



INSTITUT MASA  
DEPAN MALAYSIA

# SOCIOECONOMIC INSIGHT NO.1 / 2024

## Malaysia's Subsidy and Tax Affecting the Middle-Income Class

POLICY AND RESEARCH DIVISION  
INSTITUT MASA DEPAN MALAYSIA  
17 MAY 2024

*Malaysia's Subsidy and Tax Affecting the Middle Income Class*  
*Dated 17 May 2024*

**Theme:**

**'Malaysia's Subsidy and Tax Affecting the Middle Income Class'**

**Introduction:**

The middle-class, who are generally “neither rich nor poor”, finds it difficult to sustain their lives. While the poor qualify to receive various benefits from government's welfare programs, the middle-class on the other hand are considered “too rich” to qualify for any support. According to a Household Income Survey 2022, middle class income (M40) is between RM 5,250 and RM 11,819 which represents the middle 40% of household incomes in Malaysia.<sup>1</sup> Ironically, according to the Department of Statistics Malaysia (DOSM), a family of four members needed at least an average disposable income of RM7000 a month to live within their means in Kuala Lumpur. Thus, if you have a base income of around RM5,000, it is considered low or unsustainable to even have a basic living in Kuala Lumpur.

It is a familiar sight to find an M40 family members often struggles to make ends meet and put food on the table<sup>2</sup>, especially with the rising cost of living (more severe if the M40 has a bigger size household). They are likely to face challenges due to exclusion from state assistance, with now higher utility bills and higher prices of imported goods. Sluggish economic growth in Malaysia will dampen business earnings and lead to slower growth in household incomes which contribute to the stagnation of M40 salaries has put significant financial strain on this income group<sup>3</sup>. The stagnant salaries occur at least for the past 3-4 years from 2019 to 2022 with the income growth rate being lower (8.4%) compared to other income groups<sup>4</sup>.

In Malaysia, policy instruments, i.e subsidies, bear a long history in providing the then prevalent poverty with the objectives to eradicate it. Based on the Ministry of Finance's (MOF) official portal, in **2022 Malaysia recorded the largest subsidy of RM 77.3 billion** (which surged to 2.9% of GDP) just to

<sup>1</sup> [https://www.dosm.gov.my/uploads/release-content/file\\_20230806205831.pdf](https://www.dosm.gov.my/uploads/release-content/file_20230806205831.pdf), (pg. 26)

<sup>2</sup> <https://www.thestar.com.my/news/nation/2023/09/04/the-m40-have-very-different-needs-say-experts>

<sup>3</sup>

<https://www.straitstimes.com/asia/se-asia/malaysia-s-economic-reforms-set-to-eat-into-budgets-of-middle-high-income-households>

<sup>4</sup> ibid.

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reduce cost of living for the people<sup>5</sup>. For example, the total subsidies covered by petrol, diesel, and liquefied petroleum gas contributed a quarter from the budget (RM 37.3 billion), more than the total health budget in 2019, over double that of social assistance, and four-fifths for education.

Figure 1 shows the trend of subsidy outlays (2000-2022) in Malaysia which **shows a significant increase over the years**, with notable fluctuations and peaks in certain periods. This indicates that Malaysia has been allocating substantial funds towards subsidies, particularly for fuel, interest rates, agricultural inputs, cooking oil, electricity, toll compensation and other items. As mentioned above, total subsidies in 2022 is the highest due to COVID-19, geopolitical tensions and climate change impacting global commodity prices.

