) | Sudan (2000) |
| India (2017) | Vietnam (1999) |

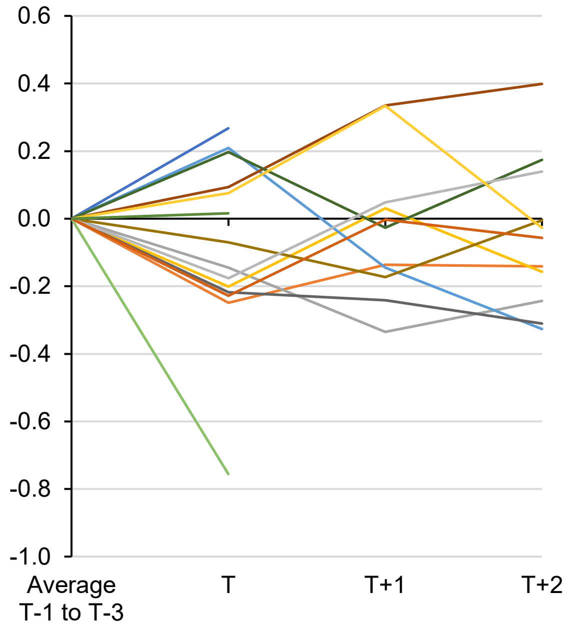
**Difference in household consumption* growth vs. the average of the three years before implementation**
% point (T=Year of implementation)




| Selected territories | |
|---|---|
| Australia (2000) | Jordan (2001) |
| Belize (2006) | Kyrgyzstan (1999) |
| Bosnia and Herzegovina (2006) | Laos (2010) |
| Botswana (2002) | Lesotho (2003) |
| Burundi (2009) | Montenegro (2003) |
| Cameroon (1999) | Namibia (2000) |
| Central African Republic (2001) | Papua New Guinea (1999) |
| Egypt (2017) | Serbia (2005) |
| Eswatini (2012) | Sierra Leone (2009) |
| Gambia (2013) | Slovenia (1999) |
| Guyana (2001) | Sudan (2000) |
| India (2017) | Vietnam (1999) |

* Households and NPISHs final consumption expenditure.

**Difference in estimates of political stability and absence of violence/terrorism vs. the average of the three years before implementation**
Absolute difference (T=Year of implementation)




| Selected territories | |
|---|---|
| Australia (2000) ^ | Jordan (2001) |
| Belize (2006) | Kyrgyzstan (1999) |
| Bosnia and Herzegovina (2006) | Laos (2010) |
| Botswana (2002) | Lesotho (2003) |
| Burundi (2009) | Montenegro (2003) |
| Cameroon (1999) | Namibia (2000) ^ |
| Central African Republic (2001) | Papua New Guinea (1999) |
| Egypt (2017) | Serbia (2005) |
| Eswatini (2012) | Sierra Leone (2009) |
| Gambia (2013) | Slovenia (1999) |
| Guyana (2001) | Sudan (2000) |
| India (2017) | Vietnam (1999) ^ |

^ Data for these territories have excluded the T+1 and T+2 period due to data unavailability.
Note: Estimates range from approximately -2.5 (indicating the most unstable) to 2.5 (indicating the most stable).

Note: Figure in brackets represents the year of implementation. Countries excluded from the analysis are labelled in grey due to data unavailability or exceptionally high or low values that fall outside the analysis scope.
Source: World Bank; SERC's calculations

