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# Insufficient States: Revisiting the Roles and Resources of Malaysia's Subnational Governments

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*Prime Minister Anwar Ibrahim before proceeding to the Malaysian Parliament to present Budget 2024 on 13 October. Source: Facebook of Anwar Ibrahim.*

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**EXECUTIVE SUMMARY**

- Malaysia's state governments may appear to be more autonomous and empowered with their elections taking place outside of the general election cycle. Only three states held elections concurrently with the November 2022 general election; six Peninsular states went to the polls in August 2023.

- However, the sentimental resonance and political consequence of these elections outweigh the designated roles and material resources of state governments. In 2022, state governments received revenue of RM926 per capita, one-tenth of the federal government's RM8,969.

- The constitution vests important roles in land management, social welfare and local government supervision to state governments, but heavily circumscribes them nevertheless. In practice, the states are restricted — notably in the overwhelming role the federal government plays in social welfare and public health, despite these being under joint federal-state jurisdiction.

- All state governments rely heavily on land-based revenue which arguably induces over-exploitation and commercial ventures that lack transparency. Only Sabah and Sarawak are mandated to collect sales tax. Local governments collect property-based revenue to deliver local services, in a logical structure of functions and circulation of funds.

- More federal functions should be devolved to the states, particularly in social welfare and public health, and state capacities should be bolstered by statutory expansion of revenue collection, especially through consumption taxes. Reforms are required to empower state governments to be responsive and for subnational governance to be effective.

## INTRODUCTION

The 13 state governments in the federation of Malaysia inhabit a paradox. While the office of the Chief Minister carries prestige and state assembly persons are generally well regarded for supervising public services and solving local problems, they operate within a narrow scope of responsibility and with steep financial constraints due to exceeding reliance on land-based revenue — i.e. taxes, premiums and fees collected from residential and commercial land, forestry, and mining.

The standing of state governments has recently been bolstered by chief ministers, especially Kedah's popular and provocative Muhammad Sanusi Md Nor, as well as the conduct of state government elections independently of the general election, which encourage efforts to showcase government performance in the country's increasingly competitive political landscape. However, these developments do not alter the reality that Malaysia's federal structure is among the most centralised in the world (Ostwald 2017). For decades, state governments have also negotiated the dilemma of conserving forests and sustainably managing land while heavily relying on land-based revenue. Potentially overzealous expansion into prospective finite resources, such as rare earth mining, is induced by state governments' lack of funds.

It is timely and vital for Malaysia to revisit its federal-state balance and to expand the functions of subnational governments and their revenue bases, for three key reasons. First, state governments are well-poised to effectively provide a wider range of services that should be more systematically executed and adequately funded. Second, the over-reliance of state governments on nonrenewable land-based revenue and federal grants grossly limiting their capacity, militate against conservation and sustainable land management, including food production. Furthermore, these have induced entry into commerce in ways that are less than transparent and accountable. Third, the federal centralisation of power is intertwined with the legacy of the dominant Barisan Nasional coalition that Malaysians definitively jettisoned at the 2022 general election.

This Perspective proceeds with a brief overview of the constitutional framing of federal and state jurisdictions, and a discussion of the subject in practice and the theoretical arguments for expanding the roles and resources of state governments. This is followed by an assessment of state government budgets and land-based revenue dependency, and plausible scenarios of consumption tax collection. The closing portions offer some policy reforms for consideration.

## STATE GOVERNMENT ROLES AND RESOURCES BY CONSTITUTION AND IN PRACTICE

Malaysia's constitution, through its demarcation of the functions and resources of federal and state government, lays the foundations for a highly centralised system. The Ninth Schedule's Federal, State and Concurrent Lists of jurisdictions designate the vast proportion to the federal government, including education, health, defence, utilities, transport, justice system, national currency and public finance, and external relations and international diplomacy (Appendix Table 1). State governments are confined to cultural and religious affairs, land matters and oversight of local government. On the Concurrent List granting authority to both federal and state governments are matters such as social welfare, public health, wildlife protection, and town and country planning.

