

SECTION 2

Federal Government Revenue

117 OVERVIEW

117 REVENUE IN 2025

119 OUTLOOK 2026

120 CONCLUSION

Information Box - Malaysia's Tax Landscape:
The Revision of Sales Tax Rate and Expansion of
Service Tax Scope

SECTION 2

Federal Government Revenue

Overview

As a key pillar of fiscal policy, a sound and sustainable revenue strategy is essential to safeguard the Government's ability to finance national priorities and reinforce fiscal resilience. In line with the objectives mandated under the Public Finance and Fiscal Responsibility Act 2023 [Act 850], the Federal Government remains committed to strengthening revenue generation supporting inclusive growth and preserving long-term economic stability. A well-balanced revenue management not only enables the implementation of strategic investments that enhance national competitiveness but also ensures equitable income distribution, thus uplifting the well-being of the rakyat.

The fiscal reform agenda is centred on developing a comprehensive revenue strategy, underpinned by the principles of efficiency, transparency and equitability. In strengthening fiscal resilience and narrow the deficit, a series of revenue enhancing measures have been introduced and implemented by the Government. These include expansion of the sales tax and service tax (SST), phased implementation of the e-Invoice, taxation of dividend income, gradual increases in excise duties on sugar-sweetened beverages and the implementation of the Global Minimum Tax on multinational corporations. Collectively, these initiatives are intended to broaden the tax base, improve compliance, reduce systemic leakages and enhance administrative capacity. In addition, the New Investment Incentive Framework are currently being drafted to create a more conducive investment landscape, in line with efforts to catalyse private investment as the engine of growth. Over the medium

term, these measures are expected to generate sustainable revenue streams and reinforce the Government's fiscal position.

Revenue in 2025

In 2025, the Federal Government's revised revenue is projected to grow by 2.9% to RM334.1 billion as compared to 2024, on account of the Government's continuous efforts to widen the tax base. Tax revenue remains the major contributor, with a share of 75.8% of total revenue or 12.6% of GDP. Meanwhile, the non-tax revenue is estimated to be lower at RM80.7 billion, constituting 24.2% of total revenue.

Direct tax is estimated to improve by 3.2% to RM177.1 billion, primarily attributed to higher collections from individual and companies income taxes at RM141.9 billion. Individual income tax is projected to increase by 9.1% to RM44.9 billion, in tandem with a 13% rise in number of registered individual taxpayers, underpinned by stable wage growth, low unemployment rate and the salary adjustment for civil servants under the Public Service Remuneration System (SSPA). Likewise, revenue from companies income tax (CITA) is also expected to expand by 4.6% to RM97 billion on the back of better corporate earnings in the 2024 financial year, mainly from the services and manufacturing sectors. In addition, the phased implementation of the e-Invoice beginning August 2024, is expected to further reduce leakages and improve compliance, thus contributing to higher revenue collection. As at end-August 2025, the number of corporate taxpayers rose by more than 15% as compared to 2024.

Similarly, collections from other direct taxes, mainly stamp duties and the real property gains tax (RPGT), are estimated to increase to RM10.1 billion and RM2.3 billion, respectively, supported by higher property market values. According to the National Property Information Centre (NAPIC), property values in the first half of 2025 grew by 1.9% relative to the corresponding period in 2024.

Indirect tax is forecast to grow further by 11.3% to RM76.3 billion, driven by higher collection from the SST. The growth is mainly bolstered by service tax, which is anticipated to surge by 26.1% to RM29.3 billion, following the full-year implementation of the service tax rate at 8%, coupled with the wider scope of taxable services, such as logistics, rental or leasing

of goods and premises, as well as selected financial services. Likewise, sales tax collection is estimated to grow by 12% to RM24.1 billion, supported by robust private consumption and the impact from the expansion of sales tax on selected goods. In addition, other indirect taxes are estimated to grow by 2.5%, primarily arising from the windfall profit levy on oil palm fruit, in tandem with the projected increase in the average CPO price for the year.