### 3.2 Potential Fiscal Revenue Collection

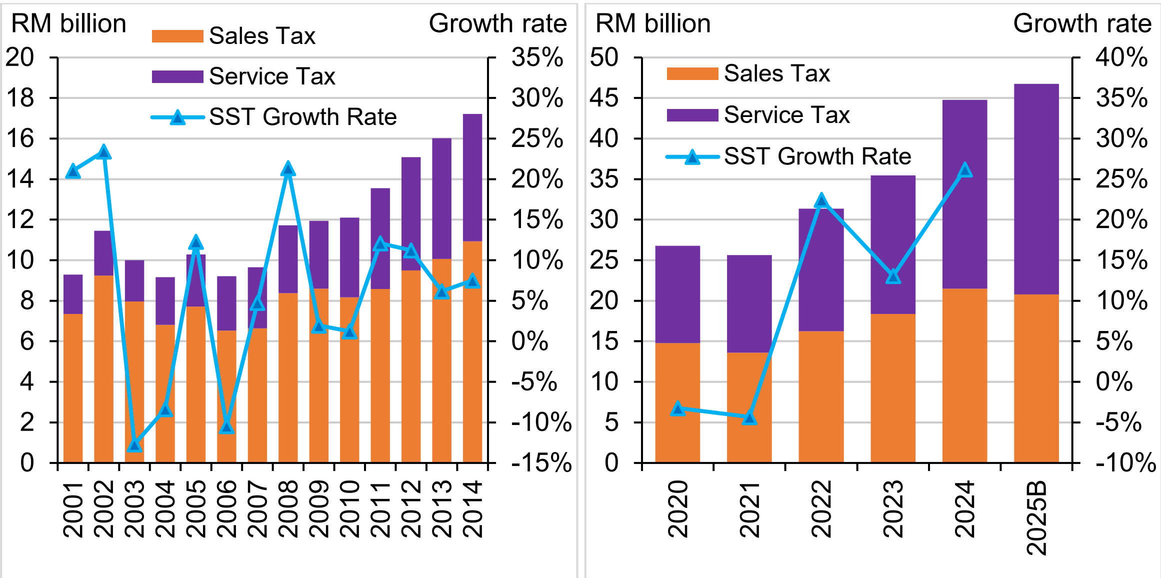
As indicated, Federal's tax revenue collections today would likely be substantially higher if the GST was remained in force. This section explores potential revenue projections under a GST regime, drawing from the historical growth trends and broader tax coverage of GST compared to SST.

Looking back at the historical consumption tax collections, several distinct phases can be observed:

1) For a longer period of 2001-2014 during the SST 1.0, revenue had grown by 5.9% per annum.
2) Post-Global Financial Crisis period (2010-2014), revenue growth was 7.6% per annum.
3) Under the GST regime, the full-year implementation in 2017 saw revenue had increased by 7.5%.
4) During the current SST 2.0 regime, revenue had increased by an average growth of 6.4% per annum, rising from RM27.7 billion in 2019 to RM35.5 billion in 2023. The year 2024 was excluded as the service tax rate increased to 8% from 6% on 1 March 2024, making it an inconsistent baseline for comparison.

Conservatively, the long-term growth rate of consumption tax can be assumed at a minimum of 6.0% per annum.

**Figure 15: Growth rate of SST in 2001-2014 and 2020-2025B**




Note: The growth rate for 2025 is excluded as the actual SST collection in 2024 is 9.4% higher than the revised estimate in Budget 2025, to avoid potential misinterpretation.

Source: Bank Negara Malaysia (BNM); Ministry of Finance (MOF)

As discussed in Section 2.2, GST offers broader scope and coverage than SST. The GST collections of RM41.2 billion in 2016 and RM44.3 billion in 2017 marked an average ratio of 214.5% (2.145 times) of estimated SST collections had SST had grown by 6.0% annually from 2014.

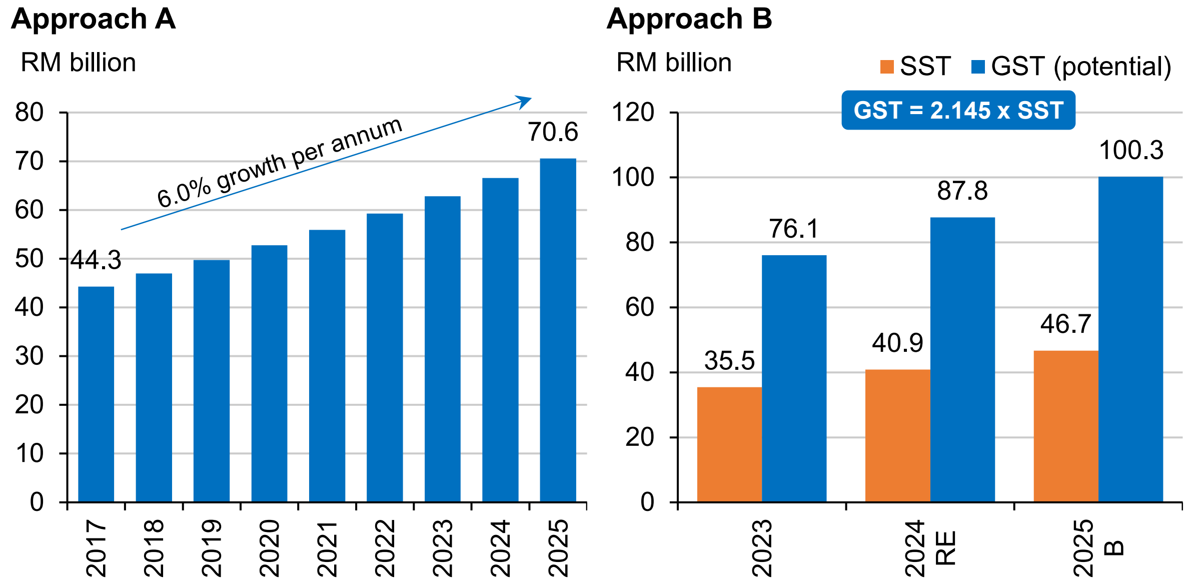
We derive two methods to project potential GST collections:

