

BULETIN

UiTM CAWANGAN NEGERI SEMBILAN
KAMPUS SEREMBAN
EDISI 10 2025

F
P
N
S
3



fpnuitmn9s3



<https://encr.pw/FakultiPerakaunanS3>

The Impact of Personal Tax Rate Reduction on Purchasing Power and Economic Stability

Arif Haikal Iskandar, Saflina Azis and Mustafa Kamal Mat

Introduction



Fiscal management in Malaysia involves the prudent assessment and management of national financial resources to optimise economic growth, enhance public service delivery, and enable informed policymaking. Personal income tax policy is among the vital components of fiscal management used to influence economic activity. Reducing personal tax rates is a proven fiscal policy instrument to boost economic growth by increasing disposable income, encouraging consumption, and stimulating investment. The Malaysian government has considered such policies during slowdowns, including responses to regional recessions and the COVID-19 pandemic (Lee et al., 2023).

Increasing disposable income through tax cuts generates a multiplier effect that fosters increased production, employment, and investments across Malaysia's economic sectors. Studies indicate household spending behaviour improves with increased disposable income, supporting sustained expansion (Jamel et al., 2021). Understanding Malaysian household responses to tax changes informs policy design that balances equity and efficiency, although trade-offs such as revenue shortfalls and fiscal deficits require caution.

Definition of Disposable Income in Malaysia

Disposable income here refers to income remaining after personal income tax and mandatory contributions to EPF and SOCSO. This net income supports consumption, savings, and investment - critical drivers of Malaysia's economic growth (Nur Erma Suryani et al., 2021). The government periodically adjusts tax rates, rebates, and reliefs to influence disposable income. For example, the 2025 Budget expanded tax reliefs for lifestyle and medical expenses to stimulate consumption and alleviate inflationary pressures amid global uncertainties (KPMG, 2024; EY Malaysia, 2024).

Impact of Malaysian Tax Brackets on Disposable Income

Malaysia employs a progressive tax system with higher marginal rates for higher incomes and reliefs for low- and middle-income groups, helping to mitigate inequality and protect purchasing power among those more likely to spend additional income on essentials (Lee et al., 2023; Jamel et al., 2021). Marginal tax application on income portions prevents abrupt tax burden shocks, preserving incentives for consumption and investment across income levels, thus promoting economic stability and inclusive growth in Malaysia.

Effects on Malaysian Household Spending

Malaysian consumer spending differs by income group:

- Lower-income earners generally use tax relief to enhance basic spending, reduce debts, and invest in health and education, supporting social mobility.
- Middle-class families allocate additional income to lifestyle upgrades such as home improvements and vehicles, stimulating local sectors (Lee et al., 2023).
- Higher-income groups often invest surplus income in savings, real estate, and luxury consumption.
- Permanent tax reliefs encourage longer-term financial planning and spending confidence, whereas temporary stimuli mostly boost short-term demand.

Challenges for Malaysia's Fiscal Policy

Challenges in implementing such tax cuts include:

- **Revenue Shortfalls:** Reduced collections strain public budgets amid needed infrastructure and healthcare spending, necessitating a balance between fiscal sustainability and growth policies (EY Malaysia, 2024).
- **Income Inequality:** Without careful targeting, tax reliefs may disproportionately benefit higher earners, exacerbating wealth gaps. Recent policies emphasise relief for middle- and low-income groups to promote equitable growth (Jamel et al., 2021).
- **Tax Base and Compliance:** Malaysia's sizable informal sector and compliance challenges require broadening the tax base and supporting SMEs to improve revenue and economic inclusion (Lee et al., 2023; KPMG, 2024).



Comparative Insights and Recommendations

Lessons from the US Tax Cuts and Jobs Act and Canadian reforms suggest:

- Gradual tax cut implementation allows Malaysia to monitor impacts and adjust policies, reducing shock risks (Gale et al., 2018).
- Targeting relief to low- and middle-income groups maximises consumption-driven growth, vital in Malaysia's domestic demand-led economy.
- Expanding education, medical, and childcare reliefs supports broader economic participation (KPMG, 2024).
- Strengthening progressive taxation promotes fiscal equity and sustainability.

Conclusion

Personal tax rate reductions tailored to Malaysia's income and economic realities can boost disposable income, purchasing power, and economic growth. Malaysia's progressive tax system, coupled with targeted reliefs, is key to balancing equity and efficiency. Consumer response varies by income and tax change nature, with permanent reliefs fostering steady spending and saving. Yet policymakers must carefully manage revenue risks and inequality to secure long-term stability. By adapting global lessons to local needs, tax reform can be an effective tool for equitable growth and socio-economic advancement in Malaysia.



References

- EY Malaysia (2024). The Role of Taxation Policies in Fostering Sustainable Economic Growth. *Insight Article*.
- Gale, W. G., Krupkin, A., & Mazur, M. J. (2018). Effects of the Tax Cuts and Jobs Act: A preliminary analysis. *Brookings Institution Economic Studies*, 46(2), 1-24.
- Jamel, N. E. S. M., et al. (2021). The Indirect Tax Policy Changes' Impact on Malaysian Household Expenditure. *International Journal of Academic Research in Business and Social Sciences*, 15(2).
- KPMG (2024). 2025 Budget and Finance Bill: Tax Measures. *Insights Report*.
- Lee, P. X., Ong, Z. Y., & Tiew, C. Y. (2023). Effect of tax changes on economic growth in Malaysia. UTAR Repository.