INTERNATIONAL JOURNAL OF ACADEMIC RESEARCH IN BUSINESS & SOCIAL SCIENCES

Vol 15, Issue 2, (2025) E-ISSN: 2222-6990

The Indirect Tax Policy Changes' Impact on Malaysian Household Expenditure

Nur Erma Suryani Mohd Jamel[1], Nadiah Abd Hamid[2*], Rani Diana Othman[3], Saifulrizan Norizan[4], Soliha Sanusi[5]

[1]Fakulti Pengurusan Teknologi dan Teknousahawanan, Universiti Teknikal Malaysia Melaka, [2,3,4]Faculty of Accountancy, Universiti Teknologi MARA, Malaysia, [5]Faculty of Economics and Management, Universiti Kebangsaan Malaysia

Corresponding Authors Email: nadiah201@ uitm.edu.my

To Link this Article: http://dx.doi.org/10.6007/IJARBSS/v15-i2/24847 DOI:10.6007/IJARBSS/v15-i2/24847

Published Date: 23 February 2025

Abstract

Malaysia is the sole nation that has transitioned from the Goods and Services Tax (GST) to the Sales and Services Tax (SST). Nevertheless, it has been argued that both SST and GST exhibit regressive characteristics since they can place a greater financial strain on individuals with lower incomes compared to those with higher incomes. Consequently, this situation can have an impact on the consumption expenditures of households belonging to these lower-income groups. The imposition of the government's tax increment is likely to generate resentment among the general population due to the burden it places upon them. The Department of Statistics Malaysia (DOSM) highlighted that the COVID-19 pandemic had caused most households to endure income declines in 2021, leading to a rise in the proportion of B40 households, as many T20 and M40 groups transitioned to this category. Additionally, higher tax rates on products and services could negatively affect B40, who spend approximately three-quarters of their income on needs. Besides, with a considerably low-income range, the B40 group struggles to meet its necessities. In contrast, the M40 group grows wary of its purchasing powers due to tax policy changes on the prices of goods and services. Using observation data from the DOSM, this study fills the literature gap by examining the impact of indirect tax policy changes on the domestic consumption costs of three income groups in Malaysia. The findings will shed light on the regressivity of indirect tax policy, which affects lower-income households, and justify policymakers' concerns about implementing a new indirect tax policy.

Keywords*:* GST, SST, Spending Pattern, B40, M40, T20

Introduction

Tax policy reforms, especially in indirect taxation, significantly affect economic stability, consumer behaviour, and overall social welfare. Indirect taxes, such as the Goods and Services Tax (GST) and the Sales and Services Tax (SST), play a crucial role as revenue sources for governments worldwide. However, the design and implementation of the tax policies often raise concerns regarding equity and their economic impact, especially on lower-income households. In Malaysia, the introduction and subsequent removal of GST, followed by the reimplementation of SST, have sparked intense debate (Achariam, 2018). The GST was introduced to enhance tax collection efficiency and expand the tax base, but it was later replaced by the SST due to political pressures and concerns over its regressive effects (Wong & Eng, 2018; Narayanan & Latiff, 2024). This transition established Malaysia as the only country in the world to revert from GST to SST. This shift raises significant questions about the effectiveness and socio-economic consequences of such a change (Mohd Jamel et al., 2023). Given the ongoing discussions about potentially reintroducing GST, this study is essential for evaluating the impact of changes in indirect tax policy, particularly GST, on household expenditure.

In Malaysia, the early stages of GST implementation were heavily politicized, with claims that it disproportionately burdened low-income segments of the population (Mohd Jamel et al., 2023). As a result, the newly elected administration, Pakatan Harapan, made the elimination of GST and the adoption of SST a key commitment in their election manifesto. However, both GST and SST have been criticized as regressive since they can impose a greater financial burden on individuals with lower incomes compared to those with higher incomes (Narayanan, 2014). Consequently, the household consumption expenditures ~~of~~ in these categories are affected (Mohd Jamel et al., 2021). Managing public approval of tax changes is a complex task, especially when these changes are viewed negatively and could disrupt spending patterns due to their impact on prices. Additionally, the public may feel discontent towards the government's tax increases as a result of the heightened tax burden.

As of 2019, the Malaysian household are classified into three categories based on income: B40, which includes those earning below RM4,849; M40, which encompasses those earning between RM4,850 and RM10,959; and T20, which consist of those earning RM10,961 and above (DOSM, 2020). However, the COVID-19 pandemic disrupted household income stability, leading to decreased salaries for many families in 2021 (DOSM, 2019). As a result, several higher-income individuals fell into lower-income category, thereby increasing the number of households classified as B40. Research findings indicate that individuals in the B40 socioeconomic group allocate approximately 75% of their income to essential expenditures (Murugasu et al., 2013; Anushuya & Pal, 2014; Castro, 2014; Jose, 2014). Consequently, they face negative effects from the high tax rates embedded in the costs of various goods and services. Besides, with their considerably low income, the B40 group struggles to meet their basic needs (Rahman et al., 2021). On another hand, the M40 group is concerned about how changes in tax policy could affect their purchasing power for products and services. One example is that consumption taxes, such as the GST may have regressive effects, as households across all income levels are subject to the same tax rate (James, 2015).