A) Applying a 6.0% compounded annual growth rate to the GST collection of RM44.3 billion in 2017, would result in potential revenue of RM66.6 billion in 2024 and RM70.6 billion in 2025.

B) Adjusting budgeted SST collection of RM46.7 billion in 2025 by 214.5% to align with GST's broader coverage yields potential revenue of RM87.7 billion in 2024 and RM100.3 billion in 2025.

These projections affirmed the revenue-generating potential of GST given its broader tax base and higher revenue efficiency relative to SST.

**Figure 16: Potential GST collection if GST had remained in force**




Source: SERC's calculations

As stated in Section 1.2, there are concerns about overall price increases arising from the reintroduction of GST if it is implemented at 6%. Both businesses and consumers prefer a lower tax rate. In the ACCCIM's survey, more than half of those supported GST regime prefer 4% GST rate for a start. While balancing the stakeholders' interest and revenue enhancement, we conduct a sensitivity test to show whether the gap in consumption tax collection can be filled or not under different GST rate.

Applying the two approaches mentioned above, a test run at a GST rate of 4% to 6% was conducted, as shown in Table 6. The findings are as follows:

- Under Approach A, our calculations indicated that even if GST is reintroduced at 4%, the net effect on fiscal revenue collection would be neutral under conservative assumption of an average annual growth rate of 6%, with an estimated RM47.1 billion in 2025, close to Ministry of Finance (MOF)'s projection of RM46.7 billion. That said, any higher tax rate would result in significantly higher tax revenue. For instance, reintroducing GST at 5% with the same 6% growth assumption would generate RM58.8 billion in 2025.
- Under Approach B, our calculations suggested a much higher revenue potential. Even at a 4% GST rate, the projected collection would reach RM66.8 billion, 43.0% higher than the budgeted SST revenue in 2025.

**Hence, the analysis suggests that implementing GST at a lower rate, even at 4%, is a feasible option**. The **conservative assumption of a 6% growth rate in tax collection indicated that the net impact on budgeted SST revenue would be neutral**. This implies that reintroduction of GST, even at a modest rate, could sustain current revenue levels while offering potential for more efficient and broad-based tax system.

**Table 6: Sensitivity Analysis of GST Revenue at 4%-6% Rate in 2025**

| **GST rate** | **4%** | **5%** | **6%** |
|---|---|---|---|
| **Approach A** | | | |
| 2017 (Actual = RM44.3 billion at 6% GST rate) | 29.5 | 36.9 | 44.3 |
| Projection in 2025: | | | |
| CAGR of 5%<br>(1% point below conservative growth) | 43.6 | 54.5 | 65.4 |
| CAGR of 6%<br>(Conservative growth) | 47.1 | 58.8 | 70.6 |
| CAGR of 7%<br>(1% point above conservative growth) | 50.7 | 63.4 | 76.1 |
| CAGR of 8%<br>(2% points above conservative growth) | 54.7 | 68.3 | 82.0 |
| **Approach B** | | | |
| 2025 (Potential of RM100.3 billion at 6% GST rate, which equivalent to 214.5% of SST revenue) | 66.8 | 83.6 | 100.3 |

Source: SERC's calculations

## Chapter 4: Charting the Way Forward in Reintroducing GST

Malaysia needs a sustainable and predictable source of revenue to meet the country's growing development expenditure needs and strengthen fiscal resilience to build fiscal buffer against economic shocks.

The transition from SST to GST reflects a balance between economic policy and public sentiment as well as political challenge. Our analysis showed that a broad-based consumption tax, GST is a viable option as it is proven globally to be a better tax system as it is more effective, efficient, and transparent.

In any form of new consumption tax, there will be transitional and distributional impact on the businesses and consumers. What matters to businesses are ease of compliance costs in fulfilling their tax obligations and the GST refunds mechanism. The regressive impact of GST on households must be addressed. Mitigating measures are required to soften the impact of GST on the cost of living.

### Setting an Initial Lower GST Rate

A feasible starting point for the GST implementation is a rate that aligns with existing fiscal revenue from SST, ensuring a smooth transition without immediate shocks to government revenue and economic activities.