For decades, while Malaysia was pushing for socio-economic growth to become a more developed and prosperous nation, the subsidy was aimed to improve the well-being and ease the cost of living of the rakyat. During 2012 to 2022, the **Government spent RM223.5 billion on subsidies or 8.9% of the total operating expenditure.**<sup>6</sup>

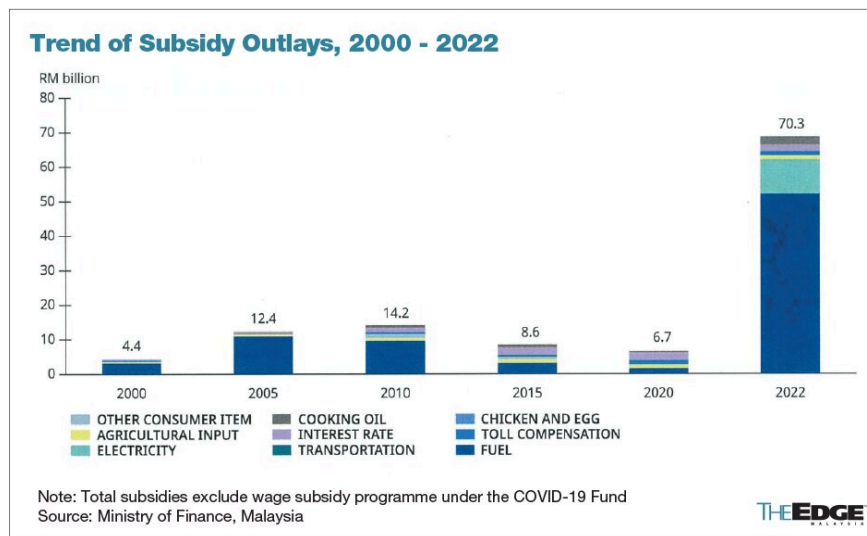


Figure 1: *Trend of Subsidy Outlays*<sup>7</sup>

<sup>5</sup>

<https://www.mof.gov.my/portal/en/news/press-citations/largest-ever-subsidy-of-rm77-3-bln-for-2022-to-reduce-cost-of-living-for-the-people-tengku-zafrul>

<sup>6</sup> <https://belanjawan.mof.gov.my/pdf/belanjawan2024/revenue/section3.pdf> (pg. 128)

<sup>7</sup> *ibid.*

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On the other hand, the middle class in Malaysia faces a **higher tax burden due to the progressive nature of the tax system** itself. As their income increases, they are subject to higher tax rates, impacting their take-home pay and financial planning.

Based on the PriceWaterhouseCoopers (PwC) report 2023, before the implementation of tax reduction, the M40 (Level M1 until M3 - income between RM 35,001 and RM 100,000 yearly) are subjected to a tax rate of 8%<sup>8</sup>. The higher tax rate contributed to a significant portion of their income being allocated to taxes, impacting their finances (refer Figure 2).

In 2023, the tax rate for M40 (Level M1) was reduced to 6%. This contributes to 39.9% (Income Tax) from RM 386,140 million of the total tax revenue in 2023.<sup>9</sup>

Income Group		Median Household Income (RM)	Mean Household Income (RM)	Income Threshold (RM)
B40	B1	2,012	1,941	Less than 2,560
B40	B2	3,034	3,018	2,560 – 3,439
B40	B3	3,875	3,874	3,440 – 4,309
B40	B4	4,764	4,771	4,310 – 5,249
M40	M1	5,770	5,782	5,250 – 6,339
M40	M2	6,979	6,989	6,340 – 7,689
M40	M3	8,523	8,536	7,690 – 9,449
M40	M4	10,552	10,577	9,450 – 11,819
T20	T1	13,475	13,585	11,820 – 15,869
T20	T2	20,776	25,719	15,870 and above

Figure 2: *Classification of household income group*<sup>10</sup>

Several factors contribute to this issue:

**1) Subsidies**

- a. Lack of targeted assistance

<sup>8</sup> <https://www.pwc.com/my/en/media/press-releases/2023/20230224-revised-budget-2023.html>

<sup>9</sup> [belanjawan.mof.gov.my/pdf/belanjawan2023/economy-fiscal/chart\\_budget.pdf](https://belanjawan.mof.gov.my/pdf/belanjawan2023/economy-fiscal/chart_budget.pdf) (pg. 72)

<sup>10</sup> <https://www.iproperty.com.my/guides/what-is-b40-m40-t20-in-malaysia-67464>

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b. Slow income growth

**2) Taxes**

- a. Income Inequality
- b. Tax Burden

**Factors that affect the M40**

**1) Subsidies**

**a. Lack of targeted assistance**

- Subsidies and financial assistance programmes predominantly target individuals falling below a specified income threshold, particularly the B40 group that falls below RM 3,860 (the first to feel the pinch of hardship when the cost of living rises).