Studying indirect tax policies is important because they directly affect consumers' purchasing power and overall economic well-being. Indirect taxes are often viewed as regressive, since they apply a uniform tax rate on all consumers, regardless of income level. This means that lower-income households, which a larger portion of their earnings on essential goods and services, face a heavier tax burden compared to higher-income groups (Narayanan, 2014). The stability of household income classifications in Malaysia has also been affected by the

COVID-19 pandemic, resulting in many middle-income earners declining to the lower-income category (DOSM, 2019). Therefore, it is essential to understand how changes in indirect taxation affect different income groups to ensure that tax policies are equitable and do not disproportionately disadvantage vulnerable populations (Ali et al.,2023).

This study is essential due to the transition from GST to SST and the changing economic conditions that have created a knowledge gap regarding ~~in~~ the real impact of these policy changes on household expenditures. While previous research has explored the theoretical implications of indirect taxation, there is a limited number of empirical studies using actual household expenditure data. By analysing data from Malaysia's Department of Statistics (DOSM), this study offers valuable empirical evidence on how changes in indirect tax affect spending behaviour across different income groups., Additionally, this research contributes to the broader policy discussion about whether indirect tax structures should be adjusted to enhance efficiency while mitigating negative socio-economic impacts.

Although GST has been abolished and replaced with SST, this study remains highly relevant as indirect taxation continues to influence household consumption and economic behaviour. SST, similar to GST, imposes a financial burden on consumers, particularly those in lower-income groups, making it essential to assess its impact on household expenditures. Additionally, discussions on the potential reintroduction of GST persist, and understanding its past effects can provide valuable insights for future tax policy decisions. A comparative analysis of GST and SST allows for the evaluation of their efficiency, equity, and implications for different income groups, which can help inform policymakers on the best approaches to indirect taxation. Moreover, given the rising cost of and the need for economic recovery post-pandemic, this study contributes to understanding how tax policies affect spending behaviour and overall economic stability. Its findings are crucial not only for Malaysia but also for other countries considering reform in indirect tax taxation, highlighting the broader importance of this research in designing fair and effective tax policies.

The significance of this study extends to various stakeholders. Policymakers can leverage the findings to develop more equitable and effective tax policies that balance revenue generation with social welfare considerations. Economists and academics will benefit from a more comprehensive understanding of indirect tax implications, contributing to ongoing discourse in tax policy and public finance. Additionally, businesses and consumer advocacy groups can gain insights into how changes in tax policy may affect purchasing power, which can aid in better financial planning and decision-making. With the renewed discussion on reintroducing GST, this study offers timely and relevant insights to support evidence-based decision making. This study adds to the existing literature by providing empirical evidence on how changes in indirect tax policy impact household consumption expenditures. It underlines the significance of thoughtful tax policy design in promoting economic equity. By analysing the varying effects on different income groups, the research emphasises the regressive nature of indirect taxation and contributes to discussions on how to alleviate its negative impacts. Additionally, by considering recent economic shifts, particularly income changes following the pandemic, this research presents current insights that policymakers can utilize to develop more resilient fiscal strategies.

This study aims to address the public's concerns regarding the Goods and Services Tax (GST). It seeks to contribute to the existing body of literature by examining the effects of changes in indirect tax policies on the household consumption expenditures across three different income categories in Malaysia. The findings will provide valuable insights into the regressive nature of indirect tax policies and their impact on the household expenditures of lower-income groups (Jamel et al., 2021). Furthermore, this research will validate the policymakers' concerns about the potential implementation of a new indirect tax policy, thus enhancing the existing tax literature by analysing data from the statistical department, an area that has received limited attention in previous research on taxation.

Literature Review

Household Expenditure and Indirect Tax Policy

Consumer burden has been extensively and publicly discussed, given the rapid rise of prices from public transportation, electricity costs, groceries and other consumable items, especially family products (Ahmad et al., 2021). In conjunction, the issue of high living costs can be attributed to various factors, including inflation, stagnant wage growth, political instability, shifts in government policies, and the depreciation of the local currency, the ringgit. Over the years, Malaysia had witnessed a change from the Sales and Services Tax (SST) 1.0 to the Goods and Services Tax (GST), then a subsequent reversion to SST 2.0. According to Sanusi et al. (2017), this shift has been associated with a significant increase in the prices of goods and services. Syeddin et al. (2021) mentioned that manufacturers generally believed that by implementing GST, it would help to reduce production costs while in contrast, SST can impact production costs negatively. Nevertheless, households expected that changes in indirect tax policies can influence their household spending and cost of living.

As consumption taxes that are imposed on the sales of goods and services, both GST and SST 2.0 (Syeddin et al., 2021) were imposed on business entities that would implicitly transfer the tax payment to end consumers. Notably, the public was already paying consumption tax through SST 1.0 pre-GST implementation, despite their unawareness (Abd Hamid et al., 2020). Due to the publicity involving GST implementation and past experiences, citizens expressed their concerns about the impacts of GST on their spending trends (Palil et al., 2013). Malaysian retailers also hesitated to lower the price of goods despite being compelled to do so by the government (Palil et al., 2013). As public complaints of tax burdens and low public GST acceptance increased, the tax was eliminated and substituted with SST 2.0 on the 1st of September 2018. However, it instigated public distress as it failed to reduce the prices of goods and services and impacted their spending patterns.

