

Public Reactions and Acceptability on Carbon Tax Implementation in the Malaysian COVID-19 Economic Recovery Plan

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MASA POLICY DEVELOPMENT PROGRAMME

POLICY BRIEF 04

Public Reactions and Acceptability on Carbon Tax Implementation in the Malaysian COVID-19 Economic Recovery Plan

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2022

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Publisher:



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PREFACE

Institut Masa Depan Malaysia (MASA) is an independent think tank that brings together experts in government and academia to provide quality research, policy recommendations, and analysis on the full range of public policy issues guided by the shared prosperity values.

Since its inception, MASA has been actively involved in shaping national policies and frameworks. MASA Policy Development Programme (MPDP) was introduced as a pioneering initiative aimed at promoting policy research among researchers from public and private universities across the country, in alignment with the Shared Prosperity Vision 2030 and the Sustainable Development Goals, which are integrated with the 12th Malaysia Plan.

Through the MPDP 1.0 initiative, 30 Policy Briefs have been successfully produced, encompassing policy input and recommendations across sectors such as economics, social issues, education, and sustainable development.

MASA expresses its gratitude to Associate Professor Dr. Izlawanie Muhammad and her team for the production of this policy brief. The commitment of the MPDP grant recipients, along with close cooperation with relevant stakeholders, is highly appreciated and is hoped to continue making a positive impact on national policy development.

Azril Mohd Amin

Chief Executive Officer

Institut Masa Depan Malaysia

ABOUT MASA

Institut Masa Depan Malaysia (MASA) is an independent think tank that brings together experts in government and academia to provide quality research, policy recommendations, and analysis on the full range of public policy issues guided by the shared prosperity values.

MASA was established in January 2019. The formation of the organisation was inspired and mandated by the Seventh Prime Minister, YABhg. Tun Dr Mahathir Mohamad and the Eighth Prime Minister, YB Tan Sri Dato' Haji Muhyiddin Bin Haji Md Yassin. It was founded out of a passion to forward the philosophy of shared prosperity in Malaysia and this region.

MASA also was commissioned by the government of Malaysia to author and develop the Shared Prosperity Vision 2030 plan as the new socioeconomic plan for Malaysia.

Our Vision

To be a thought leader on policy ideas and analysis guided by shared prosperity values.

Our Mission

To create a world where no one is left behind by influencing policymakers to develop data-driven policies that ensure equitable wealth distribution and continuous improvement of people's well-being.

ABOUT MPDP

MASA Policy Development Programme (MPDP) is a pioneering effort in promoting policy research that has become part of MASA's flagship project, in line with the 12th Malaysia Plan which is aligned with the Shared Prosperity Vision and the Sustainable Development Goals.

The research grant, introduced for the first time in 2021, received an encouraging response public and private institutions of higher learning as well as non-governmental organizations.

MPDP researchers have produced studies across various strategic areas, including multidimensional poverty, education for the B40 group, sustainable urban planning for low-income communities, regional inclusivity in Sabah and Sarawak, social enterprise models for Micro, Small and Medium Enterprises (MSMEs), green economy potential and food security.

Other strategic areas of studies include empowerment of the ecotourism sector, climate change, health preparedness and crisis resilience, addressing learning loss, business acceleration, affordable housing and social protection.

All these are reflections of the initiatives and aspirations, inspired by the 8th Prime Minister and Chairman of MASA, Tan Sri Dato' Haji Muhyiddin bin Hj. Md. Yassin.

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Executive Summary

The government will soon impose a carbon tax on the supply of fossil fuels, driving up the cost of energy such as gasoline and electricity. It is hoped that the programme will alter people's consumption patterns, tackling the primary issue of climate change and global warming.

By 2030, compared to 2005, the Malaysian government expects the carbon tax to have reduced the economy's carbon intensity by 45 percent.

Due to common opposition and the fact that the country is still recovering from the COVID-19 outbreak, enacting and maintaining a new tax policy is challenging. These have raised the question of public reactions and acceptance of the proposed carbon tax, which this study examines.

The thematic analysis from the interview data shows that companies are ready to comply with carbon pricing policies, given that they have made great efforts and investments to reduce carbon emissions. Their only concern is how the policy can assist the public in coping with a higher cost of living.

While the quantitative data from 566 respondents nationwide found that public acceptability for carbon tax implementation is influenced by public perception of government's accountability, public perception of carbon tax effectiveness in reducing carbon emissions, public willingness to pay more to protect the environment and public awareness of climate change issues.

