

## CHAPTER IV

### EXCISES AND LICENCES

#### Excise Duties

##### Introduction

In Malaysia excise duties are imposed on local grown and locally manufactured products. Its significance as a source of revenue has not been as important as export or import duties, but the rate of growth of its contribution to total revenue has been more remarkable than import and export duties. Furthermore, in all the budget speeches before 1966, there has been no recognition of the future importance of excises. However, in the 1966, Supply Bill<sup>1</sup>, the Minister himself stressed its growing importance. In the past, its insignificant contribution to the federal revenue collection was a reflection of the low level of industrial development in the country. But as the process of industrialisation proceeds and as export and import duties become increasingly unreliable as a major source of government revenue, we may well witness a corresponding increase in excise duties contribution both in absolute and relative terms.

##### Rates of Excise Duties

The latest excise duty rates are to be found in the Excise Duties Order 1965.<sup>2</sup> This Order, only applies to the States of Malaya. Excise duties for the Borneo States are operative under different Orders and Acts which shall be briefly dealt with in due course. According to the Excise Duties Order 1965, excise duties currently operative are on: (1) intoxicating liquors, (2) tobacco, (3) petroleum and petroleum products and (4) miscellaneous manufactured articles.

##### (1) Intoxicating Liquors

##### Rates of Duty

- |  |                          |
|--|--------------------------|
| (1) Beer and Ale . . . . .                           | \$4.80 per gallon        |
| (11) Stout and Porter . . . . .                      | \$4.80 per gallon        |
| (111) Samsu (including medicated<br>samsu) . . . . . | \$31.00 per proof gallon |

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<sup>1</sup>Supply Bill 1966, op. cit., pp. 65-66.

<sup>2</sup>Excise Order 1965 LN487, Government Printer. This Order revoked the Excise Act 1961.

(iv) Other intoxicating liquors . . . . . \$34.00 per proof  
gallon

(2) Tobacco

At present cigarettes including paper and filter tips are subject to an excise duty of \$1.00 per lb. Before 1966, excise duty was imposed on raw and leaf tobacco grown in the Federation. But from 1966, <sup>a</sup>/new Order<sup>3</sup> revoked the Excise Duties Order, 1951, and the excise duty in respect of raw and leaf tobacco grown in the Federation specified in Section 10 A of the Tobacco (Licensing and Excise Duty) Ordinance 1954. Therefore the excise of 25¢ per lb. on home grown tobacco was removed. This was probably brought about by the decreasing significance of revenue from this source. Secondly it could have been a relief to tobacco growers, who are largely small tobacco growers. Finally the 1966 Supply Bill also imposed, on the revocation of this duty, a standard Malaysian rate of \$1.00 per lb. on cigarettes manufactured in Malaysia. The net yield of both these changes is expected to be \$11.1 m.<sup>4</sup> In order to allow more scope for our own tobacco growers, they can now sell to the highest bidder instead of being limited to only licensed dealers. Furthermore, the fee of \$240 per annum charged for a dealer's licence fee was abolished. But the licence fees for manufacturers of tobacco products was increased from \$240 to \$360 per annum in the States of Malaya but in the case of the Borneo States the \$100 per annum fee remained unaltered.

(3) Petroleum and Petroleum Products

For a complete list of excise duties operating on petrol and petroleum products, see Appendix I. In brief, however, the rates are complex and complicated. The possibility of introducing fewer general rates should be investigated. If possible, such a system makes both assessment and collection easier. The whole system becomes less complex. We can generalise by saying that motor spirit, petrol spirits and lubricants are most prominent in the structure of excise duties on petroleum.

(4) Miscellaneous Manufactured Articles

Rates

- |  |                |                  |
|--|----------------|------------------|
| (i) Playing cards, in packs of 4 suits of<br>13 cards each . . . . . | 0.10¢ per pack |                  |
| (ii) Matches in a container in which there are                       | (A)            | (B) <sup>5</sup> |
| (a) not more than 10 matches per 100<br>containers . . . . .         | 18¢            | 16¢              |

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<sup>3</sup>Excise Duty (Amendment) No. 2 Order, 1965 LN 430 Government Printer.