The ACCCIM's survey findings indicated that 64.1% of total respondents have opted for GST, preferably at an initial rate of 4%. This preference reflects concerns about the GST's triggered inflationary pressures, particularly among businesses and consumers who seek a cautious approach to the reimplementation of GST.

From a fiscal standpoint, a 4% GST rate aligns with our conservative assumption of a 6% annual growth in tax collection, which would generate an estimated RM47.1 billion in 2025, closely matching MOF's budgeted SST revenue of RM46.7 billion. This indicates that a lower starting GST rate can provide a neutral impact on revenue while allowing businesses and consumers familiarising with the GST system. Moreover, consumers who are receptive to GST have generally indicated a preference for a lower starting GST rate, reinforcing the need for a measured approach to its reintroduction.

By setting a rate that does not impose additional burden on businesses and households while maintaining revenue stability, the Government can build confidence in the GST system. Once GST is reintroduced successfully at a moderate rate, it would create room for future adjustments based on economic conditions and revenue needs. This ensures that the transition will not be disruptive while allowing for potential enhancements in the longer term.

## GST for a Competitive Tax Regime

In the long run, Malaysia can leverage the GST implementation to rebalance its tax structure by gradually reducing corporate income tax, making the country more competitive regionally. Many economies that have adopted GST or VAT, such as New Zealand, Australia, and the Netherlands, have used consumption tax revenue to offset reductions in corporate tax rates. This approach broadens the tax base while alleviating the direct tax burden on businesses, encouraging investment and expanding economic growth.

Malaysia's current corporate tax rate of 24% is among the highest in the region. Compared to regional peers such as Singapore (17%), Vietnam (20%), Thailand (20%), and Indonesia (22%), the current rate places Malaysia at a disadvantage in attracting foreign direct investment (FDI) and supporting domestic businesses. Lowering the corporate tax rate to at least 20% would enhance Malaysia's competitiveness and bring it in line with most regional economies.

Corporate tax revenue is projected at RM106.5 billion in 2025, and a back-of-the-envelope calculation suggested that reducing the rate from 24% to 20% would result in a revenue loss of RM17.7 billion. However, a competitive corporate tax rate spurs business investment, leading to increased profitability and thus higher overall tax collection. Additionally, this shortfall in corporate tax revenue can be offset by additional GST revenue, particularly if the tax rate is gradually increased beyond 4% in the future. With a well-calibrated approach, Malaysia can transition to a more balanced taxation system, reducing over-reliance on direct taxation while maintaining a strong revenue base to support national development.

## Mitigating Measures to Soften the Financial Impact

In order to ensure that GST reimplementation does not unduly burden consumers, particularly lower-income groups, a range of mitigating measures must be introduced to soften its blow on the income side. One key approach is through exemptions and expanding the zero-rated list to include more essential goods and services. This would help minimise the cost impact on household necessities. A carefully structured zero-rated list would ensure that basic living expenses remain affordable while maintaining a broad consumption tax base.

Beyond tax exemptions, targeted cash assistance should be provided to lower-income households to help offset the regressive effects of GST. Many countries with GST or VAT systems have implemented direct financial support measures to mitigate the impact on the vulnerable groups. In Malaysia, a structured cash aid programme linked to GST revenue could ensure that those most affected receive timely assistance.

Additionally, robust enforcement mechanisms are needed to prevent unwarranted price increases. Comprehensive price monitoring before and after GST implementation will help curb profiteering and ensure businesses do not take advantage of the tax transition to impose excessive price hikes. Consumer awareness campaigns should also be strengthened to enhance public understanding of GST, dispel misconceptions, and build trust in the system.

By implementing these measures, the Government can address concerns about affordability, protect purchasing power, and ensure that the reintroduction of GST is both fiscally sustainable and socially equitable.

### Ensuring a Smooth Transition

A well-planned and structured transition is essential to ensure a successful reintroduction of GST. Clear and consistent guidelines should be made available well in advance to help businesses prepare for compliance, alongside a well-ready system that can support smooth implementation.

The enforcement authorities must be adequately trained with consistent regulations to prevent confusion and inconsistencies in application. Additionally, automatic input tax claims with random audits conducted later can help ease the compliance burden while maintaining tax integrity.

Businesses also require clarity on the GST rate structure. According to the ACCCIM survey, slightly more than half (55.5%) of respondents prefer a two-tier GST rate structure consisting of a standard rate and zero-rated supplies, while 44.5% favour maintaining the previous three-tier structure, which included exempted supplies. In reviewing the structure, policymakers may consider removing the exempted supplies category to simplify compliance and reduce administrative complexities.