The patterns of household expenditures are interrelated with living standards (Ismail, 2021). Chong and Khong (2018) argued that when individuals internalise spending trends, they prioritise essential needs such as food, clothing, and shelter over personal wants to maintain an acceptable living standard. According to Ismail (2021), spending patterns could reflect one's paying capacity and social standing. Higher-income earners possess a high-paying capacity compared to lower-income counterparts (Kamalulil et al., 2021). In line with the usual aim of tax policy is to help the lower income group; the tax system should not make the poor poorer, but nevertheless, those in the higher income group should pay a higher tax rate. Thus, tax reform is intended to avoid tax design regressivity or reduce regressivity through tax reform measures (Bird & Wilkie, 2014). Unfortunately, the extent of the indirect tax policy can impact the pricing of products and services, burdening individuals with lower income levels. Latimaha et al. (2018) revealed that the increase in living standards and costs since the 1990s led to lower savings and decreased purchasing power. The implementation of GST in Malaysia anticipated that the lower income group were affected mostly due to high sensitivity to their consumption pattern.

In measuring the spending patterns, the Department of Statistics Malaysia (DOSM) gathered data on Malaysian household attributes through personal interviews within a 12-month period in 2014, 2016, and 2019, covering urban and rural strata for all states. The survey used the probability sampling technique to represent all Malaysian households. The Department of Statistics and Mathematics (DOSM) has defined household spending patterns as the monetary value associated with the household's acquisition, utilisation, or payment of consumer goods and services. This can be done through explicit financial purchases, self-production, bartering, or receiving non-monetary income. These expenditures aim to fulfil the needs and desires of household members. In the report, the expenditure statistics highlighted the household expenses based on 12 primary groups: alcoholic beverages, food and non-alcoholic beverages, tobacco, clothing and footwear, housing, electricity, water, gas and other fuels, routine household maintenance and furnishing, household equipment, health, transportation, communication, education, recreation services and culture, hotels and restaurants, and miscellaneous services and goods.

Evidently, the B40 spending pattern is more susceptible to economic shifts where a small increase in income could compensate for the rise in essential goods prices although it fails to attain an acceptable living standard (Chong & Khong, 2018). As reported by Ho and Ismail (2020), a high proportion of individuals from the M40 category had remarkably similar consumption patterns to those of B40 instead of discovering aspirational expenditure. The spending pattern variances between B40 and M40 involved consuming varieties of basic necessities rather than distinguishing between ballet classes or short holidays to Bali. Food items such as fried chicken, satay, and pizza also encompassed a significant proportion of the M40 household spending.

Conversely, Ho and Ismail (2020) affirmed that T20 spending patterns were more inclined to aspirational goods that are not limited to insurance premiums (property, accidents, or education), recruiting professional services (maids, security, tax consultants, and daycare), and conspicuous items (vacation packages, reflexology, and massages). In this regard, members from the T20 group can conveniently pay for basic and luxurious (maid service, piano and tuition classes, tax consultation, and daycare for the elderly and disabled) necessities. Wahab et al. (2018) also corresponded to the statement because T20 group members could adequately fulfil their basic needs without spending all their earnings on expenditure. Nonetheless, the Khazanah Research Institute (2018) argued that T20 category members are required to pay more income tax with their remaining income balance. Simultaneously, the aspirational goods for B40 and M40 could be classified as 'necessities' for T20 and are charged with 5% or 10% of SST 2.0. Overall, indirect tax inevitably affects the T20 group albeit on a small scale (DOSM, 2020).

The issue of consumer burden has garnered significant attention and public discourse considering the substantial escalation in price across several sectors, including public transport, property, electricity tariffs, groceries, and other consumable goods (Ahmad et al., 2021). Moreover, inflation, slow wage growth, political unrest, changes in the government, and the depreciation of the national currency are just a few of the factors that have an impact on the current issue. It is worth noting that although there has been an improvement in income levels over the years, with a nominal growth rate of 6.6% per annum between 2014 and 2016, the rising cost of living persists (DOSM, 2017). Based on Syeddin et al.'s (2021) results, GST could mitigate production costs. Conversely, SST could adversely impact production costs. Accordingly, households hold the expectation that changes in indirect tax policies will have an effect on their spending patterns and cost of living.