The formation of a highly centralised bureaucracy traces back to the colonial era, particularly the post-War and pre-Independence period (Hutchinson 2014a). The capacity of governments to collect revenue aligns with federal-dominant authorisations. As outlined in the Tenth Schedule of revenue sources, the federal government alone collects all forms of tax — whether direct taxes on income, profit, etc., or indirectly on trade, sales, services, etc. — and has access to a host of non-tax revenue sources. State governments are funded by revenue from forest, land and mines, and various licenses and fees (Appendix Table 2). The embeddedness of these terms in the constitution has direct and permanent consequences on the power balance, albeit that these are also subject to precedent and convention.

In practice, the federal government has been exceeding the constitutional mandate it has over the states. The items on the Concurrent List have been preponderantly delivered by federal authorities rather than being meaningfully shared. Undoubtedly, the ambiguity of various Concurrent List matters, in contrast to specificity on the Federal List, creates a pro-federal bias where overlaps occur. For instance, "social welfare" and "public health and sanitation"[1] stand in marked contrast to the clear and specific stipulations for federal authority with regard to hospitals, clinics, and social insurance. However, the lopsided pro-federal application of the Concurrent List led it to acquire an inertia over many decades.

Political interest also motivated federal government dominance. The process has been characterised in scholarly work as "UMNO's power consolidation" to maintain hegemony nationally — by bypassing opposition-held states and offering patronage to government-held states — and to secure popularity within the party through dispensing largesse. This has been achieved through various mechanisms, notably the exceeding concentration of powers and resources in the Prime Minister's Department, which in addition to the amassing of power in general, also serve to keep state governments on a tight leash (Hutchinson 2014b). Another manifestation of the utilisation of federal resources to supersede the state is the establishment or expansion of agencies that duplicate state operations, and which through their superior access to resources, consequently supersede the state-level counterparts.

State governments have made some forays beyond the constitutional confines, for example, Selangor's establishment of private higher education institution, Universiti Selangor, despite universities being exclusively in the federal list. State governments have also established commercial entities that engage in land development and various commercial ventures, to generate revenues. Notably, subsidiaries of Selangor's Menteri Besar Inc. administer the state's social assistance programmes. Such provisions are arguably approved, as "social welfare" is in the Concurrent List, but the constitutionally mandated revenue sources evidently generate insufficient funds to meet the government's commitments. In some ways, state governments are distinctly poised to deliver services, due their proximity to local constituents and responsiveness to demands on the ground. Covid-19 measures by state governments alongside the federal machinery, in providing aid and administering vaccines, demonstrated their ability, and in some ways their advantage, in effectively addressing public health needs (Yeoh forthcoming). The expansion of social protection over the past decade and a half, and the

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pandemic experience have shown that the scope for state governments in public health and social welfare can assuredly be expanded.

The states have complained. Heavy reliance on land-based revenue directly constrains their capacity, while providing windfalls to those with oil reserves, as starkly shown in the next section. Capitation grants, which are scaled to population with some in-built progressive distribution, technically transfer funds from federal to state, but have tended to operate in an opaque manner, with grouses volubly raised from time to time.[2] In June 2022, members of parliament critiqued the lack of benefits to the most populous and advanced state of Selangor despite its large contributions to the national economy and its high administrative and infrastructure expenses.[3] In March 2023, Kedah's former Chief Minister Mukhriz Mahathir bemoaned the lack of federal support, both in capitation grants and development investment, for less advanced states.[4] Amid the recurring queries, Deputy Finance Minister Steven Sim explained in parliament that federal-to-state transfers are not driven by political affiliation, and that development projects for less advanced states, along with ecological fiscal transfers, have continually been rolled out.[5]