Non-tax revenue is estimated to decrease to RM80.7 billion in 2025, consistent with the Government's focus to reduce reliance on unsustainable revenue streams. Revenue from licences and permits is estimated to decline to RM15.9 billion, as a result of a reduction in proceeds from petroleum royalty in line with

TABLE 2.1. *Federal Government Revenue, 2024 – 2026*

COMPONENT	RM MILLION			CHANGE (%)			SHARE (%)		
	2024	2025 ¹	2026 ²	2024	2025 ¹	2026 ²	2024	2025 ¹	2026 ²
Tax revenue	240,192	253,400	270,383	4.8	5.5	6.7	74.0	75.8	78.8
Direct tax	171,693	177,145	187,357	0.2	3.2	5.8	52.9	53.0	54.6
of which:									
CITA	92,776	97,033	103,353	1.1	4.6	6.5	28.6	29.0	30.1
Individuals	41,099	44,859	49,069	8.8	9.1	9.4	12.7	13.4	14.3
PITA	20,528	16,906	15,698	-21.3	-17.6	-7.1	6.3	5.1	4.6
Indirect tax	68,499	76,255	83,026	18.4	11.3	8.9	21.1	22.8	24.2
of which:									
SST	44,758	53,424	59,627	26.2	19.4	11.6	13.8	16.0	17.4
Excise duties	13,383	12,508	12,791	1.8	-6.5	2.3	4.1	3.7	3.7
Import duty	3,072	3,077	3,081	1.2	0.2	0.1	1.0	0.9	0.9
Export duty	2,092	1,920	1,913	2.6	-8.3	-0.3	0.6	0.6	0.6
Non-tax revenue	84,426	80,715	72,741	-1.6	-4.4	-9.9	26.0	24.2	21.2
of which:									
Licences and permits	17,041	15,879	15,726	1.8	-6.8	-1.0	5.2	4.8	4.6
Investment income	45,782	50,374	36,676	-18.0	10.0	-27.2	14.1	15.1	10.7
Total revenue	324,618	334,115	343,124	3.1	2.9	2.7	100.0	100.0	100.0
Share of GDP (%)	16.8	16.6	16.1						

¹ Revised estimate

² Budget estimate, excluding Budget 2026 measures

Source: Ministry of Finance, Malaysia

lower average global crude oil prices. In contrast, investment income is expected to remain robust at RM50.4 billion, largely attributable to sustained dividend contributions from PETRONAS amounting to RM32 billion, as well as higher dividends from Bank Negara Malaysia at RM5.25 billion. Additionally, the Retirement Fund (Incorporated) (KWAP) is expected to contribute RM4 billion to partly finance retirement charges for the year. Meanwhile, proceeds from motor vehicle licenses and the levy on foreign workers are projected to remain stable at RM3.4 billion and RM3.7 billion, respectively.

The share of **petroleum-related revenue** is projected to be lower at around 17% of total revenue or 2.8% of GDP, in tandem with the downward trend in average global crude oil prices. Petroleum income tax (PITA) is expected to register RM16.9 billion, while petroleum royalties are projected at RM5.5 billion. Meanwhile, **non-petroleum revenue** is anticipated to expand by 6% to RM277.5 billion, underpinned by higher tax collections, reflecting the positive outcome of ongoing revenue diversification measures.

2026 Outlook

With various revenue measures introduced in phases beginning 2024, the Government anticipates these initiatives to deliver the full impact in 2026. In particular, key tax revenue measures comprise the enhancement of the SST rate and scope, as well as the adoption of digitalisation through e-invoicing, leading to improved tax compliance. Accordingly, the Federal Government revenue in 2026 is projected to grow by 2.7% to RM343.1 billion, mainly contributed by tax revenue estimated at RM270.4 billion, representing 78.8% of total revenue, equivalent to 12.7% of GDP. Meanwhile, non-tax revenue is projected at RM72.7 billion, or 3.4% of GDP, primarily supported by investment income and other recurring sources such as licences and permits.

