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New tax regime kicks in tomorrow

Water exempted, electricity taxed at 8% for heavy domestic users

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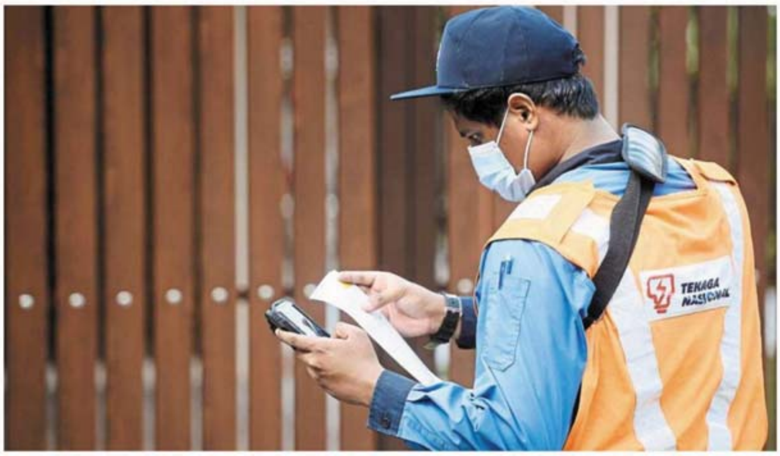

Higher electricity bill: Domestic users consuming over 600kWH per month can expect to pay a higher tax of 8% beginning tomorrow. – AZHAR MAHFOF/The Star

PETALING JAYA: From tomorrow, water bills will remain exempted from the service tax while electricity bills for domestic users consuming over 600 kilowatt-hour (kWH) per month will be subject to a higher tax of 8%.

This change is expected to affect about 15% of domestic electricity users, according to the Finance Ministry.

The majority of domestic users whose monthly electricity consumption is 600kWH and below will continue to enjoy zero service tax on their bills.

"For electricity services, the service tax is only applicable for usage above 600kWH. Almost 85% of electricity users fall below this threshold and therefore will not be affected by the service tax.

"The service tax also does not apply to treated water supply services," it said in a statement.

In a briefing to editors earlier yesterday, Treasury secretary-general Datuk Johan Mahmood Merican said the higher service tax on electricity was only applicable to domestic households, and not commercial and industrial electricity consumers.

Effective March 1, 2024, the service tax in Malaysia will be revised to 8% from 6%.

The change, which is expected to generate an additional revenue of RM3bil for the government, is part of the tax reforms aimed at strengthening the country's fiscal foundation and bringing the economy back on track.

The Finance Ministry said the new tax rate focuses on discretionary activities and business-to-business services, while protecting the rakyat from shouldering a higher consumption tax for key essential services such as food and beverage, telecommunications, parking and logistics.

"To truly transform our economy, the government has taken a measured approach to reform our tax system. While it is important for the government to raise its revenue, there is a balancing act that we have to consider between improving the tax base and cushioning the rakyat from any undue burden," said Finance Minister II Senator Datuk Seri Amir Hamzah Azizan.

"It is necessary for us to broaden the tax base to realign and strengthen our national fiscal foundation as we set the stage for a new era of economic growth under the Madani Economy framework.

"At the same time, we will continue to take on a 'whole of government' approach to right our economic trajectory, including being more prudent in our spending, reducing leakages and attracting foreign direct investment (FDI)," he added.

Under the Service Tax (Amendment) Regulations 2024, which was gazetted on Feb 23, 2024, all taxable services categorised in the First Schedule of the Service Tax Regulations 2018 will be subject to an 8% service tax. This would include imported taxable services and digital services.

In addition, coverage of the service tax will be expanded to harmonise the tax treatment for selected services within the same industry.

For example, karaoke centres would be subject to the 8% service tax, similar to other entertainment centres such as nightclubs, dance halls, cabarets, and wellness centres. Brokerage and underwriting services, which currently only apply to financial services, would be expanded to cover other brokerage industries such as ship/aircraft brokerage, commodities and real estate.

The ministry stressed that the change in the service tax rate would not involve services that formed a basic need and intrinsic part of the rakyat's lifestyle.

For example, the tax rate for services that are widely used by the rakyat such as food and beverage, telecommunications and parking remains unchanged at 6%.

Similarly, logistics services would be subject to the 6% service tax, while no service tax will be imposed on food and beverage delivery services.

As such, the government said it does not anticipate the changes to engender sharp price increases that would lead to an economic shock as the small two-point increase affects selected taxable services.

Johan Mahmood said tax reforms were necessary for the government to address its fiscal deficits, which stood at 5% of the gross domestic product last year.

"The government will continue to reduce the fiscal deficit by introducing gradual measures that, on the one hand, could increase the government's revenue and, on the other hand, mitigate the impact on the rakyat and businesses," he said.

On whether the government would consider reimplementing the Goods and Services Tax (GST), Johan Mahmood said it was not the right time to bring back the consumption tax.

As for the proposed high-value goods tax (HVGT), also known as luxury tax previously, he said the government was still working through the details and would make an announcement in due course.

During the tabling of Budget 2024 last October, Prime Minister and Finance Minister Datuk Seri Anwar Ibrahim said the government was looking at implementing 5%-10% tax on certain high-value items such as jewellery and watches, based on a prescribed threshold. This tax was expected to be implemented on May 1 this year.