However, the implementation of capitation grants — a basic question of whether the Finance Ministry abides by the clear and simple, if outdated, calculation formula — has not been publicly accounted. State government debt to the federal government, which hovered at a hefty RM17 billion throughout 2015-18, underscores the inadequacy of their internal funding and compounds the federal-state hierarchy (Yeoh 2021). Selangor's declaration, as part of the state's 2024 budget, that the state would fully settle its debt to the federal government resonates with a salutary notion that state governments should be freed from such financial yokes.[6]

The consequences of state government's land use decisions, including issuance of logging and mining concessions or conversion of farmed or agriculturally designated land to industrial status, are immense. Malaysia's state governments have overseen extensive logging and deforestation, largely for oil palm plantations.[7] The option to convert land use to more financially profitable purposes, which entails land premium collection by the state government, sometimes works to the detriment of existing or potential food agriculture.[8] The underlying causes are not reducible to a single factor; award of logging concessions or land conversions are vulnerable to rent-seeking activity and it is unclear if the ensuing deals contribute substantially to state coffers. Measures to enhance the efficacy and integrity of logging licenses, such as through open tenders, have been proposed, for example in Kedah (2014) and Sarawak (2017).[9] The availability of more non-land-based sources of revenue will not eliminate rent-seeking proclivities, but would arguably reduce pressure on extracting revenue and also confound the lack of state revenue being used as a pretext for land conversion. It would also enhance state governments' ability to stake performance legitimacy by delivering more social welfare and public services.

Other sources that state governments generate or receive have emerged in recent decades. State economic development corporations (SEDCs), in operation since the 1960s, have continually been involved in commercial or residential land development and promotion of Bumiputera enterprise. From the 1990s, Chief Minister offices established commercial entities venturing into broader fields, including higher education and technological sectors. New federal grants have also emerged, notably the ecological fiscal transfers (EFTs) introduced in 2019, emulating

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the practice in other countries of national governments financially supporting subnational governments in conservation matters. In principle, EFTs compensate state governments for foregoing proceeds that converting forests to commercial uses could bring them.

Beyond the quantity of government revenue, a further issue in the federal, state and local government structure concerns the coherence of their respective sources of income with governmental functions and the returns to taxpayers. Federal collection of the vast bulk of direct and indirect taxation and numerous fees and charges concurs with the breadth of functions that in turn enable economic and social life. Importantly, tax on income and profit justifiably flows to federal coffers, in light of the central government's provision of law and public administration, infrastructure, external relations, basic education and a public health system, which all undergird the generation of income and profit in society as a whole. Likewise, assessment rates that finance local governments allow the latter to render to constituents essential local services such as waste disposal and public amenity maintenance.

This circular flow, however, has become disjointed for Malaysia's state governments, particularly since their expansion into areas that are on the Concurrent List, such as social welfare. But while broadening their range of services – which state governments are eminently poised to deliver – they remain incapacitated by dependency on the finite resource of land.

Taxation on consumption stands out as a revenue source that can fill the gap, and also help state finances ride out business cycles and maintain stability through economic crises.

## STATE GOVERNMENT FINANCES: SMALL BUDGETS AND PERSISTING CONSTRAINTS

The fiscal balance of Malaysia's state governments emphatically shows their meagre collections. State governments' revenue in 2023 averaged RM926 per capita, just 10.3 per cent of per capita federal government revenue of RM28,153 (Table 1). There are wide disparities across states, with Sarawak generating RM4,414 for each resident, and Terengganu and Sabah also enjoying sizable revenue in excess of RM1,500. Oil royalties account for these three states' stark advantage over the rest, with Sarawak and Sabah also reaping petrol sales tax. Relatively land- and forest-abundant Kelantan, Perlis and Pahang evidently can tap into resources to register among the higher per capita state government revenue on the Peninsula, after Terengganu. At the lower end, the more industrialised and urbanised Selangor and Penang earn the lowest revenue per capita. State versus federal government annual expenditures display a similar pattern, except that the disparity is higher due to the greater capacity of the federal government to borrow and run deficits; hence, federal expenditures exceed state expenditures by a wider margin (Appendix Table 3).