<sup>4</sup>Supply Bill 1966, op. cit., p. 65.

<sup>5</sup>(A) applies whether the goods or containers or both are made from imported material. (B) applies if they are made from local timber.

- (b) more than 10 but less than 20 matches . . . 36¢ 32¢
- (c) more than 20 matches but less than 50 . . . 90¢ 80¢
- (d) for every additional 25 matches or part  
of 25 matches over 50 in a container, a  
duty additional to (c) above . . . . . 45¢ 40¢

Originally 5¢ per piece of excise duty was imposed on crown corks. From 14th June 1965, however, it was reduced to 2¢. But, the imposition of this duty (both excise and import) had resulted in considerable smuggling of this commodity. It had also led to the re-use of old corks which constituted a distinct health hazard for the community. Under these circumstances, both import and excise duty on crown corks was removed in 1966.

There exist in Sabah and Sarawak, separate excise ordinances. The main rates in the case of Sabah are to be found in the Excise Ordinance Sabah and the Excise Duties Order 1965. Under this Order a complex structure of excise duties for cigarettes and tobacco was in operation. But the Excise Duties Ordinance (Amendment) Order<sup>6</sup> of 1965 substituted for this complex structure the following item:

"Cigarettes including paper and filter tips" . . . \$1.00 per lb.

This was not only a process of simplification, but also one of harmonization.<sup>7</sup> The Amendment Order also repealed the excise duties on crown corks of 2¢ per piece. The Sarawak Excise Duties Order<sup>8</sup> is far less complicating than the Malayan or Sabah excise duties structure.

Rubber produced on Penang Island is also subject to excise to bring it into line with taxation elsewhere. Mainland rubber is subject to export duty, but as Penang is a free port these duties do not apply there, and so an excise is imposed in lieu. The Penang rubber producer is thus neither better nor worse off than his mainland competitor.

### Excise Revenue Collection

The most significant aspect of yield from excise duties is the tremendous increase in the absolute amount of excise revenue collected. Except in 1960 and 1961 (Table 4.1) there has been a steady increase in excise revenue between 1958 and 1964 resulting in a ten-fold increase within the 7 years. If the 1966 estimates prove to be reasonably correct, the increase will be nearly fifteen times the amount collected

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<sup>6</sup> Excise Duties Ordinance (Amendment) Order 1965 LN 431, Government Printer.

<sup>7</sup> See, Excise Duties (Amendment) No. 2 Order, 1965 LN 487 of Malaya, Government Printer.

<sup>8</sup> Excise Duties Order, 1965 LN 432.

TABLE 4.1

## EXCISE DUTIES - AND THEIR SIGNIFICANCE

Year	Excise Duties (1)	Total Revenue (2)	Total Tax Revenue (3)	Col. (1) as % of Col. (2) (4)	Col. (1) as % of Col. (3) (5)
1958	8,503,853	762,465,446	599,947,926	1.11	1.41
1959	8,643,541	890,972,163	722,161,560	0.97	1.19
1960	7,925,700	1,069,020,972	982,640,009	0.74	0.89
1961	7,618,033	1,081,006,862	873,655,570	0.70	0.87
1962	9,002,909	1,097,388,792	880,262,622	0.82	1.02
1963	36,551,243	1,150,246,312	902,032,899	3.17	4.05
1964	90,270,382	1,338,195,777	1,033,378,113	6.74	8.73
1965	101,200,000	1,437,400,000	1,437,400,000	7.04	8.66
1966	125,300,000	1,556,050,500	1,264,710,800	8.05	9.90

Source: As for Table 2.6.

in 1958. This phenomenon of a large scale increase is absent in all other sources of government revenue.

Column (5) Table 4.1 shows the percentage contribution of excise to total revenue. Starting as an insignificant component of federal revenue, excise duties showed a big jump in 1963 in its share of total revenue. The trend continued in 1964 and estimated figures for both 1965 and 1966 indicate to a further increase. The central government estimates that by 1966, excise duties will comprise 8.05% of total revenue. In general terms the significance of excise duties in total revenue is expected to have shown a 7% increase over the nine years. Similarly the share of excise duties in total tax revenue showed 2 great jumps, in 1963 and 1964 (column (4)). Prior to 1963, excises contributed only about 1% of total tax revenue but the 1966 estimates expects their contribution to be around 10%. This increase is eight times the 1958 figure.