Lead time for preparation is another critical factor for businesses. The survey revealed that a majority (68.8%) of respondents require between 6 to 12 months to prepare for GST implementation, while the remaining 31.2% need more than a year. This underscores the need for a reasonable lead time to allow businesses to upgrade systems, train personnel, and familiarise themselves with new regulations.

One of the major compliance concerns under the previous GST regime was the complexity of procedures and documentation. This issue was highlighted by 68.6% of survey respondents, while 47.0% have cited high compliance costs as a key concern. To improve compliance efficiency, businesses have expressed several expectations for enhancements in GST administration, including:

- Shortening the turnover time for GST input tax refunds (as indicated by 72.9% of total respondents)
- Reducing paperwork and documentation requirements (68.1%)
- Establishing an efficient and user-friendly GST filing system (67.8%)
- Adopting a “refund first, audit later” approach (62.1%)
- Allowing net-off in output tax submission with input tax claims (59.8%)
- Standardising GST filings on a quarterly basis (56.0%)

In addition to administrative improvements, businesses expect government's support to ease the transition. The ACCCIM survey highlighted several forms of assistance that could facilitate smoother adoption of GST:

- Financial grants or tax rebates for software upgrades or accounting system adoption (78.9%)
- A six-month grace period from penalties for genuine compliance mistakes (75.6%)
- A GST portal network to provide guidance to businesses (70.6%)
- A three- to six-month tax holiday before GST implementation (68.1%)
- Free GST-related training or courses nationwide (66.1%)

Addressing these expectations will be instrumental in fostering a more business-friendly GST readiness system. Ensuring that compliance requirements are streamlined, GST refund mechanisms are efficient, and adequate time is provided for businesses to adjust will not only improve tax adherence but also build confidence in the tax regime. The government's role in providing financial and technical assistance, as well as maintaining open channels for feedback, will be crucial in making the GST implementation as seamless as possible.

## Appendices

### Appendix 1: Worldwide consumption tax rate in 2024 and year of implementation

| Territory | Year of implementation | Standard rate | Territory | Year of implementation | Standard rate |
|---|---|---|---|---|---|
| Afghanistan | 2021 | 10 | Luxembourg | 1970 | 17 |
| Albania | 1995 | 20 | Madagascar | 1994 | 20 |
| Algeria | 1992 | 19 | Malawi | 2002 | 16.5 |
| Andorra | 2013 | 4.5 | Malaysia | 2018 | Sales Tax: 10<br>Service Tax: 8 |
| Angola | 2019 | 14 | Mali | 1991 | 18 |
| Anguilla | 2022 | GST: 13 | Maldives | 2011 | GST: 8<br>Tourism GST: 16 |
| Antigua and Barbuda | 2007 | Antigua and Barbuda Sales Tax (ABST): 17 | Malta | 1999 | 18 |
| Argentina | 1974 | 21 | Mauritania | 1995 | 16 |
| Aruba | 2007 | Revenue tax (RT): 4<br>Health tax (HT): 3<br>Tax on import of goods: 7 | Mauritius | 1998 | 15 |
| Armenia | 1993 | 20 | Mexico | 1980 | 16 |
| Australia | 2000 | GST: 10 | Moldova | 1998 | 20 |
| Austria | 1973 | 20 | Monaco | 1968 | 20 |
| Azerbaijan | 1992 | 18 | Mongolia | 1998 | 10 |
| Bahamas | 2015 | 10 | Montenegro | 2003 | 21 |
| Bahrain | 2018 | 10 | Morocco | 1986 | 20 |
| Bangladesh | 1991 | 15 | Mozambique | 1999 | 16 |
| Barbados | 1997 | 17.5 | Myanmar | N/A | Commercial Tax: 5 |
| Belarus | 1991 | 20 | Namibia | 2000 | 15 |
| Belgium | 1971 | 21 | Nepal | 1997 | 13 |
| Belize | 2006 | 12.5 | Netherlands | 1969 | 21 |
| Benin | 1991 | 18 | New Caledonia | 2018 | General consumption tax (TGC): 11 |
| Bolivia | 1986 | 13 (effective 14.94%) | New Zealand | 1986 | GST: 15 |
| Bonaire, Sint Eustatius and Saba (BES Islands) | 2011 | General expenditure tax (GET)<br>Goods: 6–8<br>Services: 4–6 | Nicaragua | 1975 | 15 |
| Bosnia and Herzegovina | 2006 | 17 | Niger | 1986 | 19 |
| Botswana | 2002 | 14 | Nigeria | 1994 | 7.5 |
| Brazil | 1964 | Various | Niue | 2009 | 12.5 |
| Bulgaria | 1994 | 20 | North Macedonia | 2000 | 18 |
| Burkina Faso | 1993 | 18 | Norway | 1970 | 25 |
| Burundi | 2009 | 18 | Oman | 2021 | 5 |
| Cabo Verde | 2004 | 15 | Pakistan | 1990 | Goods:18<br>Services: 15-16 |
| Cambodia | 1999 | 10 | Palau | 2023 | GST: 10 |