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**Table 1. Revenue of state governments* (highest to lowest GDP per capita)**

| | GDP per capita (RM) 2021 | population (million) 2022 | 2023 Revenue** | | State per capita as % of federal per capita |
|---|---|---|---|---|---|
| | | | Total (RM *million*) | Per capita (RM) | |
| Sarawak | 65,971 | 2.5 | 11,035 | 4,414 | 49.2 |
| Penang | 59,685 | 1.7 | 522 | 307 | 3.4 |
| Selangor | 51,930 | 7.0 | 2,000 | 286 | 3.2 |
| Melaka | 44,610 | 1.0 | 456 | 456 | 5.1 |
| Neg. Sembilan | 44,495 | 1.2 | 450 | 375 | 4.2 |
| Pahang | 41,313 | 1.6 | 1,083 | 677 | 7.5 |
| Johor | 36,474 | 4.0 | 1,734 | 434 | 4.8 |
| Perak | 34,338 | 2.5 | 1,160 | 464 | 5.2 |
| Terengganu | 30,901 | 1.2 | 1,810 | 1,508 | 16.8 |
| Sabah | 29,960 | 3.4 | 5,268 | 1,549 | 17.3 |
| Kedah | 23,575 | 2.2 | 955 | 434 | 4.8 |
| Perlis | 21,508 | 0.3 | 225 | 749 | 8.4 |
| Kelantan | 15,584 | 1.8 | 1,455 | 808 | 9.0 |
| Total 13 states | 41,153 | 30.4 | 28,153 | 926 | 10.3 |
| *Malaysia* | *47,439* | *32.5* | *291,500* | *8,969* | |

Source: Author's compilations from DOSM (2023) and news reports.
Notes: * 13 states exclude the Federal Territories (Kuala Lumpur, Labuan, Putrajaya).
** Projected revenue.

The dependency on land-based revenue manifests all around, including in the more advanced states which enjoy wider options for generating revenue. Selangor's signature Inisiatif Peduli Rakyat (caring for the people) family of social assistance programmes are parked under the Menteri Besar Incorporated holding company that manages the state government's assets. However, Selangor's 2022 revenue still comprises mainly land premiums (RM849 million, or 46 per cent of the total revenue), followed by land tax amounting to RM562 million (30 per cent), while major land, forest, or mining taxes, fees, or other payments amounted to RM112 (6 per cent). In total, these land-based sources contributed up to 82 percent of total revenue; receipts from the federal government amounted to RM215 million (11 per cent). Perak's revenue for 2021, the most recent reported year, consisted of 70 per cent from land-based sources, and 15 per cent from federal government transfers.[10]

The contribution of forest-based revenue warrants specific attention, as both an economic and ecological concern. The Forestry Department of Peninsular Malaysia's annual reports tabulate data on forest-based revenue and forested area, which enable us to juxtapose some snapshots across time, at least until the most recent disclosure in 2019. Pahang and Kelantan, abundantly endowed with forest and with relatively higher forest area, also extract the most from forests

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— with 18-20 per cent of annual revenue derived from these (Table 2). Simultaneously, Kelantan has registered the highest loss of forest, and a steady increase in forest-based revenue in the decade prior to 2018 (Figure 1). These numbers must be handled with care in general; the relatively lesser loss of Pahang's official forest cover, for example, warrants further investigation.[11]

Notwithstanding the data gaps, Malaysia must break a vicious cycle of over-reliance on land-based revenue and over-exploitation of natural resources. We should also note that Johor's high forest loss has transpired despite the state's low dependency on forest-based revenue. Sustainable forest management entails addressing a complex of factors, one of which is decidedly state government reliance on forest-based revenues. On this note, the brewing zeal to tap into potential rare earth mining bonanzas could also be tempered by the availability of non-land-based revenue sources.