The higher total revenue reflects increased efficiency in tax collection and the positive impact of ongoing fiscal reforms.

Direct tax collection is forecast to increase by 5.8% to RM187.4 billion, constituting 69.3% of total tax revenue, largely contributed by higher collections from companies and individual income taxes. The collection from CITA will remain the largest source of direct tax, estimated at RM103.4 billion, supported by sustained domestic economic activity, coupled with the full-year implementation of the e-invoicing system, resulting in a higher number of registered taxpayers. Likewise, individual income tax is estimated to increase by 9.4% to RM49.1 billion, reflecting a stable labour market and continued wage growth. The second phase of civil service salary adjustments under the SSPA is expected to further broaden the taxable base, thus contributing positively to individual income tax collections. In addition, revenue from other direct tax components, particularly stamp duties and RPGT, is projected to expand to RM10.3 billion and RM2.4 billion, respectively, in consonance with the higher transactional activity within the real estate sector.

Indirect tax is projected to grow by 8.9% to RM83 billion in 2026, supported by targeted policy measures and sustained domestic demand. The collection from SST is expected to remain as the major component, contributing RM59.6 billion, or 71.8% of total indirect tax collection, equivalent to 2.8% of GDP, of which around RM10 billion will be derived from the SST expansion measures. Sales tax is forecast at RM26.6 billion, while service tax is projected to record RM33 billion. These also reflect buoyant consumption in conjunction with the Visit Malaysia 2026. Moreover, excise duties are anticipated to record RM12.8 billion, underpinned by moderate motor vehicle production, introduction of new vehicle models and intensified promotional activities, as well as the removal of excise duty exemptions on completely built up (CBU) electric vehicles beginning 2026.

Non-tax revenue is estimated to decline by 9.9% to RM72.7 billion, primarily due to lower dividend payments from PETRONAS estimated at RM20 billion, while Khazanah is estimated to contribute RM2 billion. The Government is also anticipated to receive RM5 billion contribution from KWAP to partly finance the retirement charges and one-off proceeds from the transfer of ownership of Bintulu Port Authority estimated at RM3 billion. Meanwhile, revenue from licences and permits is projected to remain stable at RM15.7 billion, contributed mainly by motor vehicle licences and levy on foreign workers at RM3.4 billion and RM3.8 billion, respectively.

As part of the Government's commitment to reduce reliance on commodity-based revenue due to its price volatility, **petroleum-related revenue** is projected to contract further in 2026 to RM43 billion, accounting for 12.5% of total revenue mainly attributable to lower PETRONAS dividends. With the anticipation of moderating global crude oil prices, PITA is estimated at RM15.7 billion and petroleum royalty at RM5.1 billion. In contrast, **non-petroleum revenue** is expected to increase by 8.1% to RM300.1 billion, reflecting the full-year impact of revenue measures rolled out in previous years. This transition towards a broader and more sustainable revenue base is consistent with fiscal consolidation efforts aimed at mitigating exposure to external shocks, enhancing revenue collection capacity and ensuring prudent expenditure commitments, particularly for social protection and development priorities.

Conclusion

Sustainable revenue generation is central to the nation's fiscal health, providing the resources to finance public service delivery, infrastructure development and social protection programmes. Recent reforms have enhanced the taxation system, making it more progressive and resilient, while reducing reliance on volatile revenue sources. These efforts help to improve fiscal position, ensuring the Government is able to meet society's needs while maintaining long-term fiscal sustainability. Moving forward, the implementation of multi-pronged revenue measures, including the phased adoption of the Medium-Term Revenue Strategy, marks an important structural reform in revenue policy and administration. By broadening the tax base, minimising leakages and improving compliance through digitalisation, these reforms are expected to enhance tax buoyancy and create sufficient fiscal space for countercyclical policy interventions in the future. Ultimately, the fiscal reforms initiatives are imperative in providing resources to finance development priorities under the Thirteenth Malaysia Plan, 2026 – 2030 towards achieving macroeconomic stability and inclusive growth.