In terms of demographic, three variables - education, race and location – are found to influence policy acceptance significantly. The findings provide the government insights into the public reactions and acceptance of the carbon tax implementation.

As the tax system could change, Malaysia could learn from other countries experiences in carbon tax implementation, particularly from developing countries like South Africa, Chile and Argentina.

A proper design of environmental tax policy needs to be implemented to ensure that both objectives – reducing pollution and increasing tax collection – are met.

Furthermore, with an unstable economic position for various reasons, including the COVID-19 pandemic, Malaysia is at the right time to expand its tax bases.

Key Messages and Recommendations

Recommendation 1

- To ensure carbon tax aligns with environmental policies, track spending transparency, and promote sustainability from top to bottom.

Recommendation 2

- To invest in talent, align carbon tax and emission trading, study implementation, and test before introducing.

Recommendation 3

- To raise public awareness about carbon tax benefits, invest tax revenue in public facilities, educate on environmental conservation, and encourage electric vehicle use.

Recommendation 4

- To implement capital gains tax, exempt taxes for renewable energy, and protect low-income groups.

Introduction

The Malaysian government has implemented various instruments to elevate the issues related to environmental degradation. Green energy has been adopted as it is regarded as one of the best potential solution to deal with climate change.

The government has also given various green technology incentives for various sectors and industries to reduce carbon emissions by 45% in 2030 (Hong, 2014; Abdullah, 2017).

Table 1 shows the list of tax incentives provided by the government for green projects to mitigate climate change issues.

Table 1

Tax Incentives for Green Project In Malaysia

Environmental Issues	Green Project	Tax Incentives and Initiatives
Climate change	The promotion on using renewable energy in the form of biomass	<p>In budget 2004, Malaysia first introduced few incentives to encourage green technology in the production of oil palm biomass:</p> <ul style="list-style-type: none"> • Pioneer status will be given to companies participating in a promoted activity or producing a promoted product <ul style="list-style-type: none"> ◦ An exemption of 70% (100% for value-added products and promoted areas) increased statutory income for five years for any manufacturing company, which reinvests in machinery utilising oil palm biomass

Table 1 (continued)

Environmental Issues	Green Project	Tax Incentives and Initiatives
Climate change	The promotion on using renewable energy in the form of biomass	<ul style="list-style-type: none"> • Investment tax allowance <ul style="list-style-type: none"> ◦ Tax exemption up to 70% of statutory income for each year of assessment from ITA computed at 60% of additional qualifying capital expenditure incurred within five years for any manufacturing company, which reinvests in machinery utilising oil palm biomass • The industry related to the promoted area can also qualify for higher tax exemption or allowance if the activities take place in “promoted area”
Climate change	Green technology transport	<ul style="list-style-type: none"> • In budget 2009, 100% exemption on import duty and 50% exemption on excise duty on newly built unit (CBU) hybrid cars given to the franchise holder • In 2011, Malaysia’s budget was fully exempt from import and excise duties on hybrid and electric cars and motorcycles • The government has also provided a soft loan facility of RM3 billion under the Public Transportation Fund to finance the acquisition of buses and rail companies.
Climate change	Green building	<ul style="list-style-type: none"> • In budget 2010, the first owner with Green Building Index certificates is entitled to tax exemption of 100% of additional capital expenditure and exemption from stamp duties. Therefore, Malaysia had introduced the Malaysia Building Integrated Photovoltaic Technology Application (MBIPV) (2005-2010) to promote increased use of photovoltaic (PV) technology to tap solar energy and generate electricity for buildings. This project aims to lower technology unit costs and increased the BPIV capacity.

Table 1 (continued)

Environmental Issues	Green Project	Tax Incentives and Initiatives
Climate change	Forest plantation project	<ul style="list-style-type: none"> • Companies that undertake an approved new forest plantation project <ul style="list-style-type: none"> ◦ They are exempted from payment of income tax for five years • Companies that undertake an expansion forest plantation project <ul style="list-style-type: none"> ◦ They are exempted from payment of income tax for ten years
Climate change	Green services	<ul style="list-style-type: none"> • Companies that provide green services that support investments in green projects <ul style="list-style-type: none"> ◦ Income tax exemption of 100% of statutory income from the year of assessment where MIDA's date of application until the year of assessment 2020
Climate change and waste management	Banned on the issuance of plastic bags	<ul style="list-style-type: none"> • Since 2009, in Penang, the state government has taken action on retailers not providing plastic bags every Monday, then slowly up to Thursday. Two years later, the Penang State started to ban the issuance of plastic bags; instead, the customer will be charged 20 cents per bag if they want to use plastic bags • In 2010, Selangor also started to stop providing plastic bags every Saturday and charged 20 cents per bag • In 2011, the Federal Government had seen these actions as one way to promote a green environment; thus, they encouraged to stop the issuance of plastic bags every Saturday nationwide