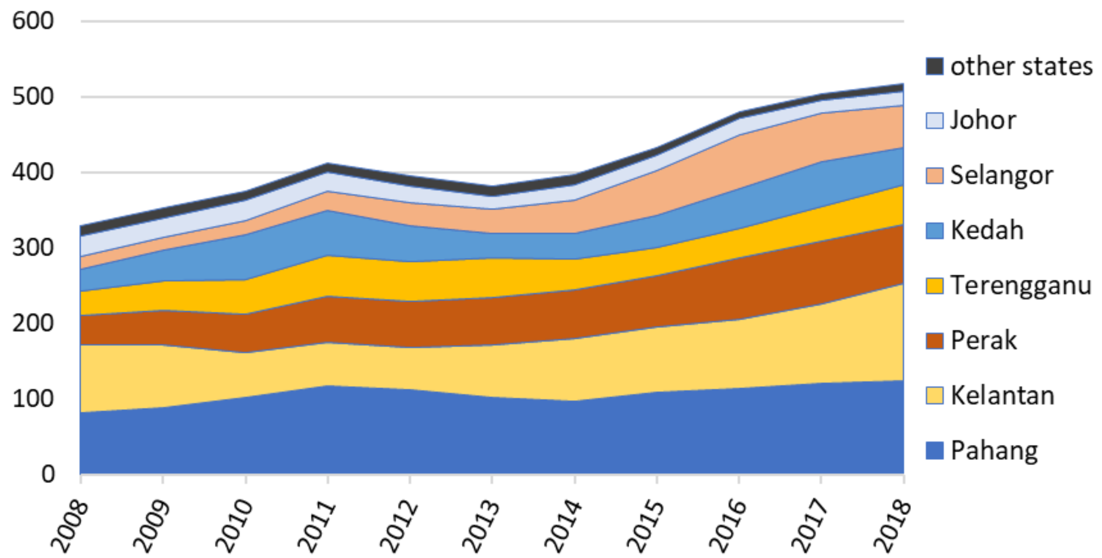
Ecological Fiscal Transfers have swung into motion as a conservation instrument, with the federal government continually raising this budget line item from RM70 million in 2022 to RM150 million in 2023 and RM200 million for budget 2024. The mechanism and outcome of distribution – regarding which states would receive EFTs and how much – remain unclear. However, this is a development that deserves to proceed and be evaluated. At the same time, the allocations are in the grand scheme of state finances, and may struggle to be robustly increased within the federal budget bargaining process. EFTs should be viewed as a reinforcement, not a replacement, for increasing state revenue and enhancing state governments' role and accountability as custodians of the land.

**Table 2. Peninsular Malaysia States: Forest-based revenue and forest area (2009-2019)**

| | Forest-based revenue | | Forest-based revenue* per total revenue | | Change in forest area | | Forest area** per total land area |
|---|---|---|---|---|---|---|---|
| Year | 2009 | 2019 | 2009 | 2019 | 2009 to 2019 | | 2019 |
| Unit | RM million | | % | | hectares | % change | % |
| Kelantan | 64.1 | 147.5 | 18.9 | 19.8 | -100,663 | -11.6 | 50.8 |
| Pahang | 80.7 | 130.1 | 17.5 | 18.5 | -15,923 | -0.8 | 57.1 |
| Perak | 36.8 | 53.3 | 5.2 | 5.0 | -22,548 | -2.2 | 48.1 |
| Kedah | 39.0 | 21.2 | 8.0 | 3.0 | -10,437 | -3.0 | 36.6 |
| Selangor | 13.9 | 52.3 | 2.0 | 2.4 | 3,895 | 1.6 | 31.7 |
| Terengganu | 41.5 | 46.7 | 2.3 | 2.3 | 22,198 | 3.4 | 51.2 |
| Johor | 27.8 | 21.5 | | 1.4 | -43,849 | -9.0 | 23.6 |

Sources: Author's calculations from Forestry Department Peninsular Malaysia (2010, 2020) and news reports.
Notes: * Forest-based revenues are derived from royalties, premiums, cess, forest offence fines, compensations and other charges or fees; ** "Forest area" includes permanent reserved forest (which may be approved for logging and forest plantations), wildlife forest parks, state parks, and state land forest.