INFORMATION BOX

Malaysia's Tax Landscape: The Revision of Sales Tax Rate and Expansion of Service Tax Scope

Background of Consumption Tax in Malaysia

The Sales Tax and Service Tax (SST) system in Malaysia was introduced through the enactment of Sales Tax Act in 1972 and the Service Tax Act in 1975. The coverage of this SST was applicable to approximately 46% of goods and services in the Consumer Price Index (CPI) basket. This encompasses two separate types of taxes; the sales tax which is imposed on goods that are imported or manufactured domestically either at the time of importation or at the time the goods are sold by the manufacturer, while, the service tax is imposed on taxable services provided locally and imported services. Initially, sales tax rates of 5% and 10% were applied, depending on the category of goods. Generally, unprocessed food items were exempted, processed food and intermediate goods were subject to a 5% tax, while finished goods were taxed at 10%. Meanwhile, a uniform service tax rate of 6% was imposed on all taxable services as stipulated under the legislation. This SST structure remained in place until the Goods and Services Tax (GST) was introduced effective 1 April 2015.

The GST was implemented at a standard rate of 6% as a broad-based consumption tax applied across the supply chain, with input tax credits mechanism to prevent double taxation. However, GST faced widespread public resistance, largely due to its perceived impact on the cost of living, compliance burdens on small enterprises, and administrative challenges during implementation. These pressures ultimately led to its abolition on 1 June 2018, following a change in administration during the year.

Subsequently, after a three-month "tax holiday", the Government reinstated the SST on 1 September 2018, a narrower and less comprehensive tax framework compared to GST. Under the new SST, no major changes were made to the SST legislation, therefore, maintaining the existing structure of the previous SST. Similarly, sales tax was applied at either 5% or 10% on taxable goods at the manufacturing or import stage, while service tax of 6% was applied to prescribed services, among others, accommodation, food and beverages, telecommunications, insurance, and selected professional services. The narrower scope of SST not only provided exemptions for essential goods, but also reduced compliance burdens, particularly for micro, small and medium enterprises (MSMEs), by eliminating the need for input tax credit mechanisms and extensive reporting requirements.

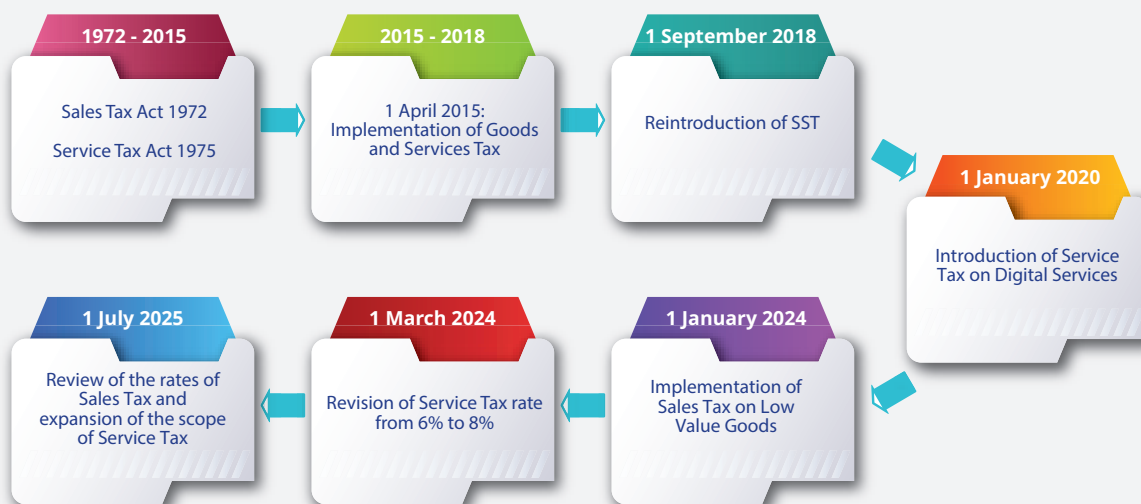
Enhancement of SST Framework

Gradual enhancements were made to the SST framework to ensure consistency with the dynamics of consumption tax policies worldwide as well as to keep up with the advancements and complexities of the economy. This includes the introduction of the service tax on digital services (SToDS) beginning 1 January 2020. The SToDS is imposed on digital services provided by any foreign registered persons to consumers in Malaysia (B2C). In this regard, digital service refers

