

CHAPTER 5: MALAYSIAN GOVERNMENT'S REVENUE

5.1. Introduction

Malaysian Federal Government's revenue is classified under three general categories, which are non-tax revenue, non-revenue receipts and tax revenue. Tax revenue is further divided into direct and indirect tax revenue. Revenue generated from the indirect tax will be analyzed and focusing specifically on the import and excise duties particularly on motor vehicle sector. It is important to note that all the figures provided in the following section do not take into account the effect of the new tax legislation announced on the 31 December 2003.

5.2. Non-tax revenue

Non-tax revenue consists of receipts from registration fees, licences and permits, service fees, proceeds from sales of goods, rentals, interests and returns on investments, fines and penalties, contributions and compensations from foreign governments and international agencies. Included under licences are all charges imposed on the granting of rights to individuals, corporations, businesses and other enterprises for purposes of regulation or control, and motor vehicle licence. Service fees consist of receipts for services rendered by the Federal Government to the public. Proceeds and return from sales of goods are receipts for services rendered by the Federal Government to the public. Proceeds from sales of services are receipts from the sale of physical assets owned by the government including land, buildings, store facilities and miscellaneous goods to the public. Interests and returns on investments include all interests on loans granted by the government, bank interest, interest/dividends earned from bonds/shares and royalty on petroleum as well as gas.

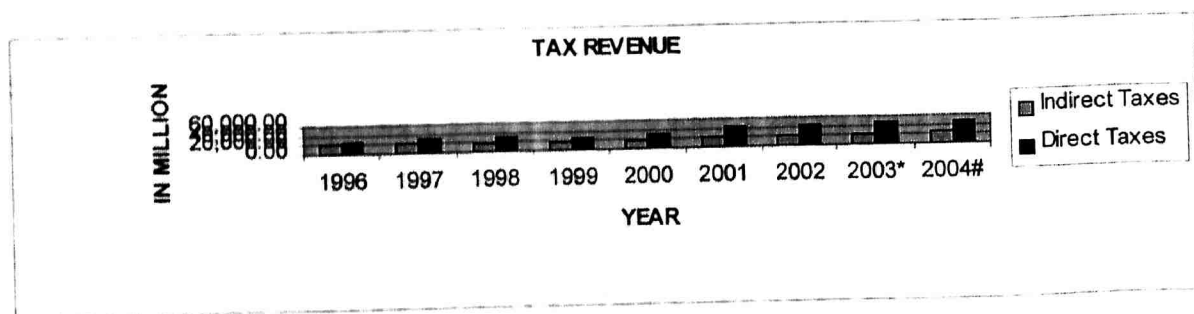
5.3. Non-revenue receipts

Non-revenue receipts include all refunds of expenditure, inter-departmental credits, refunds of overpayment or erroneous payments in previous fiscal year, reimbursements and contributions from other government departments, statutory bodies or government owned enterprises and receipts from the Federal Territories. Refunds of expenditure include receipts from the Consolidated Fund from the previous year, refund of salaries on resignation and refund of training expenses, while receipts from other government agencies consist of inter-ministerial or inter-departmental transfer of funds for services rendered by the government to other government –owned bodies. Receipts from the Federal Territories consist of tax and non-tax revenue, which includes receipts from licences and permits, premiums, quit rent, sales of assets, rental, service fees and entertainment duties.

5.4. Tax revenue

Tax revenue is classified into Direct Tax Revenue and Indirect Tax Revenue. Direct tax revenue includes revenue from income tax (individual, company, petroleum and cooperatives), stamp duty, real property gains tax and Labuan offshore business activity tax. Indirect tax revenue consists of revenue from export duties, import duties, excise duties, sales tax, service tax and levy.