Local living standards and costs have risen since the 1990s (Latimaha et al., 2018). Unfortunately, high living expenses would result in a decline in an individual's standard of living, as there would be no remaining cash to set aside or save after subtracting fixed expenses and personal needs each month. According to Yunchao et al. (2020), households would change their consumption decisions by minimising holiday expenses and maintaining spending patterns for essentials (food, transportation, and housing) to cope with the high living costs. Nonetheless, Chong and Khong (2018) asserted that the minimum acceptable living standard surpasses the affordance of necessities to include social involvement, such as being able to finance a journey to visit relatives and friends during celebration periods, as well as to purchase presents for family members on occasions such as birthdays or visits. Perceivably, household spending patterns are influenced by factors apart from income, such as urbanisation—the need to spend on takeaways or eat at affordable local eateries (Hamid et al., 2019). Furthermore, the transition from the Sales and Services Tax (SST) 1.0 to the Goods and Services Tax (GST) in 2015, followed by the subsequent reversion to SST 2.0 in 2018, has led to a notable escalation in the cost of products and services.

Government policy shifts through the indirect tax would impact the prices of goods and services, including tastes and future price rates (Latiha et al., 2020) as household spending patterns on food. Therefore, the local government has undertaken alternative approaches to ease household and indirect tax burdens such as tax exemption on food items involving rice, sugar, oil, and flour, and services. Nevertheless, the indirect tax remains cumbersome to B40 and M40 group members (Saidi & Harun, 2020). Consequently, due to its regressivity, inflation and indirect taxation might adversely impact such households (Mien & Said, 2018).

Based on extensive research, most households are confused or have misconceived the chain reaction of indirect tax in daily life (Ahmad et al., 2016) due to concerns about significant price hikes. For instance, Malaysian retailers hesitated to reduce the price of goods (Palil & Ibrahim, 2011) despite low business performance costs, and households tended to resent indirect tax due to their overestimation of imposed tax burdens (Sim & Kadir, 2019) such that any tax implementation is deemed burdensome. Moreover, Saira et al. (2010) showed Malaysians' low self-esteem in acknowledging indirect tax, thus inducing misinterpretations concerning tax requirements in the wake of novel tax reforms (Shamsuddin et al., 2014).

Underpinning Theory of the Study

Household expenditure has played an important part in stimulating economic growth. As household income increases, there is a tendency for households to quickly modify their purchasing habits, resulting in the inclusion of a diverse range of new goods in their consumption basket (Prais, 1953; Jackson, 1984). According to the theory of household expenditure, income plays a significant role in shaping the household expenditure pattern. This argument is supported by Rashid et al. (2018) in their research, wherein they argued that the income level in a given community is the primary determinant of individual consumption expenditure and exhibits a positive correlation with overall spending. Previous studies have indicated that household spending patterns transform over time due to the escalation of living expenses caused by inflation and alterations in the tax landscape that surpass the growth of household income (Ahmad et al., 2021; Economics Online, 2020).

From the neutrality principle of good tax policy, the tax system should minimise its implications on the taxpayers in terms of tax burden as well as increase the cost of living (Mohammed & Sanusi, 2020). However, from the indirect tax policy viewpoint, the ability to pay theory contends that implementing the tax system should be based on the amount of money people earn. For example, those who earn more money are expected to pay a higher rate of taxes, meaning a higher portion of their income will be taxable compared to those who earn less. The ability-to-pay theory corresponds to the benefits provided by the government to taxpayers (Pressman, 2018). Pressman (2018) asserted that one's ability to pay could be interpreted as the tax amount that citizens have to pay based on government services. This ability justifies wealth redistribution among taxpayers where high-income earners would pay more as opposed to lower-income counterparts. Summarily, the revenue gathered from taxation would be fairly disseminated based on taxpayers' needs. In terms of wealth distribution, the government affirmed that indirect tax was gathered from citizens and returned to them (Safini, 2018). Appropriate tax collection could effectively fund infrastructure projects, schools, public transportation, and government operating costs (AICPA, 2017; Mohd Jamel et al., 2023).

Research Methodology

This study identifies changes in the household consumption expenditures of three income groups in Malaysia: the B40, M40, and T20. Based on the availability of data published by DOSM on the household consumption expenditures of the three income groups, this study observed three selected years: 2014, 2016, and 2019. These years were specifically chosen due to their linkages with specific events in the respective years. Such selection is made to determine any variations in the public spending patterns during the SST 1.0 era in 2014, the GST era in 2016, and the SST 2.0 era in 2019. DOSM gathered data on Malaysian household attributes through personal interviews within 12 months in 2014, 2016 and 2019.

The data covered urban and rural strata for all states which measured their spending patterns. As a key catalyst for national economic growth (DOSM, 2020), household spending patterns could be examined and internalised through a customised household daily expenditure survey where relevant agencies can utilise data from the survey to develop, regulate, and assess the effects of economic and social policies that entail the fiscal policy shifts constituting tax implementation, product and service demands, and the compilation of national accounts within the domestic household sector. In the specified context, the DOSM regularly collects extensive data on household expenditure patterns by utilising the Household Expenditure Survey (HES). This survey categorises expenditure patterns into 13 different categories. Since expenditure groups 1-12 denote consumption expenditures and expenditure group 13 denotes non-consumption expenditures, expenditure group 13 was, therefore, excluded from this study.