to any service that is delivered or subscribed over the internet or other electronic network, and cannot be obtained without the use of information technology where the delivery of the service is essentially automated. The implementation of SToDS not only complements the service tax policy on imported taxable services, but it also enables a level playing field between local digital services providers that are already subjected to service tax since 2018.

Effective January 2024, a 10% sales tax is imposed on the importation of Low Value Goods (LVG). This measure was introduced to address Government revenue leakages via e-commerce and ensure fairness to domestic businesses. The sales tax on LVG is applied for imported goods valued below RM500 purchased through an e-commerce platform. To facilitate compliance, foreign e-commerce sellers with annual LVG sales exceeding RM500,000 are required to register under the SST through the MyLVG system. These registered sellers are obligated to file quarterly returns and remit tax payments accordingly, with penalties imposed for late payment or non-compliance.

FIGURE 1. *Evolution of Consumption Tax in Malaysia*



Source: Ministry of Finance, Malaysia

Further reforms to the SST framework were implemented as part of the Government's broader effort to enhance revenue resilience, while balancing the impact on businesses and consumers. These reforms were sequenced to ensure a manageable impact on the economy as a whole. On 1 March 2024, the service tax rate was revised from 6% to 8% and the scope of service tax expanded to include logistics services. To lessen the impact of the imposition of the service tax on the supply chain, the rate of service tax for the logistics services was kept at 6%. In addition, the rate was also maintained at 6% for services widely consumed by the rakyat such as food and beverages, telecommunications and parking services.

The SST framework was further improved as announced in Budget 2025. Revisions to the sales tax rate and the expansion of the scope of service tax took effect beginning 1 July 2025 instead of the initial planned date of 1 May 2025, to allow sufficient time for engagement and adequate preparation by businesses to ensure a smooth rollout. Under the sales tax revision, basic necessities such as rice, meats, eggs, and vegetables, remain exempted. Exemptions were also extended to essential inputs in the agriculture and basic construction materials, with the aim to further alleviate cost pressures in the supply of food and residential homes. An upward revision of the sales tax to either 5% or 10% is confined to selected discretionary goods, where consumers have an option to choose based on lifestyle and affordability. These include imported fish, seasonal imported fruits, specialty food items, and non-essential or luxury goods as illustrated in Figure 2.