TABLE 4.2

SIGNIFICANCE OF LOCALLY GROWN TOBACCO  
AND LOCALLY MANUFACTURED LIQUORS

Year	Excise Revenue (1)	Locally Grown Tobacco and Locally Manufactured Liquors (2)	Col. (2) as % of Col. (1) (3)
1958	8,503,853	8,034,354	94.47
1959	8,643,541	7,815,047	90.41
1960	7,925,760	6,881,179	86.83
1961	7,618,033	6,575,522	86.31
1962	9,002,909	8,162,223	90.66
1963	36,551,243	5,771,594	15.79
1964	90,270,382	6,175,684	6.84
1965	101,200,000	6,508,000	6.43
1966	125,300,000	5,000,000	3.99

Source: As for Table 2.6.

Table 4.2 indicates the significance of revenue from locally grown tobacco and locally manufactured liquors in excise revenue. While total excise revenue has been generally increasing during the period, column (2) shows a jerky decrease. From \$8 m. in 1958, locally manufactured liquors are expected to contribute only \$5 m. in 1966.<sup>9</sup> In percentage terms, the downward trend is even more startling. In 1958, both these sources together shared about 95% of excise revenue. In 1963, there was a big drop to about 16% which dropped further to about 7% in 1964. In 1966, revenue from this source is expected to constitute hardly 4% of total excise revenue. Significantly, while decreases in revenue collection from this source have not been so large, the percentage drops have been very large due to the increase in coverage of excise taxes.

TABLE 4.3

SIGNIFICANCE OF LOCALLY BREWED MALT  
LIQUORS, LOCALLY REFINED PETROL,  
AND LOCALLY REFINED HEAVY  
AND FUEL OILS

Year	Excise Duties (1)	Locally Brewed Malt Liquors; Locally Refined Petrol; Locally Refined Heavy and Fuel Oils (2)	Col. (2) as % of Col. (1) (3)
1958	8,503,853	-	-
1959	8,643,541	-	-
1960	7,925,760	-	-
1961	7,618,033	-	-
1962	9,002,909	-	-
1963	36,551,243	29,293,030	80.41
1964	90,270,382	81,527,057	90.31
1965	101,200,000	92,300,000	91.20
1966	125,300,000	105,100,000	83.87

Source: As for Table 2.6.

<sup>9</sup>There is no longer an excise duty on locally grown tobacco.

The explanation for both the increases discussed in Table 4.1 and the decreases of Table 4.2 may be found in Table 4.3. The collection of excise revenue from locally brewed malt liquors, locally refined petrol and locally refined heavy and fuel oils stated in 1963. In that year their contribution was \$29.2 m. This not only compensated for the decreases in column (2) of Table 4.2 but in fact increased total excise collection from \$9 m. to \$36.5 m. The impact of excise revenue from these sources was such as to reduce the contribution of locally grown tobacco and locally manufactured liquors from 90% to 15% of excise revenue. In 1964, locally brewed malt liquors, locally refined petrol and locally refined heavy and fuel oils yielded an excise revenue of \$81.5 m. and percentage-wise it constituted 90.31% of total excise collection. Corresponding to this increase, total excise revenue contribution showed a \$53 m. increase. The impact of this increase reduced the percentage contribution of locally grown tobacco and locally manufactured liquors in excise revenue.<sup>10</sup>

Briefly then, while locally grown tobacco and liquors constituted an overwhelming share of excise revenue before 1963, locally brewed malt liquors, locally refined petrol and locally refined heavy and fuel oils have virtually occupied the position the former occupied in 1958. This trend one is tempted to believe will continue, bringing in larger increases in excise revenue and perhaps in total revenue as well.

### Conclusion

Over the question of excise duties some general observations can be made. In the first place, one notices the large increases in recent years in excise revenue collection. If industrialisation grows apace, the revenue from import duties will steadily diminish and this gap must clearly be filled gradually by excise duties. In fact there is every ground to suspect 1963 as having signalled the beginning of a new pattern of indirect taxation in our changing economy. Furthermore, the increasing importance of excise revenue might add a little stability to our revenue system plagued by instability in export and import duties.