Figure 5.1: Tax Revenue

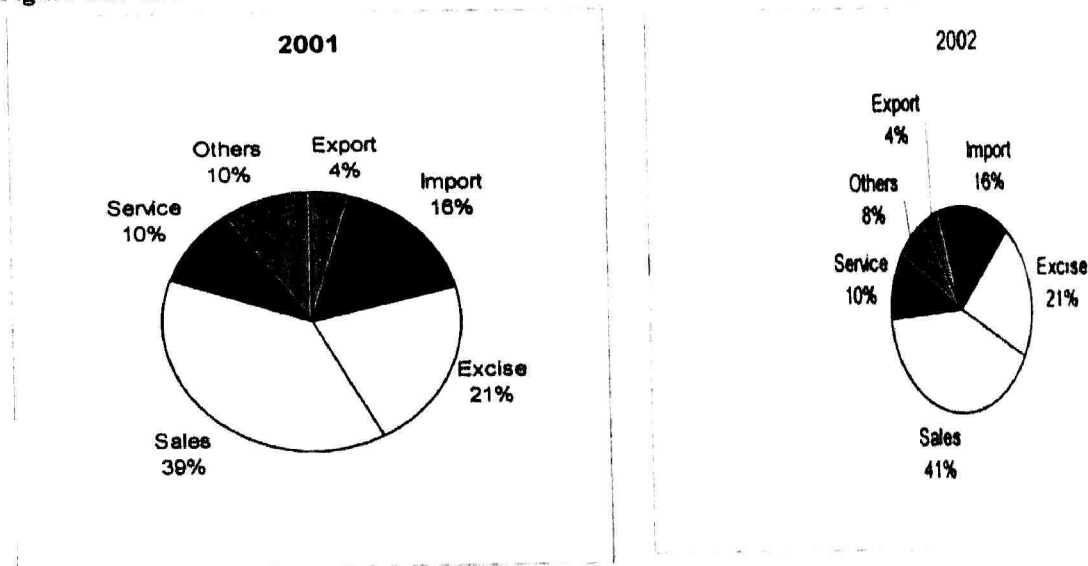


Source: Estimates of Federal Governments' Revenue

Figure 5.1 indicates that revenue generated from direct taxes has increased over the years. A sharp increase in the year 2001 can be attributed to the increase level of awareness among taxpayers (individual and companies) on their responsibility to pay their tax liabilities. In addition, there was also an increase enforcement of the Inland Revenue Board officers in ensuring taxpayers paid their tax liability. Direct taxes are expected to contribute RM46,481 million, which is 67% of the tax revenue or 52% of total revenue for the year 2003.

There was a drop of direct taxes collection in 1999 as a result of the Asian financial crisis. However, a slow progress can be seen in the following years. Indirect taxes are expected to contribute RM22,690 million in 2003, which is 33% of the tax revenue or 26% of the total revenue .

Figure 5.2: Indirect Taxes for 2001 and 2002



The above figures indicate that the major contributor of indirect tax revenue is the sales tax (39% in 2001), followed by excise duties and import duties (21% and 16% respectively). The same proportion applied in the year 2002, except there is an increase of 2% in sales tax. Table 5.1 shows the various categories of indirect taxes revenue for year 1996 to 2004.

Table 5-1: Indirect Tax Revenue for the years 1996 to 2004

	1996	1997	1998	1999	2000	2001	2002	2003*	2004#
Indirect Taxes	RM (Million)	RM (Million)	RM (Million)	RM (Million)	RM (Million)	RM (Million)	RM (Million)	RM (Million)	RM (Million)
Export Duties	1,041	1,053	623	670	1,032	867	803	997	793
Import Duties	6,132	6,524	3,868	4,720	3,599	3,193	3,668	3,912	4,421
Excise Duties	5,790	6,054	3,586	4,723	3,803	4,128	4,745	4,933	5,452
Sales Tax	5,473	6,167	3,845	4,488	5,968	7,356	9,243	8,514	10,442
Service Tax	1,231	1,475	1,447	1,459	1,701	1,926	2,214	2,363	2,642
Others	1,754	1,922	1,951	2,040	1,914	1,923	1,836	1,971	2,101
Total Indirect Taxes	21,421	23,195	15,320	18,100	18,017	19,393	22,509	22,690	25,851