The empirical data were analysed using R language software for descriptive statistics, which refers to a system employed in statistical computation and graphics (R Core Team, 2017). It provides language programming, high-level graphics, interfaces to other languages, debugging facilities, and optimal data visualisation, such as bar charts for descriptive statistics (Brownstein et al., 2019). Tang and Ji (2014) highlighted specific R language benefits. First, this free-of-charge software is publicly accessible and downloadable with compatibility with most operating systems: Windows, Macintosh, and Linux. Second, this software is powerful and flexible, with over 4,000 packages encompassing a wide range of analytical techniques across diverse fields. The R capability is not restricted to statistics as a programming language: the software could produce high-quality graphics that could be conveniently customised by specifying feature options. For example, it can be customised by line styles, fonts, colours, axes, and titles. The graphs developed in R could be saved in various formats such as PDF, PNG, JPEG, and postscript.

This study incorporated the R language software to outline the household expense shifts in 2014, 2016, and 2019. Essentially, R could be downloaded from the Comprehensive R Archive Network (CRAN) at http://cran.r-project.org for Windows, Mac OS X, and Linux. An interface and R companion, RStudio, was also downloaded from http://www.rstudio.com. The current research imported the HES data downloaded from the DOSM website to RStudio in the first data analysis step. The following step involved data manipulation and transformation with the dplyr library before proceeding to visualisation (subsequent step), which was performed with the ggplot2 library to derive the descriptive statistics of household spending patterns in 2014, 2016, and 2019. Tukey's test was also employed in this study to identify which income category was mostly affected by the indirect tax policy changes based on the observation period of the three years in 2014, 2016, and 2019.

Results

As shown in Figure 1, the descriptive statistics using the R language for three years of observation in 2014, 2016, and 2019 revealed that the B40 spending patterns have shown significant changes, especially in the category of housing and utilities. The emergence of this scenario could be due to exorbitant housing rates and the transition of local tax reform from GST in 2016 to SST 2.0 in 2018, which resulted in fluctuating housing prices (Ahmad et al., 2021). In addition, the findings also showed a decline in food and beverages consumption among B40 group members, suggesting that the primary food items spent by Malaysian households such as rice, chicken, bread, and egg (DOSM, 2019) were exempted from SST 1.0 in 2014, GST in 2016, and SST 2.0 in 2019. On the contrary, housing and utility expenditure became the top priority of the M40 group members as they spent a great deal on properties to meet higher living standards. Nonetheless, the analysis results depicted similar spending patterns for both B40 and M40, as opposed to the spending patterns of the T20 group members who are not affected since their income is greater than the M40 and B40. Finally, based on Turkey's test across 2014, 2016, and 2019 in Table 1, the B40 and M40 were mostly affected by the indirect tax policy changes compared to the T20, which was not affected by such changes.

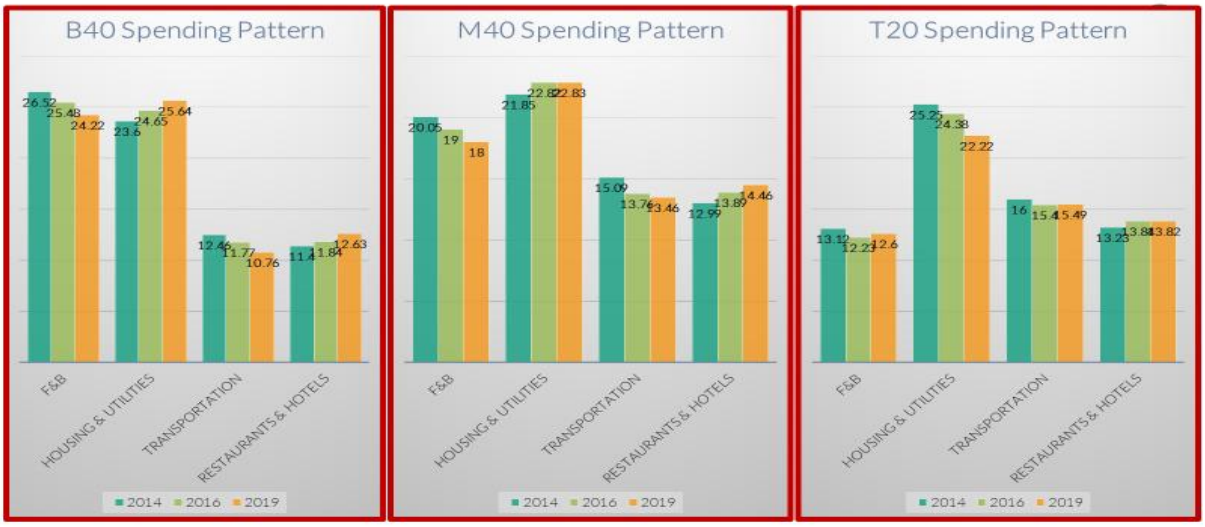

Figure 1. Household Expenditures of Three Income Group

As shown in Table 1, there is a significant difference in the effect towards household expenditures between the group of income categories. In the three years of observations, B40 and M40 amounts of expenditure are mostly affected, while T20 seems not affected. Depicted in Figure 1, the B40 spends most of their monthly income for Food and Beverage (F&B) (26.5%) in 2014 and the trend slightly decreased in 2016 (25.48%) and continued to reduce in 2019 (24.22%) respectively. The declining spending pattern in F&B among the B40 category members could be affected by the tax reform from SST 1.0 to GST and back to SST 2.0, thus limiting the resources for food acquisition among B40 households (Sulaiman et al., 2021). Surprisingly, the housing and utilities expenditures of B40 showed an upward trend in 2014 (23.6%), 2016 (24.65%) and 2019 (25.64%) respectively.