Furthermore as we have seen there has been a change in the principal constituents of excise revenue. Understandably such a trend will exist in any changing and developing economy. The problem is the availability of new avenues to replace diminishing sources. Any such new source will in part depend on the direction of the changes in our economy.

Over the years, there has been a general lack of interest attached to excise revenue as a source of central government revenue. Before 1966, even the Minister of Finance had hardly discussed excise revenue in any detail. But in the 1966 Budget Speech,<sup>11</sup> the Minister

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<sup>10</sup> Column (3) Table 4.2.

<sup>11</sup> Supply Bill, 1966, op. cit., p. 65.

himself had pointed out the growing importance of excise revenue and its potentialities. Our two primary steps as far as excise revenue is concerned are:

- 1) To consolidate the existing ones by exploring the possibilities of reducing the present complexities, and
- 2) Harmonisation of existing rates. These will ensure that we have a sound structure of excise duties to exploit any new sources of excise revenue that might arise in the future.

### Licences

Revenue collection from licences constitutes the last portion of items classified as "Duties, Taxes and Licences".<sup>11</sup> The most prominent in this category are road transport and wireless. Generally, revenue from this source has not been of any considerable significance in governmental revenue. However, its contribution is by no means negligible and it may well go on increasing in importance as the general economic condition of the country improves. It is safe for us to assume that like income tax, there is considerable evasion of wireless licences in Malaysia;<sup>12</sup> and anti-evasion methods have not proved successful either. The analysis that follows will deal mainly with the contributions and significance of revenue from licences and the importance of revenue from road transport licences.

### Rates

The currently relevant Ordinance as regards the rates is the Motor Vehicles (Registration and Licensing) (Amendment) Rules.<sup>13</sup> It incorporated the important elements of the 1958 Road Traffic Ordinance. (As for the detail rates see Appendix II).

Some of the changes brought about in 1966,<sup>14</sup> though not included in the Appendix are of more general concern. In the first place, driving licence and test fees were increased from \$5.00 to \$10.00 i.e. a 100% increase. Secondly, the first registration fee was raised from \$5.00 to \$15.00 for motor cars and from \$2.00 to \$5.00 for motor-cycles. The 1966 Budget also raised the transfer fee from \$4.00 to \$10.00 for

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<sup>11</sup> Classified as item 1 in the Financial Statements and Estimates.

<sup>12</sup> Matalaver, "Radio Advertising", K.L. Lever Brothers Ltd., No. 23, April 1962.

<sup>13</sup> Motor Vehicles (Registration and Licensing) (Amendment No. 2) Rules 1965, LN 433, Government Printer.

<sup>14</sup> Supply Bill 1966, op. cit., pp. 72-74.



motor-cars and from \$1.00 to \$3.00 for motor-cycles. In Malaya there is a distinction between petrol and diesel cars. The justification for this is to be found in the different rates of taxes paid for petrol and diesel. Changes in "licenses" are not considered significant and do not invoke furious discussion within or without the Dewan Ra'ayat but nevertheless they do bring in considerable additional revenue. Such minor changes help, though slowly and gradually, and probably in a better way, in bringing about a system that is easy to administer and at the same time yields more revenue.

#### Revenue Collection from Licences

Table 4.4 shows the total collections from licences over the period 1958-1966. The most prominent feature is the slow but steady increase in the absolute revenue collected. There are no abrupt increases as in excise revenue. Over the span of nine years revenue is expected to more than double itself. This steady increase, is a reflection of the prosperous conditions prevailing in Malaysia, and on the assumption that we maintain our prosperity, total licence revenue may well continue to increase.