Kategori Penerima	Jumlah Penerima	Kadar STR Fasa 2	Implikasi Kewangan (RM bilion)
Isi Rumah	4.0 juta	RM200	0.80
Warga Emas Tiada Pasangan	1.2 juta	RM100	0.11
Bujang	3.5 juta	RM100	0.35
<b>JUMLAH</b>	<b>8.7 juta</b>	<b>-</b>	<b>1.26</b>

Figure 3: Phase 2 STR (2023)<sup>11</sup>

- For example, Phase 2 STR (Figure 3) worth RM 1.26 billion was distributed to 8.7 million from B40 group in April 2023.<sup>12</sup>
- However there is no mention/data from MOF regarding the total assistance of subsidies for the M40 group.

<sup>11</sup>

<https://www.mof.gov.my/portal/ms/berita/siaran-media/8-7-juta-golongan-b40-akan-menerima-str-fasa-2-bernilai-rm1-26-bilion-secara-berperingkat-mulai-5-april-2023>

<sup>12</sup> ibid.

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- If we include the M40 group (estimated population of 2 million), the government will face an additional budgetary burden of RM 1 billion every month.
- Furthermore, the ever-rising cost of petrol subsidies has burdened the government with RM 45 billion in 2022, which can be used to support the needy (B40 & M40 group).<sup>13</sup>
- Hence, the objective to assist them is unfulfilled because the fuel subsidies were also enjoyed by the T20 group.

**b. Slow Income Growth**

- According to the report by OCBC Treasury Research (2024), inflation is hitting not just low-income Malaysians, but those in the middle-income groups too - primarily due to the **sluggish growth** in their salaries.<sup>14</sup>
- The report also quoted that the **failure of nominal wages to keep pace with inflation** places a tangible burden on a substantial portion of the Malaysian population.
- In addition, the **overall slow income growth** within a decade in Malaysia as compared to other countries has **affected both urban and rural populations in fulfilling their basic needs**.
- According to a report by UNICEF Malaysia (2024), **the current minimum wage is too low and**

<sup>13</sup> [Enhancing food security, reducing govt subsidies key issues for Malaysia's 2024 budget | The Straits Times](#)

<sup>14</sup>

<https://www.malaymail.com/news/money/2024/01/24/ocbc-sees-inflation-due-to-slow-wage-growth-hurting-middle-income-malaysians-too-now/114270>

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	<p><b>insufficient</b> for workers. It should be set at RM 2102 per month instead of RM 1500 per month.<sup>15</sup></p> <ul style="list-style-type: none"> <li>- In response, the Prime Minister declared that the pay increase (totalling more than 13%) for civil servants effective on December 1, with the last revision occurring 12 years ago.<sup>16</sup></li> <li>- Wage stagnation also lingers around Malaysian skilled talents despite having several years of work experience and being employed full-time.<sup>17</sup></li> <li>- Based on a study in 2018, for <b>every output of USD 1000, Malaysians</b> are getting paid <b>USD 340</b>, much lower compared to benchmark economies like <b>Singapore and Australia</b> which stood at <b>USD 510</b> (BNM, 2019). This is not an optimal situation as workers in these benchmark economies are being paid more for the same productivity as workers in Malaysia.<sup>18</sup></li> </ul>
<p><b>2) Taxation</b></p>	<p><b>a. Income Inequality</b></p> <ul style="list-style-type: none"> <li>- <b>Absolute poverty has declined, but many households remain precariously vulnerable.</b> In 2019, the absolute poverty rate of 5.6% (405 thousand households) indicates that most households are meeting basic needs. However,</li> </ul>