| Territory | Year of implementation | Standard rate | Territory | Year of implementation | Standard rate |
|---|---|---|---|---|---|
| Cameroon | 1999 | 19.25 | Palestinian territories | N/A | 16 |
| Canada | 1991 | GST/HST: 5-15 | Panama | 1977 | Movable goods and services transfer tax (ITBMS): 7 |
| Central African Republic | 2001 | 19 | Papua New Guinea | 1999 | GST: 10 |
| Chad | 2000 | 18 | Paraguay | 1993 | 10 |
| Chile | 1975 | 19 | Peru | 1991 | 18 |
| China | 1994 | 6-13 | Philippines | 1988 | 12 |
| Colombia | 1983 | 19 | Poland | 1993 | 23 |
| Commonwealth of Dominica | 2006 | 15 | Portugal | 1986 | 23 |
| Congo, Democratic Republic of the | 2012 | 16 | Puerto Rico | 2006 | Sales and use tax (SUT): 11.5 Certain services: 4 |
| Congo, Republic of | 1997 | 18.9 (18% VAT + 5% surtax) | Romania | 1993 | 19 |
| Cook Islands | 1997 | 15 | Russia | 1991 | 20 |
| Costa Rica | 2019 | 13 | Rwanda | 2001 | 18 |
| Côte d'Ivoire (Ivory Coast) | 1960 | 18 | Saint Kitts and Nevis | 2010 | 17 |
| Croatia | 1998 | 25 | Saint Lucia | 2012 | 12.5 |
| Curaçao | 1999 | Turnover tax (TOT): 6 | Saint Vincent and the Grenadines | 2007 | 16 |
| Cyprus | 1992 | 19 | São Tomé and Príncipe | 2023 | 15 |
| Czech Republic | 1993 | 21 | Samoa | 1994 | 15 |
| Denmark | 1967 | 25 | Saudi Arabia | 2018 | 15 |
| Djibouti | 2009 | 10 | Senegal | 1980 | 18 |
| Dominican Republic | 1983 | 18 | Serbia | 2005 | 20 |
| Ecuador | 1970 | 15 | Seychelles | 2013 | 15 |
| Egypt | 2017 | 14 | Sierra Leone | 2009 | 15 |
| El Salvador | 1992 | 13 | Singapore | 1994 | GST: 9 |
| Equatorial Guinea | 2005 | 15 | Sint Maarten | 1997 | Revenue tax (RT): 5 |
| Estonia | 1991 | 22 | Slovak Republic | 1993 | 20 |
| Eswatini | 2012 | 15 | Slovenia | 1999 | 22 |
| Ethiopia | 2003 | 15 | South Africa | 1991 | 15 |
| Faroe Islands | 1993 | 25 | South Sudan | 2012 | Sales tax (ST): 18 |
| Fiji | 1992 | 15 | Spain | 1986 | 21 |
| Finland | 1994 | 25.5 | Sri Lanka | 1998 | 18 |
| France | 1954 | Turnover tax: 20 | Sudan | 2000 | 17 |
| Gabon | 1995 | 18 | Suriname | 2023 | 10 |
| Gambia | 2013 | 15 | Sweden | 1969 | 25 |
| Georgia | 1993 | 18 | Switzerland | 1995 | 8.1 |
| Germany | 1968 | 19 | Taiwan | 1986 | 5 |
| Ghana | 1998 | 15 | Tajikistan | 1992 | 14 |
| Greece | 1987 | 24 | Tanzania | 1998 | Tanzania Mainland: 18 Tanzania Zanzibar: 15-18 |