*Revised Estimate

Budgeted

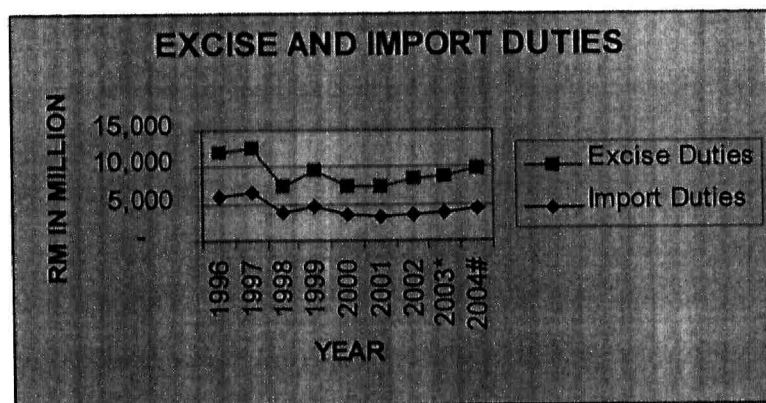
Source: Estimates of Federal Government's Revenue

5.5. Contribution to Tax Revenue from Import and Excise Duties

Figure 5.2 shows that revenue generated from excise and import duties dropped in 2000 but progressively increased in the following years. Revenue from import duties in 2003 has been revised upward by 11% to RM3,912 million, a 7% higher than the 2002 collection of RM3,668. Revenue from excise duties for 2003 is also expected to increase by 13% to RM4,933 million and again by 4% higher than the 2002 collection of RM4,745 million. The expected increase in revenue is attributed to better performance expected in the domestic economy.

An increase of 5% and 3% for import duties and excise duties respectively is expected for the year 2004. The increase can be attributed to continued increase in purchasing power and increased demand for motor vehicles that is supported by lower interest rate regimes.

Figure 5.3: Excise and Import Duties



Source: Estimates of Federal Government's Revenue

Revenue from import duty as well as excise duty is derived from the following sub-categories:

- i. Spirits and Malt Liquor
- ii. Tobacco, Cigarettes & Cigars
- iii. CBU and CKD cars
- iv. Others

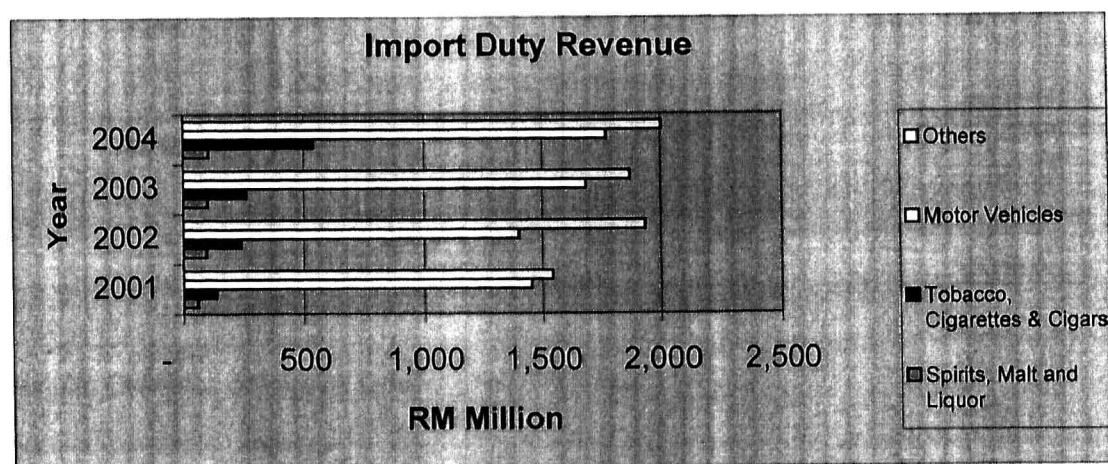
The tax revenue from import duties and excise duties for 2001 to 2004 is illustrated in the following tables and figures:

Table 5-2: Import Duty Revenue (in RM millions)