<sup>15</sup>

<https://www.nst.com.my/news/nation/2024/05/1047853/unicf-universal-childcare-benefit-may-help-address-poverty-malaysia>

<sup>16</sup>

<https://www.nst.com.my/news/nation/2024/05/1046528/updated-pm-civil-servants-salary-increase-based-performance-not>

<sup>17</sup>

<https://www.krinstitute.org/assets/contentMS/img/template/editor/KRI%20Booklet%20-%20Shifting%20Tides.pdf> (pg. 8)

<sup>18</sup> <https://www.ukeconline.com/wage-stagnation/>

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there has been little progress in reducing relative poverty.<sup>19</sup>

- The Gini coefficient, which measures income inequality, increased from 0.399 in 2016 to 0.407 in 2019 based on gross income. This trend affects both urban and rural areas and all major ethnic groups.<sup>20</sup>

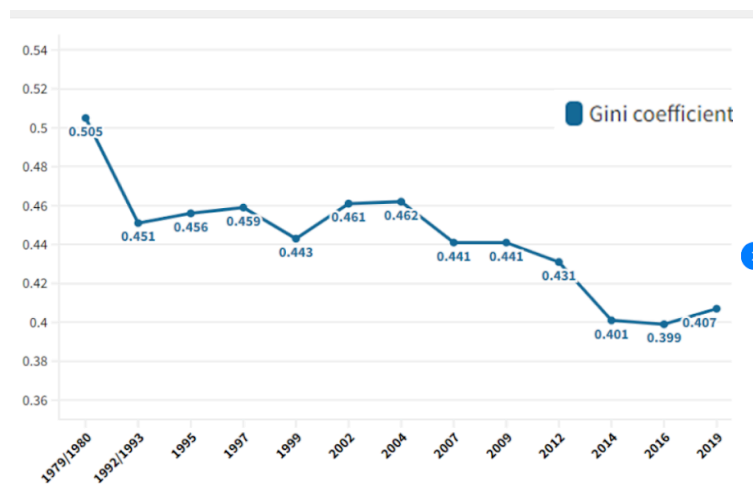


Figure 4: *Malaysia's Income Inequality (1979-2019)*<sup>21</sup>

- Middle-class households (M40) fall within this spectrum, and their income levels are crucial for understanding the overall economic landscape.

**b. Tax Burden**

Tax reforms has been introduced as part of the Budget 2024:

<sup>19</sup>

[https://krinstitute.org/Press\\_Release-%40-Income\\_of\\_Malaysian\\_households\\_over\\_three\\_decades.aspx](https://krinstitute.org/Press_Release-%40-Income_of_Malaysian_households_over_three_decades.aspx)

<sup>20</sup>

[https://www.researchgate.net/publication/367497875\\_FEMALE\\_PARTICIPATION\\_IN\\_LABOUR\\_FOR\\_CE\\_THE\\_SUCCESS\\_IN\\_REDUCING\\_INCOME\\_DISPARITY\\_IN\\_MALAYSIA](https://www.researchgate.net/publication/367497875_FEMALE_PARTICIPATION_IN_LABOUR_FOR_CE_THE_SUCCESS_IN_REDUCING_INCOME_DISPARITY_IN_MALAYSIA) (pg.84)

<sup>21</sup> Ibid.