FIGURE 2. Sales Tax on Selected Goods



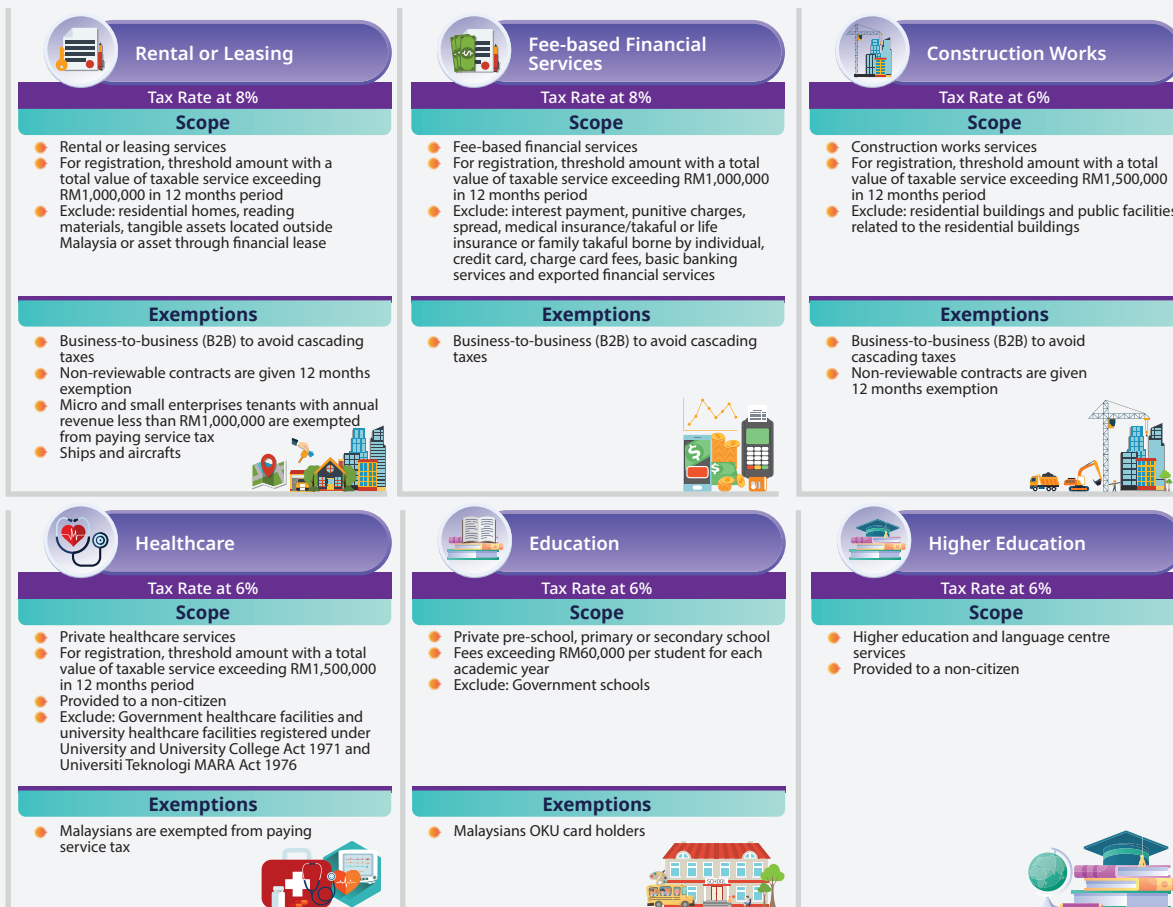
Sales Tax (ST)		
Goods at 0% Rate	Goods at 5% Rate	Goods at 10% Rate
ST on essential goods is maintained at 0%	Goods subject to ST at 5%	Goods subject to ST at 10%
Examples of goods maintained at 0% rate: - Unprocessed goods: - Chicken / beef / lamb - Tilapia / mackerel tuna / prawn / squid - Local vegetables & fruits - Rice / barley / oats / wheat - Processed goods: - Flour - Canned sardines - Sugar / salt - White bread, pasta, rice vermicelli, noodles & instant noodles - Milk / Milo / Vico / Nestum - Palm cooking oil - Medicines & medical equipment - Books, journals & newspapers - Animal feed & pets - Basic construction materials - Fertilisers & pesticides - Agricultural & livestock machinery	Examples of goods maintained at 5% rate: - Abalone & lobster - Quinoa - Cheese - Fruit jams - Smartphones Examples of goods with increased rate to 5%: - King crab - Salmon & cod - Truffle mushrooms - Imported strawberries - Essential oils - Silk - Industrial machinery	Examples of goods maintained at 10% rate: - Caviar - Shark fin - Alcoholic beverages - Cigarettes & cigars - Leather goods Examples of goods with increased rate to 10%: - Tungsten scrap waste - Racing bicycles - Antique paintings & sculpture

Source: Ministry of Finance, Malaysia

Meanwhile, the scope of service tax was expanded to include five additional service focusing on commercial services, namely rental or leasing, construction works, fee-based financial services, private healthcare, and education. To minimise the direct burden on the rakyat, targeted exemptions for rental or leasing and construction services on residential were introduced. In addition, service tax on private healthcare and higher education were exempted specifically for Malaysian citizens. These adjustments demonstrate the Government's commitment in broadening the tax base, while protecting the well-being of the majority of the rakyat.