Import Duty	2001	2002	2003*	2004#
Spirits, Malt and Liquor	60	95	99	104
Tobacco, Cigarettes & Cigars	136	237	259	541
Motor Vehicles	1,455	1,403	1,685	1,772
Others	1,542	1,933	1,869	2,004
Total	3,193	3,668	3,912	4,421
% of Motor Vehicles	46%	38%	43%	40%

Source: Estimates of Federal Government's Revenue

Figure 5.4: Import Duty Revenue



Source: Estimates of Federal Government's Revenue

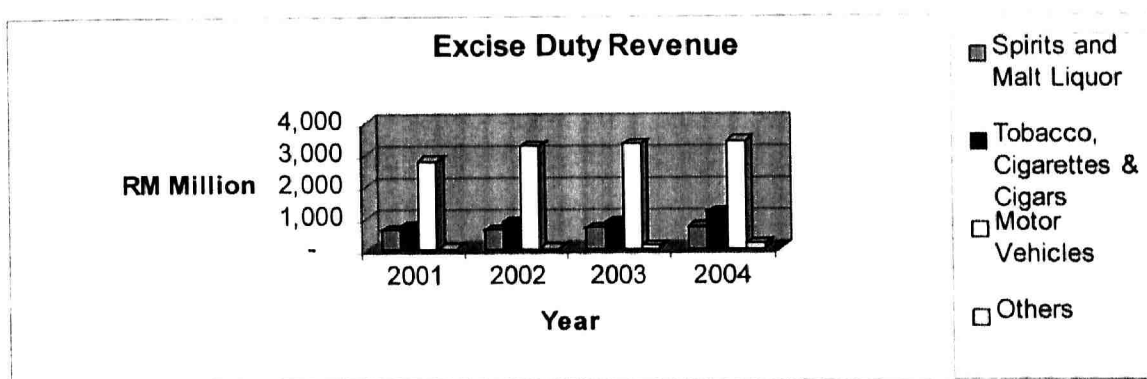
Import duty revenue from the motor vehicle category represents 46% of total import duty collected in 2001 but reduced to 38% in 2002. However, it is expected to increase to 43% and 40% in the 2003 and 2004 respectively. In the 2003 revised estimate, revenue from import duties on CBUs and CKDs motor vehicles is expected to increase to RM1,685 million, a 20% higher than the 2002 actual collection of RM1,403

Table 5-3: Excise Duty Revenue (in RM millions)

Excise Duty	2001	2002	2003*	2004#
Spirits and Malt Liquor	598	621	654	690
Tobacco, Cigarettes & Cigars	736	852	856	1,183
Motor Vehicles	2,792	3,264	3,315	3,423
Others	3	8	108	156
Total	4,129	4,745	4,933	5,452
% Motor Vehicles	68%	69%	67%	63%

Source: Estimates of Federal Government's Revenue

Figure 5.5: Excise Duty Revenue



Source: Estimates of Federal Government's Revenue

As seen from Figure 5.4, tax revenue collected from the CBUs and CKDs in excise duties are essential. It represents more than 60% of total excise duties collected since 2001. The revenue from excise duties on motor vehicles is also

expected to increase by 14% to RM3,315 million and shows a 2% higher than the 2002 actual collection.

5.6. Conclusion

Tax revenue contributes approximately 80% of total federal government's revenue for the year 2002. The balance is generated from non-tax revenue (19%), non-revenue receipts (less than 1%) and revenue from federal territories (less than 1%). Direct tax revenue amounting to RM44,351 million (53%), come mainly from individual and company income taxes, whereas indirect tax revenue constitute 27% or RM22,509 million of total revenue.

From the indirect taxes revenue, sales tax constitutes 11% of total revenue, followed by excise duties (6%), import duties (4%), service tax 3% and other indirect taxes such as export duties (3%).

Motor vehicles constitute 50% and 67% of total revenue collected from the import and excise duties respectively. Thus, the analysis indicates that revenue generated from the motor vehicle sector is significant to the government.