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	<table border="1" data-bbox="579 398 1460 1193"> <tr> <td data-bbox="579 398 657 696">i.</td> <td data-bbox="657 398 927 696">Capital gains tax (CGT)</td> <td data-bbox="927 398 1460 696">A <b>10% CGT</b> was introduced on <b>net profit</b> derived from the disposal of local companies' unlisted shares. This measure took effect from March 1, 2024</td> </tr> <tr> <td data-bbox="579 696 657 898">ii.</td> <td data-bbox="657 696 927 898">Luxury Goods Tax (LGT)</td> <td data-bbox="927 696 1460 898">A new LGT was implemented, ranging from 5% to 10%. It applies to certain luxury goods.</td> </tr> <tr> <td data-bbox="579 898 657 1193">iii.</td> <td data-bbox="657 898 927 1193">Service Tax Increases:</td> <td data-bbox="927 898 1460 1193">The <b>service tax</b> was raised from the existing <b>6%</b> to <b>8%</b>. This increase will cover services such as logistics, brokerages, underwriting, and karaoke services.<sup>22</sup></td> </tr> </table> <p data-bbox="549 1249 1460 1413">- The tax rate for M40 has been reduced from 8% to 6% in 2023. This provided around 2.4 million taxpayers in the M40 group with added disposable income.</p>	i.	Capital gains tax (CGT)	A <b>10% CGT</b> was introduced on <b>net profit</b> derived from the disposal of local companies' unlisted shares. This measure took effect from March 1, 2024	ii.	Luxury Goods Tax (LGT)	A new LGT was implemented, ranging from 5% to 10%. It applies to certain luxury goods.	iii.	Service Tax Increases:	The <b>service tax</b> was raised from the existing <b>6%</b> to <b>8%</b> . This increase will cover services such as logistics, brokerages, underwriting, and karaoke services. <sup>22</sup>
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Recommendations	<p data-bbox="480 1496 1460 1637">To address the root cause issue of subsidies and taxes that affect the middle class income, it is recommended that:</p> <p data-bbox="528 1693 724 1738"><b>a. Subsidy</b></p> <p data-bbox="576 1794 1460 1917"><b>Subsidy rationalisation</b> needs to be accompanied by a clear explanation that is well-defined and transparent to the rakyat.</p>									

<sup>22</sup><https://kpmg.com/us/en/home/insights/2024/01/tnf-malaysia-service-tax-rate-taxable-services.html>

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	<ul style="list-style-type: none"><li>- A clear definition of the roles of the public sector, the private sector, and the third sector (CSOs) is key in optimising efforts.</li><li>- From a social protection perspective, it is imperative that the government is responsible for providing the '<b>social protection floor</b>' for society. This floor includes necessities for one to obtain a decent standard of living, which includes shelter, education, health, and basic income security.<sup>23</sup></li><li>- This is because the government alone has the sufficient scale and resources to provide the services at a wide and stable coverage.</li><li>- The private sector and CSOs can complement and supplement the floor by providing deeper, more specialised, and promotive assistance.</li><li>- This <b>multi-sectoral approach</b> will encourage a wider coverage of social protection where everyone is covered while assistance to those that are more vulnerable will be further supplemented. The roles of these entities are illustrated in Figure 6.<sup>24</sup></li></ul>
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<sup>23</sup>

[https://www.krinstitute.org/Discussion\\_Papers-@-Cash\\_Transfers-;\\_International\\_Insights\\_and\\_the\\_Malaysian\\_Experience.aspx](https://www.krinstitute.org/Discussion_Papers-@-Cash_Transfers-;_International_Insights_and_the_Malaysian_Experience.aspx) (pg. 87-88)

<sup>24</sup> ibid

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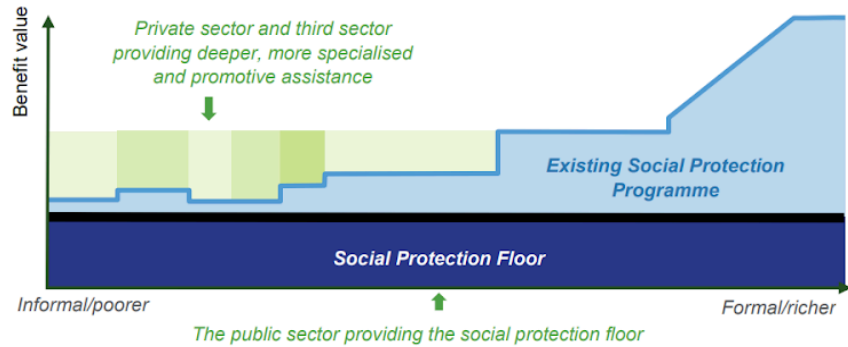