**Figure 1. Peninsular Malaysia states: Annual forest-based revenue (RM million), 2008-2018 (three-year moving average)**




Source: Official data compiled by Macaranga Media.

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The constitution gives prominence to capitation grants, and specifies a simple population-based formula for calculating the quantum. However, lawmakers and state government leaders have questioned the supply of these grants, suggesting incomplete adherence to the rule, or opacity in general even if the grant is being administered. Full compliance, which translates into the payment schedule in Table 3, can go some ways toward addressing the critiques of the economically-leading states that contribute extensively to federal government revenue — and are also relatively less land-endowed — but receive disproportionately less from Putrajaya. Selangor and Perak budget documents disclose that the state received capitation grant of RM77.2 million and RM36.0 million, respectively, in 2022 (differences in population data might account for the discrepancy between this amount and the figure in Table 3).[12] Complaints that the federal government ignores states may be induced by the derisory amount of these mandated transfers. Even if the constitutional terms are fully honoured, the quantity — mostly in the range of RM12-16 per capita — is ultimately far less consequential than that which broader reforms can deliver.

**Table 3. Estimated capitation grants from federal to state governments**

| | population (million) | total grant (RM million) | grant per capita (RM) |
|---|---|---|---|
| Selangor | 7.21 | 87.3 | 12.1 |
| Johor | 4.10 | 51.9 | 12.7 |
| Sabah | 3.59 | 46.1 | 12.8 |
| Perak | 2.54 | 34.1 | 13.4 |
| Sarawak | 2.51 | 33.8 | 13.5 |
| Kedah | 2.19 | 30.1 | 13.8 |
| Kelantan | 1.86 | 26.3 | 14.2 |
| Penang | 1.77 | 25.4 | 14.3 |
| Pahang | 1.64 | 23.9 | 14.5 |
| Negeri Sembilan | 1.22 | 19.1 | 15.6 |
| Terengganu | 1.21 | 18.9 | 15.7 |
| Melaka | 1.03 | 16.9 | 16.5 |
| Perlis | 0.29 | 14.3 | 48.7 |
| 13 states' total | 31.16 | 428.1 | 13.7 |

Source: Author's calculations based on the Federal Constitution[13]

Federal development grants flow more voluminously to states. The amounts can be sizable, but are also ad hoc and contingent on projects. Costly and cross-border projects unquestionably require pooling of funds and coordination, which are the province of the federal authorities. Nonetheless, more state government revenue will empower them to undertake development, possibly in more responsive and nimble ways than the complex federal bureaucracy do.

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**EXPANDING ROLES AND RESOURCES**

The preceding discussion has elucidated Malaysia's sub-optimal federal system, in terms of both design and practice. What alternatives can the country consider? Where and how might Malaysia probe room for expansion?

This weighty subject entails a broader discussion, and possibly some proposition of constitutional amendment, but two starting points stand out. Considering the advantages of the state-level of government in proximity and responsiveness to the people, and the foreseeable political intractability of constitutional amendments to the Ninth Schedule of federal and state responsibilities, items on the Concurrent List present a more feasible path forward for states to play a larger role — specifically in social welfare and public health.

On the revenue side, a bold and constructive debate must be opened on elements of the tax regime currently monopolised by the federal government. Aside from Sarawak and Sabah's petrol sales tax, the federal government collects all consumption tax, encompassing sales, services, and excise. For reference, Malaysia's last goods and services tax (GST) collection of 2018 amassed RM41 billion, or 2.8 per cent of nominal GDP (RM1,447 billion). State governments could be the recipients, either through a constitutional reform that allows for sales tax collection, akin to the provision for Sabah and Sarawak, or a statutory requirement for consumption tax to be apportioned between the federal and state governments. The rate of taxation or breakdown between federal and state shares must be debated critically and transparently, but can refer to prospective returns to the state.[14] Various federal-structured countries' collection of national and subnational consumption taxes — notably Australia, Brazil, Canada, and India — are worth considering (Appendix Table 4).