In conjunction, a similar declining trend was observed for M40 expenditure of F&B while housing and utilities expenditure was increasing for the three years of observations. However, compared to the B40 and M40, the T20 group spent less on F&B yet showed a descending trend for housing and utilities (Razak et al., 2015). The declining trend for the two kinds of expenses mentioned may be influenced by the significant increase in housing prices, especially in developed areas (Ahmad et al., 2021). In another study, Latimaha et al. (2019) added that, as the housing prices escalated and the housing loan approvals became stricter, M40 opted for house rental due to the unaffordable price of houses, hence explaining the inclination of this expenditure to M40. The B40 individuals are facing a similar situation, thus leading the government to introduce the rent-to-own (RTO) scheme (The Star, September 2020).

In 2014, B40 spent 11.4% of their income on restaurants and hotels, implying that this expenditure takes place as their fourth priority. This spending pattern depicted an upward trend in 2016 and 2019 at 11.84% and 12.63%, respectively. This outcome paralleled with a study by Heng and Guan (2007) who claimed it was a trend for the B40 to eat out. Chong and Khong (2018) highlighted that B40 households frequently spend on eating out or take-aways from inexpensive eateries (stalls or hawkers) being both spouses at work and little time to cook at home. Based on the empirical findings, the T20 demonstrated no significant shifts in restaurant and hotel expenses between 2014 and 2019. The next expenditure for T20, F&B,

implied 13.12% of their income. Notably, T20 members spent lesser (12.23%) for this category. The spending pattern for F&B among the T20 slightly increased to 12.6% in 2019. Rashid et al. (2018) concurred that T20 group members only spent a smaller portion on F&B following their large income. Thus, T20 spending is not impacted regardless of policy shifts.

The overall result of this study is parallel to the previous studies which indicate that the burden of the indirect tax policy is approximately equal between the lower and middle-income groups (Ahmad et al., 2021).

Table 1
Turkey HSD on Income Category

Income Category	Income Category	Mean Difference	Standard Error	Sig.	95% Confidence Interval	
					Lower Bound	Upper Bound
B40	M40	-92.98356859	49.80244496	0.151	-210.5520452	24.58490798
	T20	-259.57351262399*	49.80244496	0.000	-377.1419892	-142.005036
M40	B40	92.98356859	49.80244496	0.151	-24.58490798	210.5520452
	T20	-166.58994403375*	49.80244496	0.003	-284.1584206	-49.02146746
T20	B40	259.57351262399*	49.80244496	0.000	142.005036	377.1419892
	M40	166.58994403375*	49.80244496	0.003	49.02146746	284.1584206

Discussion and Conclusion

The research objective aims to contribute to an understanding of changes in household spending patterns after the implementation of indirect tax. Prior to its implementation, the government guaranteed that SST 2.0 would have a lesser impact on the public spending pattern (Kaos & Chu, 2018). According to Datuk Tan Kim Siat from KPMG Tax Services Sdn Bhd, SST 2.0 will put a lighter burden on consumers compared to GST previously (Eusoff, N.S, 2018). Besides, the government has also taken immediate initiatives by excluding most basic foods and items from SST 2.0 such as formula milk, instant noodles, rice, and cereals to ease the public burden, especially those among the B40 category. However, the 2019 National Worry Index revealed Malaysians' resentment due to the failure of SST 2.0 in reducing the prices of goods and services, and this also contradicts the government's intention of reintroducing SST to the country.

Overall, the findings for the research objective have shown that food and beverages are not the main priority expenditure among Malaysian households in 2019, which reflects the SST 2.0 era. Significant changes in household spending patterns from 2014 to 2019, that is, from food and beverages to housing and utilities, suggest that people will spend more on those that add value and convenience to them. Thus, it is important to trickle down the household spending patterns in order to foresee the public burden in undergoing indirect tax implementation. The findings also revealed that although the government has exempted most of the basic necessities from SST 2.0, there is still a lack of understanding regarding the ground issues that may affect public acceptance of indirect tax.

Chan and Ramly (2018) anticipated that indirect tax, which is regressive in nature, will increase income inequality that can be identified by different household spending patterns. Thus, it is fair to acknowledge that the element of indirect tax, as included in F&B, housing and utilities, transportation, and restaurants and hotels, has changed the pattern of household expenditures, especially among the B40 and M40 category members in Malaysia. In addition, the implementation of indirect tax has also influenced the issue of increased living costs, which consequently lead to changes in public spending patterns (Kulub et al., 2020).