Figure 5: *The role of the public sector, private sector and third sector*<sup>25</sup>

- Hence, there is a need for **close coordination between the entities** in channelling social assistance. Administrators of cash transfers and other forms of social assistances should leverage on each other's expertise, share information, and pool resources

**b. Tax**

**i. Structural Reform**

- Tax rate for group T20 (Group L & J) should be reformed, since its tax rates of 30% being unchanged for the past 2 years (2022-2023) which contradict with the concept of progressive tax.

L	Exceeding 2,000,000	On the First 2,000,000 Next ringgit	30	517,450 .....
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a) Figure 6: *Tax rate in 2022*

<sup>25</sup> Ibid.

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J	Exceeding 2,000,000	On the First 2,000,000 Next ringgit	30	528,400
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b) Figure 7: Tax rate in 2023

Figure 6 & 7: Assessment Year Tax Rate 2022 & 2023<sup>26</sup>

**ii. Introduce targeted GST**

- it is more effective both in terms of implementation from the business side and of collection by the government.
- It is suggested that the targeted **GST be introduced in a range of 3% to 10% rate** as below:

Exempted goods	Items related to the basic consumption habits of the low-income population, such as rice;
Low-rate GST (3%)	Key development items, such as culture and education-related goods;
Middle-rate GST (6%)	All goods not identifiable within the other three categories;
High-rate GST (10%)	Luxury goods.

<sup>26</sup> <https://www.hasil.gov.my/en/individual/individual-life-cycle/how-to-declare-income/tax-rate/>

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	<ul style="list-style-type: none"> <li>- The rates (3% - 10%) indicated above is a suggestion. This moves in the direction of promoting an investment-led growth model<sup>27</sup>.</li> <li>- Also, the re-introduction of GST should be <b>implemented gradually</b> to allow for smooth transition and to mitigate potential disruptions to the <i>rakyat</i> and economy.</li> </ul> <p><b>c. Income</b></p> <p><b>i. Strengthen existing labour market policies to enhance the centralised infrastructure for job search, profiling, and matching</b></p> <ul style="list-style-type: none"> <li>- To consolidate existing initiatives by various ministries and agencies in order to minimise fragmentation and inefficiency of support programmes.</li> <li>- To improve accessibility of public employment services, such as job search support and apprenticeship programmes, through a central, digital portal<sup>28</sup>.</li> </ul> <p><b>ii. Accelerate progress of demand-side initiatives and regulations</b></p> <ul style="list-style-type: none"> <li>- Establish a fair and decent wage guideline to complement the existing wage regulations.</li> </ul>
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<sup>27</sup> **Assessing and Addressing Urban Poverty in Malaysia – Social Mobility Through Entrepreneurship** (Monolateral, 2022), authored by Benedict Weerasena and Dr Carmelo Ferlito (pg. 92-93)

<sup>28</sup>

<https://www.krinstitute.org/assets/contentMS/img/template/editor/KRI%20Booklet%20-%20Shifting%20Tides.pdf> (pg. 16)

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	<ul style="list-style-type: none"><li>- To enhance the alignment of wage progression with productivity growth by implementing the recently implemented Productivity-Linked Wage System (PLWS) and the recently established Progressive Wage Policy (PWP).</li><li>- Hence, a centralised, real-time database is made available to the government by PADU to assist in evidence-based policymaking. The government can create and carry out more effective policies and initiatives to combat income disparity and encourage inclusive growth with the use of detailed data.</li><li>- More economic opportunities and the growth of small and medium-sized businesses, which are essential for income growth, can be facilitated by better policy execution.</li></ul>
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