(Source: Hong, 2014)

In September 2021, the Malaysian Prime Minister announced that carbon tax is included in the 12th Malaysian Plan (2021-2025). The carbon component of fossil fuels will be subject to a set fee, which compels energy and fuel suppliers to raise their selling prices.

People typically react negatively when a new tax is implemented; they are sceptical of government expenditures, tax effectiveness, and, most crucially, a rising cost of living.

The administration has not yet made the foundation for the carbon tax announcement, though. The topic of how to execute the new carbon price policy amid the COVID-19 economic crisis also arises.

Public reactions and attitudes are by no means the only influence on environmental tax outcomes. Studies show that public acceptance is a significant factor influencing the effectiveness and sustainability of an environmental tax (Muhammad et al., 2021).

Getting public acceptance of a new tax policy is more challenging during an economic downturn due to the COVID-19 pandemic. Many businesses have either reduced operations or closed down permanently, leading to unemployment and poverty.

A better understanding of the public reactions is required to facilitate the implementation of the government's efforts.

The aims of this study are twofold:

- to explore companies' reactions toward carbon tax implementation in Malaysia and;
- to examine factors that influence public acceptability of carbon tax implementation in Malaysia. This is the first empirical study that examines public acceptance of carbon tax implementation in the Malaysian COVID-19 economic recovery plan.

Critique of Current Policy

In comparison to similar and neighbouring nations like Thailand, the Czech Republic, the Philippines, Singapore, and Indonesia, Malaysia's revenue is lower (IMF, 2021). The promotion of inclusive growth will be hampered by poor revenue collection.

Additionally, Malaysia has maintained a negative fiscal deficit since the 1980s. Fiscal irresponsibility was a major contributor to macroeconomic imbalance, particularly during the national financial crises of 1981–1986 and the Asian financial crises of 1997–98 and 2007–2008 (Ministry of Finance, 2019).

The budget deficit has primarily been funded by borrowing on the international and domestic markets, such as from commercial banks and the Central Bank.

After the global financial crisis, the government has achieved a solid revenue performance following the global financial crisis and has been able to lower the GDP deficit share in 2019 steadily (Ministry of Finance, 2020).

Due to the COVID-19 crisis, fewer tax collections have made it imperative for increased spending to revive the economy countercyclically.

As a result, the amount of debt has increased, potentially destabilising the path of medium-term fiscal reduction.

The pandemic has also caused the GDP deficitshare to increase in 2020 to -6.0 percent, but the deficit is anticipated to decrease even more in 2021 (Ministry of Finance, 2020).

Without a workable strategy for economic recovery, unemployment would stay high, the federal government deficit would expand, and the level of foreign debt would remain elevated.

Malaysia has been recommended to implement a carbon pricing policy to uphold its obligations under the 2015 Paris Agreement² of the UNFCCC and the 1997 Kyoto Protocol (Al-Amin et al., 2015; Babatunde et al., 2018; Yahoo & Othman, 2015).

Following these agreements, Malaysia wants to lower its GDP's CO₂-equivalent GHG emission intensity by up to 40% from 2005 levels by 2020 and 45% from 2005 levels by 2030 (UNFCCC, 2015).

However, as there is currently no cost associated with GHG emissions, there is little motivation for businesses and consumers to find ways to lessen their carbon footprint.

The current tax incentives for green technology investments seem unsustainable and fail to improve environmental protection.

It is obvious that polluters are not investing since society is forced to pay for expensive emission reduction measures while the government foots the bill. If this keeps happening, carbon emissions may rise, causing pollution, the depletion of resources (such as soil, water, and air), the loss of ecosystems and habitats, and the extinction of wildlife.

Particularly harmed by pollution and resource depletion are human health, industrialisation, and development—key factors in economic growth.

However, on numerous occasions, the public rejects environmental tax proposals, such as in the cases in Switzerland, Washington State, France, Canada, and Australia (Carattini et al., 2017). Such circumstances led to many studies on the public attitudes toward and acceptance of environmental tax.