Table 4 presents hypothetical consumption tax revenue, based on share of GDP, and the resulting boost to state government capacity. Consumption tax amounting to 1% of GDP would generate for the 13 states a total of RM14.3 billion in 2022, with RM4.2 billion to Selangor, RM2.0 billion to Sarawak, RM1.2 billion to Sabah, and substantial amounts to all others. Such financial gains, accompanied by an express mandate for states to expand social welfare and public health programmes, could help make the reform more electorally palatable. For instance, a national consensus could task state governments with providing universal pension for senior residents. A constitutional amendment to permit Peninsular Malaysia states to collect sales tax would require a momentous mustering of political will, but considering the economic, social and sustainability benefits involved, the endeavour would be a meaningful and productive channelling of national energy.

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**Table 4. Consumption tax revenue to state governments: hypothetical scenarios**

| | GDP per capita 2022 | GDP 2022 | State government revenue 2022 | *Hypothetical consumption tax revenue to state government based on share of GDP:* | | |
|---|---|---|---|---|---|---|
| | | | | 0.5% GDP | 1% GDP | 1.5% GDP |
| | RM | RM million | | | | |
| Sarawak | 80,772 | 199,580 | 11,035 | 998 | 1,996 | 2,994 |
| Penang | 69,591 | 120,991 | 522 | 605 | 1,210 | 1,815 |
| Selangor | 59,804 | 420,913 | 2,000 | 2,105 | 4,209 | 6,314 |
| Melaka | 50,363 | 50,751 | 456 | 254 | 508 | 761 |
| Neg. Sembilan | 49,851 | 60,270 | 450 | 301 | 603 | 904 |
| Pahang | 47,127 | 75,992 | 1,083 | 380 | 760 | 1,140 |
| Johor | 41,001 | 164,935 | 1,734 | 825 | 1,649 | 2,474 |
| Perak | 37,031 | 93,381 | 1,160 | 467 | 934 | 1,401 |
| Terengganu | 35,766 | 121,279 | 1,810 | 606 | 1,213 | 1,819 |
| Sabah | 32,210 | 38,233 | 5,268 | 191 | 382 | 573 |
| Kedah | 26,061 | 56,576 | 955 | 283 | 566 | 849 |
| Perlis | 23,126 | 6,702 | 225 | 34 | 67 | 101 |
| Kelantan | 16,555 | 15,092 | 1,455 | 75 | 151 | 226 |

Source: DOSM (2023); author's compilations from news reports; author's computations.

## CONCLUDING NOTE

Malaysia's state governments have been gaining political prominence but remain functionally constrained. Their dependency on land-based revenue militates against sustainable development. Expanding both the roles and resources of state governments makes eminent sense logically and practically. However, this may involve considerable, but not insurmountable, constitutional navigation.

Delegating more roles and resources to the subnational levels would also resonate with sound democratic ideals and the principle that self-sufficient state governments can provide more for their constituents and are less beholden to federal masters. Progress, of course, must surmount political barriers, and tendencies within the central government to keep the states beholden, to dispense patronage, and thus to maintain power. Such structures look increasingly like relics

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of Barisan Nasional's "stable" rule. With coalitions now loosely formed and with power dispersed, and with East Malaysia continually asserting autonomy, resolving the insufficient state of Malaysia's subnational governments may well enhance political stability.