Column (4) Table 4.4 shows the share of licence revenue in total revenue. Between 1958 and 1960 it constituted around 5% of total revenue. From 1961-1965 its share rose to around 6%. The 1966 estimates expect licences to contribute 7.27% of total revenue. Therefore over the nine year period the rate of increase in licence revenue has been higher than the rate of increase in total revenue. Column (5) indicates the share of licence revenue in total tax revenue. The same trend as column (4) is evident but on a slightly increased scale. Notice, however, that while absolute licence collections have been increasing every year, the percentages do not indicate so. The explanation is to be found in the increases in total tax revenue rather than in licence revenue. Even if licences revenue increase, a larger increase in total revenue and tax revenue reduces the share of licences revenue. This explains minor percentage reductions in columns (4) and (5) of Table 4.4. But nevertheless the net percentage contribution has shown an increase in both columns (4) and (5) indicating that over the years, licences revenue are expected to rise faster than either tax revenue or total revenue.

By and large, the most important source of licence revenue is road transport revenue. Revenue from this source consists of:

- i) Driving licences.
- ii) Motor vehicles licences, and
- iii) Public services vehicles, drivers and conductors licences.

Column (2) Table 4.5 shows the collections from road transport, like licences, revenue from road transport has shown a general tendency to increase. It is expected that the 1965 revenue from road transport

TABLE 4.4

## LICENCES AND THEIR SIGNIFICANCE IN CENTRAL GOVERNMENT REVENUE

Year	Excise Duties (1)	Total Revenue (2)	Total Tax Revenue (3)	Col. (1) as % of Col. (4)	Col. (1) as % of Col. (5)
1958	41,476,386	762,465,446	599,947,926	5.43	6.91
1959	46,912,767	890,972,163	722,161,560	5.20	6.49
1960	57,838,594	1,069,020,972	882,640,099	5.41	6.50
1961	65,584,916	1,081,006,862	873,655,570	6.06	7.50
1962	71,100,946	1,097,368,792	880,262,622	6.47	8.07
1963	71,851,469	1,150,246,312	902,032,899	6.24	7.96
1964	81,078,394	1,338,195,777	1,033,378,113	6.05	7.84
1965	92,526,800	1,437,400,000	1,167,713,800	6.43	7.92
1966	113,250,300	1,556,050,500	1,264,710,800	7.27	8.95

Source: As for Table 2.6.

TABLE 4.5

SIGNIFICANCE OF ROAD TRANSPORT REVENUE  
IN TOTAL LICENCES REVENUE

Year	Total Licences Revenue (1)	Revenue from Road Transport (2)	Col. (2) as % of Col. (1) (3)
1958	41,476,386	39,062,414	94.17
1959	46,912,767	44,287,874	94.40
1960	57,838,594	54,929,892	94.97
1961	65,584,916	62,207,922	94.85
1962	71,100,946	67,169,020	94.46
1963	71,851,469	67,736,203	94.27
1964	81,078,394	75,961,062	93.68
1965	92,526,800	87,135,000	94.17
1966	113,250,300	105,776,000	93.40

Source: As for Table 2.6.

would be double the 1958 collection. Column (3) indicates the overwhelming importance of road transport collection. On an average it has accounted for 94% of total licence revenue. Absolute increases in road transport revenue has not led to any increase in its share of licence revenue. This was a consequence of a corresponding increase in total revenue/licences. Unlike in the case of excises, the main source of licence revenue has remained unchanged during the period under review. There is no indication that this structure will change in the near future. But there is every reason to believe that road transport will continue to constitute a large share of total licence collection in the coming years.

Wireless licence collections and television licences have been the other major contributors to licence revenue. As the general welfare of the people increases, these may become increasingly important in the structure of licence revenue. The main task here is to beat evasion of licences; and success in this venture will result in higher revenue collections.

## Conclusion

Unlike excise duties, revenue from licences shows no dramatic increase over the period of 1958-1966. The increase, in fact, has been rather slow but steady. It is a reflection of the slow and steady progress in the general economic conditions of the country. If this trend continues in the future, we may well witness a corresponding increase in the importance of licence revenue. But in this field, our immediate task is to consolidate and harmonize the rates existing in Malaysia and the Borneo States. In fact, since the formation of Malaysia, very little has been done in this direction. Interest has been focussed in customs and inland revenue; but hardly anything of significance has been undertaken in the fields of excise and licences. The situation will have to be altered if we intend to improve our tax structure and raise more revenue from such minor sources as these.