Muhammad et al. (2021) conducted a systematic literature review on public acceptability and found that people are more supportive of environmental tax when they:

- are well informed about a policy's effectiveness and the policy content, particularly the use of revenue,
- have high trust in the government,
- have a positive attitude toward protecting the environment,
- perceive the policy is fair in terms of costs distribution and social sharing,
- are concerned about the climate change issue.

Policy Implications

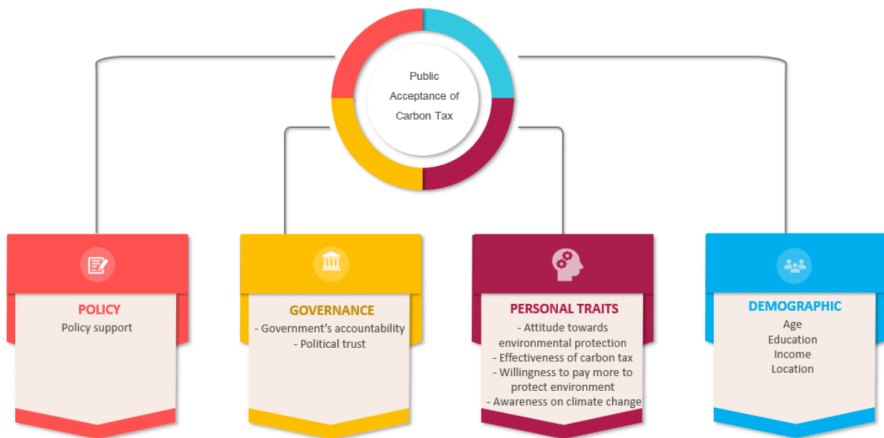
The study explores companies' reactions toward carbon tax implementation in Malaysia and examines factors that influence public acceptability of carbon tax implementation in Malaysia.

The factors tested in this study are shown in Figure 1. This is the first empirical study that examines public acceptance of carbon tax implementation in the Malaysian COVID-19 economic recovery plan.

Results from this study will assist the government, particularly the Ministry of Finance and the Royal Customs and Excise Department (RMCD), in implementing a feasible and effective carbon tax policy.

Figure 1

Research Framework



Results and Discussions

(1) Qualitative Results

Content analysis of the sustainability reports shows that both companies have continuous efforts to protect the environment. For example, a company is using the Ultra-Supercritical Coal-Fired (USC) technology and Advanced Combined Cycle technology to reduce carbon emissions intensity. The company also published Climate-related Financial Disclosures (TCFD) framework to inform the public of its commitment to reducing climate change.

In regards to carbon tax implementation, the respondents informed that they are ready to comply with the carbon pricing policy. However, they are concerned about the government's readiness to ensure the policy effectively reduces carbon emissions and strategies to assist the public in managing the higher cost of living.

The public, particularly the B40, is still struggling to recover from the COVID-19 economic impact, and the carbon tax will be an extra burden. They agree that the government needs to reform the subsidies policy and implement a carbon pricing policy to ensure Malaysian competitiveness in exporting goods to European countries. However, the carbon tax policy must consist of effective revenue strategies to assist the public.

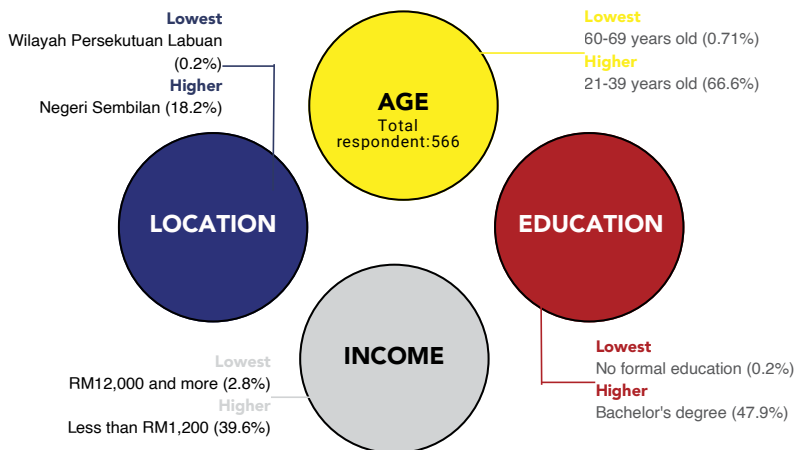
(2) Quantitative Results

Figure 2 shows the respondents' demographic data. The highest respondents are between the ages of 21 and 39 years old, with a percentage of 66.6%.