The service tax expansion also included higher registration thresholds for the newly added services; RM1 million annually for the rental or leasing and fee-based financial services, and RM1.5 million annually for construction works and private healthcare services. The higher registration thresholds ensure small businesses are not required to register and comply with the service tax requirements. To further support micro and small enterprises, businesses earning RM1 million or less annually are also eligible for exemption from the payment of service tax on their rental.

FIGURE 3. Salient Features of Service Tax Expansion



Source: Ministry of Finance, Malaysia

In 2024, SST revenue accounted for 2.3% of GDP, reflecting an increase of 0.4 percentage points relative to 2023, mainly attributable to the implementation of the higher service tax rate at 8%. The recent expansion of the SST scope in 2025 is projected to generate an additional revenue of RM5 billion, constituting 0.2% of GDP. With the combined impact of the expanded scope and rising domestic consumption, SST revenue collection is expected to approach levels recorded during the GST era, which averaged approximately 3% of GDP in the medium term.

Conclusion

The SST expansion exercise has been carefully designed to mitigate its socioeconomic impact, particularly on the rakyat and small businesses. The Government has strategically targeted the expansion to avoid undue burden and minimise the cascading effect from the tax system. At the same time, efforts have also been made to enhance the progressiveness of the tax structure, ensuring fair and targeted tax treatment across all income groups. This approach secures sufficient revenue, enabling the Government to effectively maintain and improve the service delivery to the rakyat. Overall, these measures reflect a balanced pursuit of fiscal responsibility and social equity in the broader context of tax policy reforms.

References

- Andrew, C. & Baer, K. (2023). *How to Combat Value-Added Tax Refund Fraud*. International Monetary Fund. <https://www.imf.org/en/Publications/Fiscal-Affairs-Department-How-To-Notes/Issues/2023/08/04/How-to-Combat-Value-Added-Tax-Refund-Fraud-528035>
- Ernst & Young. (2025, March 19). *Worldwide VAT, GST and Sales Tax Guide 2025*. https://www.ey.com/en_gl/technical/tax-guides/worldwide-vat-gst-and-sales-tax-guide
- Ministry of Finance. (2023). *Unravelling the Conundrum of Consumption Taxes: A Closer Look at the Distinctions between the SST and the GST/VAT*, Fiscal Outlook and Federal Government Revenue Estimates 2024. Percetakan Nasional Malaysia Berhad. <https://belanjawan.mof.gov.my/pdf/belanjawan2024/revenue/section2.pdf>
- Royal Malaysian Customs Department. (2025, August 18). *Malaysia Sales Tax & Service Tax*. <https://mysst.customs.gov.my/Infographic>