Essentially, the current findings can answer the issue of public resentment towards SST 2.0's failure to reduce the prices of goods and services although the government has excluded more items from the sales and service tax. Besides, the findings are linked to Kendrick's (1939) ability-to-pay theory in which lower-income and medium-income earners must sacrifice more to endure the indirect tax implementation than higher-income earners. The public must also change their spending pattern priority to maintain a fairly constant standard of living (Mat et al., 2019). Thus, the analysis of the changes in household spending patterns will help the government foresee the contributing factors to form sustainable indirect tax implementation as part of the economic driver based on the ground context of Malaysian society.

In conclusion, implementing the Sales and Services Tax (SST) 2.0, which serves as a substitute for the Goods and Services Tax (GST), has had a notable influence on several income classifications, emphasising on the B40 category. This group has regarded indirect taxes as regressive and oppressive. Furthermore, SST 2.0 has brought about changes in the expenditure habits to the M40 income category too. These individuals have allocated a significant proportion of their earnings towards housing and utilities, with a noticeable decrease in the consumption of food and beverages. To alleviate the financial strain on the general public, the government should consider implementing measures such as exemptions or broader inclusion of essential items, specifically food, within the framework of the consumption tax. Simultaneously, the public must adopt a positive attitude towards the consumption tax, provided that its implementation genuinely reduces their long-term financial obligations.

Since the government is currently planning to improvise the existing indirect tax policy, the findings of this study can, therefore, serve as a reference for the government to evaluate any shortcomings in the mere system for future implementation or a reinstatement of a reasonably fair consumption tax rate. In fact, as far as the socioeconomics and living standards are concerned, the formulation of new tax policy changes in Malaysia should also consider the effect of such changes on the consumption and expenditures of all household categories. However, despite significant study contributions, this study encountered several limitations regarding the compiled, analysed, presented, and discussed data. For example, this research only provided a 'snapshot' view of the phenomena where all the empirical data were simultaneously gathered within months in a cross-sectional design. Hence, further studies may extend the research by using other methods of analysis.

Theoretical and Contextual Contribution

Theoretically, this research advances tax policy literature by providing empirical evidence on the regressive nature of indirect taxes and their implications for income distribution. It extends existing taxation models by integrating real-world economic shocks, such as the COVID-19 pandemic, into tax policy assessments. From a contextual perspective, this study offers a case-specific examination of Malaysia's unique tax policy shifts, contributing to comparative tax studies in developing economies. Additionally, it provides actionable insights for policymakers, supporting the design of tax systems that align with economic development goals while minimizing socio-economic disparities. By addressing a critical gap in empirical tax research, this study reinforces the role of data-driven policymaking in shaping equitable fiscal policies.

Acknowledgements
The authors are grateful to Universiti Teknologi MARA (UiTM) for the financial assistance provided through the FRGS grant ref no: 600-IRMI/FRGS5/3 (348/2019).

References

Abd Hamid, N., Abdul Rasit, Zarinah., Ishak, A.I., Abd Hamid, R., Abdullah, F.A., & Sanusi, S. (2020) Determinants of Tax Compliance among Grabcar in Malaysia*, International Journal of Innovation, Creativity, and Change,* Volume 10, Issue 11, pg 640-651
Ahmad, N., Taha, R., Endut, W. A., & Baatwah, S. R. A. (2021). The effects of house price and taxation on consumers' burden: The case of Malaysia. *Kasetsart Journal of Social Sciences, 42*(2), 281–286. https://doi.org/10.34044/j.kjss.2021.42.2.10
Ali, N. M., Rahman, S. A., Bakar, A. S. A., & Noor, N. M. (2023). Economic vulnerability among Malaysian households during COVID-19: A study on income loss and food insecurity. *Sustainability, 15*(10), 8396. https://doi.org/10.3390/su15108396
Anushuya, & Pal, N. K. (2014). Indian indirect tax systems' reforms and Goods and Services Tax. *Advances in Management, 7*(7), 9–15.
Asmat Ismail, N. (2021). The rising cost of living among B40 households in Penang State: Does lifestyle matter? *Malaysian Journal of Consumer and Family Economics, 27*(2011), 2021.
Bird, R. M., & Wilkie, J. S. (2014). Designing tax policy: Constraints and objectives in an open economy. *(Issue January 2013)*.
Castro, M. F. (2014). Tax compliance under horizontal and vertical equity conditions: An experimental approach. https://doi.org/10.1007/s10797-014-9320-5
Chong, E., & Khong, F. A. (2018). The living wage: Beyond making ends meet. *(Issue March)*.
Department of Statistics Malaysia (DOSM). (2019). *Household income and basic amenities survey report*.
Department of Statistics Malaysia (DOSM). (2020). *Household expenditure survey report*. https://www.dosm.gov.my
Eusoff, N. S. (2018, June 12). SST will hurt consumer purchasing power less - KPMG. *The Edge Financial Daily.*
Heng, H. L. S., & Guan, A. T. K. (2007). Examining Malaysian household expenditure patterns on food-away-from-home. *Asian Journal of Agriculture and Development, 4*(January 2007), 11–24.
James, K. (2015). The rise of the value-added tax.
James, S. (2015). *The economics of taxation*. Prentice Hall.
Kamalulil, E. N. B., Panatik, S. A. B., & Sarwar, F. (2021). The influence of socioeconomic status on job and life satisfaction among low-income employees in Johor local authorities.