Respondents aged 60-69 were the lowest participants, scoring 0.71%. For education level, the highest respondents have a bachelor's degree (47.9%), and the lowest one has no formal education (0.2%).

Most respondents have an income of less than RM1,200, with 39.6%. Negeri Sembilan Respondents were the highest with a percentage of 18.2% and the lowest from Wilayah Persekutuan Labuan with a percentage of 0.2%.

Figure 2
Demographic Analysis



The analysis shows that six public behaviors and demographic factors – perceived effectiveness of carbon tax, willingness to pay, awareness of climate change, trust in government’s accountability, education and location – significantly influence carbon tax acceptance (see Figure 3).

This means that the higher the public – perceives the effectiveness of carbon tax, willingness to pay, awareness of climate change, and trust in the government’s accountability, the higher they support the carbon tax implementation.

As for education, people with higher education levels tend to have a positive attitude towards the carbon pricing policy. The study found that people in Selangor, Wilayah Persekutuan and Negeri Sembilan give more support to a carbon tax.

There are a couple of plausible explanations for the non-significant results between political trust, attitude towards environmental protection, age and monthly gross income with public acceptance.

First, the data collection was conducted a few months after a new Prime Minister, Dato Seri Ismail Yaacob, was elected. He is the third Prime Minister nearly four years after the 18th Malaysia General Election in 2018.

The public may feel tired of the political issues and think any politician or political parties that rule the country will not influence their acceptability behaviour.

Second, this is a pre-implementation study of the public acceptability of a carbon tax. Although they have been informed about the increase in energy prices as the impact of the carbon tax, the public does not have real experience of how the government manage the price increase.

Figure 3
Regression Analysis



Policy Recommendations

Table 2 provides suggestions for implementing a feasible carbon tax in the COVID-19 economic recovery plan. Malaysia should also learn from other countries experiences with a carbon tax, for example, the European countries and other developing countries like South Africa, Chile and Argentina.

Table 2

Suggestions to Implement a Feasible Carbon Tax

Governance	Policy	Public	Other Strategy
<ul style="list-style-type: none"> • Carbon tax should be a national agenda, not politicised to gain political support • Coordinate with current environmental policies • The government should be more accountable for spending • Commitment from top to bottom for sustainability efforts, for example, recycling activities, renewable energy 	<ul style="list-style-type: none"> • Invest in talent development • Coordinate carbon tax and emission trading system to prevent carbon leakage • Establish a national committee to study and coordinate the implementation of a carbon tax • Conduct a practical approach: to have at least 2-3 years of testing before the actual carbon tax implementation • Introduce carbon tax after the election 	<ul style="list-style-type: none"> • Create awareness to the public about the effectiveness of carbon tax • Giving back the tax collection to society in terms of facilities - wifi, schools. • A continuous education programme in protecting the environment • Encourage public to use electric vehicles 	<ul style="list-style-type: none"> • Introduce capital gains tax in staggered which does not affect the B40 group • Exemptions of sales and services tax for renewable energy supplies

Information dissemination is a critical strategy to avoid policy reversal like Malaysia experienced in 2018 when the Goods and Services Tax (GST). Information dissemination to the public is vital to raise awareness, improve feasibility, and garner public support.

Policymakers must communicate all aspects of their policies, including revenue allocation, distributional implications, and how they intend to address them clearly and concisely. For example, as part of the development of its carbon tax, Ireland conducted extensive consultations with community, environmental and business interest groups to improve the public's support (OECD & World Bank, 2015).

A comprehensive and inclusive engagement process is mandated through the law to enable broad public participation in its rulemaking proceedings.

Creating political acceptance for introducing carbon taxes requires scientific evidence and awareness raising about pollution's environmental and health impacts and opportunities to change behaviour. These can be done by providing basic educational materials, informational campaigns, developing detailed guidelines, holding workshops and consultations, providing training, and supporting research (Cottrell et al., 2016; Heine & Black, 2019).

Early and regular communication with all affected stakeholders about the rationale is essential to enhance the feasibility of carbon tax policy, generate public support and allow for prudent planning as policymakers become aware of business and civil society's concerns (OECD, 2011).

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eISBN 978-629-95648-2-9



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