FIGURE 2.1. *Petroleum-Related and Non-Petroleum Revenue (% of total revenue)*

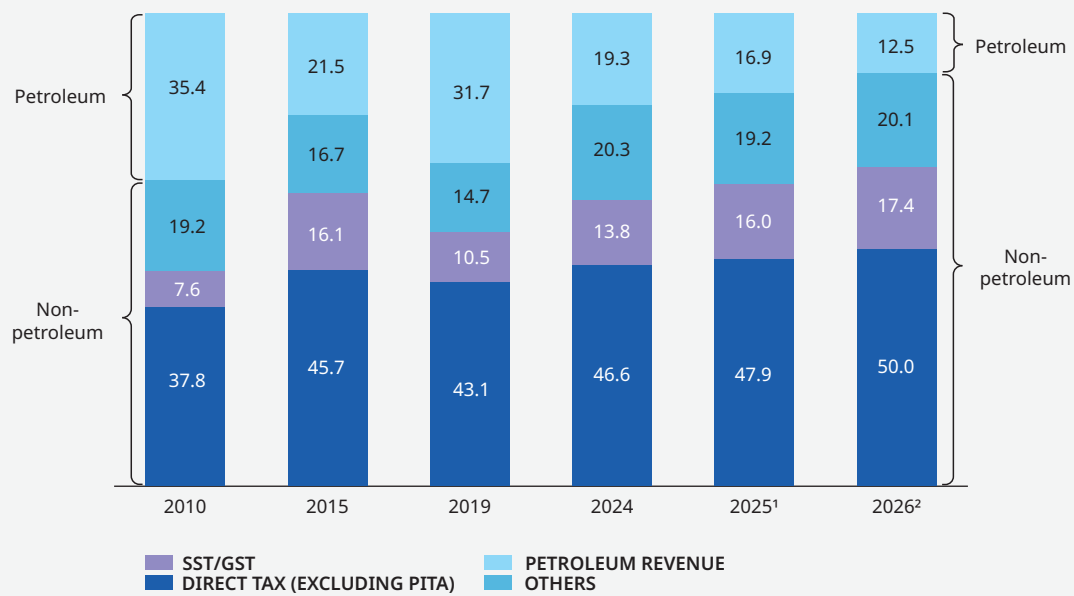
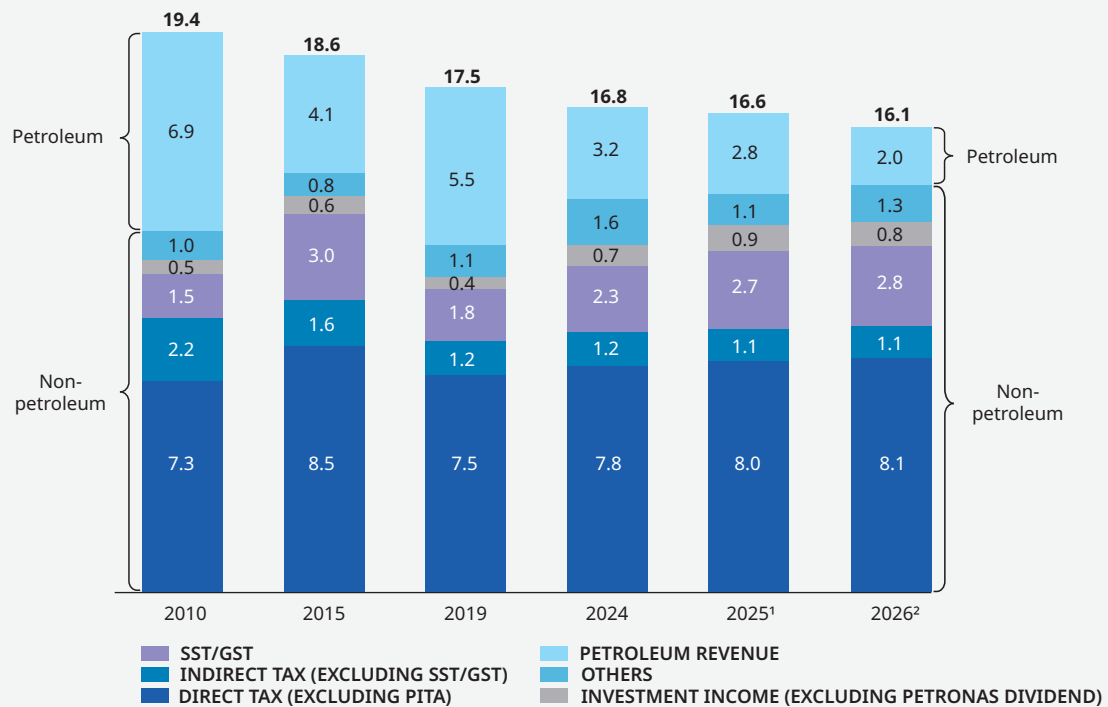


FIGURE 2.2. *Federal Government Revenue (% of GDP)*



¹ Revised estimate

² Budget estimate, excluding Budget 2026 measures

Source: Ministry of Finance, Malaysia