Psikohumaniora: Jurnal Penelitian Psikologi, 6(2), 121–136.

Kulub, A. R., Nur Afifah, R., & Bayu Taufiq, P. (2020). Does income difference cause different household expenditure consumption? *International Journal of Innovation, Creativity and Change, 12*(12), 1314–1340.

Latimaha, R., Bahari, Z., & Ismail, N. A. (2018). A descriptive analysis on the basic needs budget by the middle-income earners to identify the most expensive city to live: An analysis involving capital cities in Malaysia. *Malaysian Journal of Business and Economics, 5*(2), 1–18.

Latimaha, R., Bahari, Z., & Ismail, N. A. (2019). Middle-income household spending patterns on housing in Malaysian state capital cities: Where does all the money go? *Jurnal Ekonomi Malaysia, 53*(2), 55–65. https://doi.org/10.17576/JEM-2019-5302-5

Mohammed, F., & Sanusi, S. (2020). Quality of governance and tax revenue generation in West Africa: A political process theory perspective. *Management & Accounting Review (MAR), 19*(1), 213-232.

Mohd Jamel, N., Rahman, A., & Ismail, S. (2023). Impact of GST and SST on consumer spending: A Malaysian perspective. *Journal of Public Finance and Policy.*

Mohd Jamel, N. E. S., Abd Hamid, N., Zawawi, S. N. H. M., & Sanusi, S. (2023). Indirect tax policy acceptance model: From the perspective of the public in Malaysia. *Review of Economics & Finance, 21*(7). Available at: https://refpress.org/ref-vol21-a7/

Mohd Jamel, N. E. S., Hamid, N. A., & Zawawi, S. N. (2021). Analysing SST 2.0 burden using the guiding principles of good tax policy. *GATR Accounting and Finance Review, 6*(3), 167–177. https://doi.org/10.35609/afr.2021.6.3(5)

Murugasu, D., Wei, A. J., & Hwa, T. B. (2013). The marginal propensity to consume across household income groups. *(Issue December)*.

Murugasu, M., Harun, R., & Aziz, A. (2013). Consumption patterns and taxation in Malaysia. *Bank Negara Malaysia Research Bulletin.*

Narayanan, S. (2014). The impact of the goods and services tax (GST) in Malaysia: Lessons from experiences elsewhere. *The Singapore Economic Review, 59*(2), 1–15. https://doi.org/10.1142/S021759081450009X

Narayanan, S. (2014). The impact of indirect taxes on income distribution in Malaysia. *Malaysian Journal of Economic Studies, 51*(2), 73-88.

Narayanan, S., & Latiff, A. R. A. (2024). The untimely demise of the Goods and Services Tax (GST) in Malaysia: A postmortem and the way forward. *Asian Economic Papers, 23*(1), 1–23. https://doi.org/10.1162/asep_a_01118

Pressman, M. (2018). The ability to pay in tax law: Clarifying the concept's egalitarian and utilitarian justifications and the interactions between the two. *New York University Journal of Legislation and Public Policy, 21*(1), 141–202.

Rahman, A., Mohd Jamel, N., & Hassan, R. (2021). Tax policy changes and household financial well-being. *Asian Economic Review, 63*(1), 112-130.

Rahman, M., Isa, C. R., Masud, M. M., Sarker, M., & Chowdhury, N. T. (2021). The role of financial behaviour, financial literacy, and financial stress in explaining the financial well-being of B40 group in Malaysia. *Future Business Journal, 7*(1), 1–18. https://doi.org/10.1186/s43093-021-00099-0

Rashid, N. K. A., Sulaiman, N. F. C., & Rahizal, N. A. (2018). Survivability through basic needs consumption among Muslim households B40, M40, and T20 income groups. *Pertanika Journal of Social Sciences and Humanities, 26*(2), 985–998.

Razak, N. A. A., Hakim, R. A., & Ismail, R. (2015). Consumption and saving of the middle class in Malaysia. *ACDEC Proceedings*, 101–107.

Safini, S. M. (2018). SST: Rakyat ada lebihan wang untuk berbelanja. *Berita Harian.*

Sanusi, S., Omar, N., Sanusi, Z. M., & Noor, R. M. (2017). Moderating effect of audit probability on the relationship between tax knowledge and GST compliance in Malaysia. *Pertanika Journal of Social Sciences and Humanities, 25*(11), 231-240.

Syeddin, S. N., Hassan, A., Utit, C., Saari, M. Y., & Ghani, J. A. (2021). Measuring the impacts of GST and SST on the cost of production in Malaysia: An input-output price model analysis. *Journal of Business and Social Development, 9*(1), 1–12.

Wong, C., & Eng, Y.-K. (2018). Goodbye GST, hello SST for Malaysia: In search of efficiency equivalence. https://doi.org/10.13140/RG.2.2.32578.68809

Wong, P., & Eng, Y. (2018). The political economy of taxation in Malaysia: The GST debate. *Economic Policy Journal, 22*(3), 45-67.