| Territory | Year of implementation | Standard rate | Territory | Year of implementation | Standard rate |
|---|---|---|---|---|---|
| Grenada | 2010 | 15 | Thailand | 1992 | 7 |
| Guatemala | 1992 | 12 | Timor-Leste | 2008 | Sales tax on imported goods: 2.5<br>Sales tax on other goods: 0<br>Services tax on selected services above USD500: 5 |
| Guinea | 1996 | 18 | Togo | 1997 | 18 |
| Guyana | 2001 | 14 | Tonga | 2005 | 15 |
| Haiti | 1982 | 10 | Trinidad and Tobago | 1990 | 12.5 |
| Honduras | 1964 | Sales Tax: 15 | Tunisia | 1988 | 19 |
| Hungary | 1988 | 27 | Türkiye | 1984 | 20 |
| Iceland | 1990 | 24 | Turkmenistan | 1992 | 15 |
| India | 2017 | GST: 18 (5-28) | Uganda | 1996 | 18 |
| Indonesia | 1985 | 11 | Ukraine | 1992 | 20 |
| Iran | 2008 | 9 | United Arab Emirates | 2018 | 5 |
| Iraq | N/A | Sales Tax: Various on selected goods | United Kingdom | 1973 | 20 |
| Ireland | 1972 | 23 | United States | Vary | Sales and use tax rates: 2.9-7.25 (vary by states) |
| Isle of Man | 1973 | 20 | Uruguay | 1972 | 22 |
| Israel | 1976 | 17 | Uzbekistan | 1992 | 12 |
| Italy | 1973 | 22 | Vanuatu | 1998 | 15 |
| Jamaica | 1991 | General consumption tax (GCT): 15 | Venezuela | 1993 | 16 |
| Japan | 1989 | Consumption tax: 10 | Vietnam | 1999 | 8 |
| Jersey | 2008 | GST: 5 | Zambia | 1995 | 16 |
| Jordan | 2001 | Sales Tax: 16 | Zimbabwe | 2004 | 15 |
| Kazakhstan | 1992 | 12 | **No consumption tax** | | |
| Kenya | 1990 | 16 | Bermuda | Guernsey, Channel Islands | Macau SAR |
| Korea, Republic of | 1977 | 10 | Cayman Islands | Hong Kong SAR | Qatar |
| Kosovo | 2001 | 18 | Gibraltar | Kuwait | |
| Kribati | 2014 | 12.5 | Greenland | Libya | |
| Kyrgyzstan | 1999 | 12 | | | |
| Lao PDR | 2010 | 10 | | | |
| Latvia | 1995 | 21 | | | |
| Lebanon | 2002 | 11 | | | |
| Lesotho | 2003 | 15 | | | |
| Liechtenstein | 1995 | 8.1 | | | |
| Lithuania | 1994 | 21 | | | |

Note: The standard rate refers to the standard VAT rate. Some rates quoted in the sources have been updated. Territories highlighted in yellow implement a single-stage consumption tax. N/A denotes not available.

Source: OECD (Consumption Tax Trends 2024); PwC (Standard VAT rates for Worldwide Tax Summaries (WWTS) territories, last accessed on 22 Nov 2024); EY (Worldwide VAT, GST and Sales Tax Guide 2024); other sources.

**Appendix 2: Number of GST registrations by industry in 2017**

| No. | Code | Industry | No. of registrations |
|---|---|---|---|
| 1. | G | Wholesale And Retail Trade; Repair Of Motor Vehicles And Motorcycles | 157,561 |
| 2. | F | Construction | 81,833 |
| 3. | C | Manufacturing | 57,130 |
| 4. | M | Professional, Scientific And Technical Activities | 29,117 |
| 5. | N | Administrative And Support Service Activities | 21,975 |
| 6. | I | Accommodation And Food Service Activities | 21,083 |
| 7. | H | Transportation And Storage | 16,813 |
| 8. | J | Information And Communication | 14,448 |
| 9. | A | Agriculture, Forestry And Fishing | 13,911 |
| 10. | L | Real Estate Activities | 13,865 |
| 11. | S | Other Service Activities | 8,747 |
| 12. | K | Financial And Insurance/Takaful Activities | 5,845 |
| 13. | Q | Human Health And Social Work Activities | 5,199 |
| 14. | E | Water Supply; Sewerage, Waste Management And Remediation Activities | 3,277 |
| 15. | B | Mining And Quarrying | 3,048 |
| 16. | P | Education | 2,843 |
| 17. | O | Public Administration And Defence; Compulsory Social Security | 2,274 |
| 18. | R | Arts, Entertainment And Recreation | 2,188 |
| 19. | D | Electricity, Gas, Steam And Air Conditioning Supply | 1,399 |
| 20. | T | Activities Of Households As Employers; Undifferentiated Goods-And Services-Producing Activities Of Households For Own Use | 177 |
| 21. | U | Activities Of Extraterritorial Organizations And Bodies | 51 |
| | | **Total** | **462,784** |

