

5 March 2023

JOINT MEDIA RELEASE: RE-THINK LUXURY TAX PROPOSAL

This release is on behalf of members in all of the following organisations:

- BBKLCC Tourism Association Kuala Lumpur (BBKLCC)
- Batu Road Retailers Association (BARRA)
- Bumiputra Retailers Organisation (BRO)
- Federation of Malaysia Business Associations (FMBA)
- Industries Unite (IU)
- Malaysia Retailers Association (MRA)
- Malaysia Retail Chain Association (MRCA)
- Persatuan Pengurusan Kompleks Malaysia (PPK) – Malaysia Shopping Malls Association

As abovementioned, we collectively urge the Government to re-think and withdraw the proposal to impose a Luxury Tax.

Firstly, the definition of luxury is fraught with subjectivity and impossible to be definitive nor absolutely objective.

Value is perceived based on quality, specifications, reliability, design, efficiency, market demand etc. A single price-point cannot be a determinant for value or luxury. Every product has differing input costs and is not the sole derivative for the decision on pricing.

Every country is developing their respective tourism industry as a major contributor to their economy. Likewise, Malaysia has been positioning itself as a shopping haven and policies have been promulgated over the past many decades to position Malaysia as tourist friendly and a shopping haven. Duties and taxes were removed to make Malaysia a tax-free shopping destination so much so that in 2018, 37.6 % of tourists' receipts which translate to foreign exchange earnings in Malaysia have been from shopping. Shopping and entertainment are must activities to attract tourists and is the most open-ended spending budget. Tourists will carefreely spend for shopping and entertainment if the choices are there.

The taxes which were removed previously by the then Tourism Minister, has made prices in Malaysia attractive or at par with Hong Kong, Indonesia, Thailand and Singapore, our immediate competitor for the tourist dollar and foreign exchange. Most countries in the world have removed taxes to make them attractive as a shopping haven.

The imposition of a Luxury Tax may make pricing in Malaysia non-competitive and may deter tourist arrivals. Furthermore, Malaysians will be enticed to buy overseas and Malaysians shopping abroad will take money out of the country. This is a lose-lose proposition - losing foreign tourist arrivals and losing Malaysians from buying locally, coupled with the loss of foreign exchange. Even if a mechanism can be designed for foreign tourists to claim back such luxury taxes, Malaysians would still be enticed to do their shopping overseas.

The luxury tax may encourage black market operations to thrive. This is the same phenomenon of penalising duties and taxes on cigarettes and liquor. The smuggling and black market activities are so prevalent that the government does not collect the intended quantum of taxes.

If the economic philosophy is to tax the rich, perhaps, only big-ticket ostentatious products should be adequate to meet this criterion. Big-ticket items like sports cars, racing motorbikes, yachts and aeroplanes may be considered.

We advocate that our tax policy should not deter and punish success due to entrepreneurship and risk-taking to nurture start-ups and business formation.

A holistic view should be taken that will balance between risk and reward; and the flow-through multiplier effect of business activities that contributes to the economic growth of the nation.

Cognizance must be accorded that of the few business successes, there are many such endeavours which have failed along the way. Thus, we urge the government to judiciously evaluate the entire spectrum of wealth tax, capital gains tax and luxury tax to ensure that such taxes do not deter entrepreneurship and even drive such enterprising individuals and companies to leave Malaysia to venture in other countries instead, and creating a brain drain loss in its wake.

Thank you.