Source: Laporan Tahunan JKDM 2017

**Appendix 3: SST by components in 2013-2014**

| RM million | YR2013 | % of SST | YR2014 | % of SST |
|---|---|---|---|---|
| **Sales Tax - Local** | **7,693** | **35.1** | **8,069** | **35.6** |
| Tiles | 125 | 0.8 | 165 | 1.0 |
| Soft Drinks | 313 | 2.0 | 336 | 2.0 |
| Passenger Motor Vehicles | 2,089 | 13.0 | 2,309 | 13.4 |
| Commercial Motor Vehicles | 568 | 3.5 | 650 | 3.8 |
| Machinery and Spare Parts | 74 | 0.5 | 113 | 0.7 |
| Snacks/Junk Food | 165 | 1.0 | 206 | 1.2 |
| Rubber Based Products Other Than Shoes | 117 | 0.7 | 120 | 0.7 |
| Plastic Products | 202 | 1.3 | 246 | 1.4 |
| Electrical Products | 344 | 2.1 | 427 | 2.5 |
| Fabricated Metal Products Other Than Machinery | 163 | 1.0 | 166 | 1.0 |
| Soaps and Detergents | 92 | 0.6 | 113 | 0.7 |
| Paper and Paper Products | 92 | 0.6 | 134 | 0.8 |
| Paint and Varnish | 136 | 0.8 | 171 | 1.0 |
| Cigarettes | 171 | 1.1 | 174 | 1.0 |
| Other Categorised Items | 339 | 2.1 | 463 | 2.7 |
| Other Uncategorised Items | 637 | 4.0 | 338 | 2.0 |
| **Sales Tax - Import** | **4,442** | **27.7** | **4,809** | **27.9** |
| Motorcars - CBU | 510 | 3.2 | 505 | 2.9 |
| Other Motor Vehicles | 506 | 3.2 | 476 | 2.8 |
| Clothing / Apparels | 166 | 1.0 | 190 | 1.1 |
| Motor Vehicles Spare Parts | 176 | 1.1 | 180 | 1.0 |
| Canned Food and Others | 251 | 1.6 | 260 | 1.5 |
| Other Household Electrical Equipment | 193 | 1.2 | 199 | 1.2 |
| Machinery and Spare Parts | 466 | 2.9 | 521 | 3.0 |
| Tyres for Motor Vehicles | 130 | 0.8 | 135 | 0.8 |
| Other Categorised Items | 948 | 5.9 | 1,117 | 6.5 |
| Other Uncategorised Items | 1,095 | 6.8 | 1,226 | 7.1 |
| **Service Tax** | **5,944** | **37.1** | **6,278** | **36.5** |
| Food/Drink/Tobacco Inside Hotel | 236 | 1.5 | 241 | 1.4 |
| Food/Drink/Tobacco Outside Hotel | 690 | 4.3 | 748 | 4.3 |
| Accommodation | 376 | 2.3 | 410 | 2.4 |
| Insurance Policy Preparation | 515 | 3.2 | 548 | 3.2 |
| Telecommunication Services | 1,271 | 7.9 | 1,393 | 8.1 |
| Charge/Credit Card Services | 373 | 2.3 | 377 | 2.2 |
| Security Guard Services | 159 | 1.0 | 190 | 1.1 |
| Accountant Services | 114 | 0.7 | 120 | 0.7 |
| Legal Services | 221 | 1.4 | 235 | 1.4 |
| Professional Engineer Services | 165 | 1.0 | 144 | 0.8 |

| RM million | **YR2013** | % of SST | **YR2014** | % of SST |
|---|---|---|---|---|
| Surveyor/Valuation/Interpreter/Real Estate Agent Services | 99 | 0.6 | 108 | 0.6 |
| Consultation Services | 462 | 2.9 | 513 | 3.0 |
| Management Services | 161 | 1.0 | 191 | 1.1 |
| Advertisement Services | 446 | 2.8 | 341 | 2.0 |
| Paid Television Broadcasting Services | 225 | 1.4 | 245 | 1.4 |
| Other Categorised Services | 430 | 2.7 | 470 | 2.7 |
| Other Uncategorised Services | 0.1 | 0.0 | 1 | 0.0 |
| **Total SST** | **16,012** | | **17,217** | |

Note: The list follows a predefined order of codes, with revenue components below RM100 million grouped under "Other Categorised Items".

Source: Ministry of Finance (MOF)