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**APPENDICES**

Appendix Table 1. Division of Responsibilities between the Federal and State Governments

| Federal List | Concurrent List[15] | State List[16] |
|---|---|---|
| External affairs<br>Defence<br>Internal security<br>Civil and criminal law and procedure and the administration of justice<br>Federal citizenship and naturalisation<br>Machinery of government<br>Finance<br>Trade, commerce and industry<br>Shipping, navigation and fisheries<br>Communications and transport<br>Federal works and power<br>Surveys, inquiries and research<br>Education<br>Medicine and health<br>Labour and social security<br>Welfare of the aborigines<br>Professional occupations<br>Holidays other than state holidays<br>Unincorporated societies<br>Control of agricultural pests<br>Newspapers, publications, publishers, printing and printing presses<br>Censorship<br>Theatres, cinemas, films (subject to state list)<br>Co-operative societies<br>Tourism | Social welfare<br>Scholarships<br>Protection of wild animals and wild birds and national parks<br>Animal husbandry<br>Town and country planning<br>Vagrancy and itinerant hawkers<br>Public health and sanitation<br>Drainage and irrigation<br>Rehabilitation of mining land and land with erosion<br>Fire safety measures<br>Culture and sports<br>Housing<br>Water supplies and services<br>Preservation of heritage | Islamic law and Malay customs<br>Land matters<br>Agriculture and forestry<br>Local government<br>Other services[17]<br>State works and water[18]<br>Machinery of the state government<br>State holidays<br>Creation of offences on state matters<br>Inquiries for state purposes<br>Indemnity for state matters<br>Turtles and riverine fishing<br>Libraries, museums, ancient and historical monuments and records and archaeological sites and remains |

Source: Federal Constitution, Ninth Schedule (compiled and tabulated in Yeoh 2020).

Appendix Table 2: Revenue Sources to Federal and State Governments

| Federal<br>*Tax Revenue* | | State<br>*Tax Revenue* | |
|---|---|---|---|
| 1. | Direct taxes | 1. | Import & excise duties on petroleum products, export duties on timber & other forest products for Sabah & Sarawak, excise duty on toddy for all states |
| i. | Income taxes:<br>- Individual<br>- Companies<br>- Cooperatives<br>- Petroleum tax<br>- Film hire duty | 2. | Forests |
| | | 3. | Lands & mines |
| ii. | Taxes on property & capital gains:<br>- Real property gains tax<br>- Estate duty<br>- Share transfer tax on land-based companies | 4. | Entertainment duties |
| | | | *Other Receipts* |
| | | 1. | Licences & permits |
| | | 2. | Royalties |
| 2. | Indirect taxes | 3. | Service fees |
| i. | Taxes on international trade:<br>- Export duties<br>- Import duties<br>- Surtax on imports | 4. | Commercial undertakings: water, gas, ports & harbours |
| | | 5. | Receipts from land sales |
| | | 6. | Rents and sales from state property |
| ii. | Taxes on production & consumption:<br>- Excise duties<br>- Sales taxes<br>- Service taxes | 7. | Proceeds, dividends & interests |
| | | 8. | Federal grants & reimbursements |
| | Others | | |
| iii. | - Stamp duties<br>- Gaming tax<br>- Betting & sweepstakes<br>- Lotteries<br>- Casino<br>- Pool betting duty | | |
| | *Non-tax Revenue and Other Receipts* | | |
| 1. | Road tax | | |
| 2. | Licences | | |
| 3. | Service fees | | |
| 4. | Fines & forfeitures | | |
| 5. | Interests | | |
| 6. | Contributions from foreign governments | | |
| 7. | Revenues from federal territories | | |
| 8. | Refund of expenditures | | |
| 9. | Receipts from other government agencies | | |
| 10. | Royalties/gas cash payments | | |

Source: Federal Constitution, Tenth Schedule (compiled and tabulated in Yeoh 2020).

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Appendix Table 3. Expenditure of state governments (highest to lowest GDP per capita)

| | GDP per capita (RM) 2021 | population (million) 2022 | 2023 Expenditure | | State per capita as % of federal per capita |
|---|---|---|---|---|---|
| | | | Total (RM *million*) | Per capita (RM) | |
| Sarawak | 65,971 | 2.5 | 10,797 | 4,319 | 36.2 |
| Penang | 59,685 | 1.7 | 990 | 582 | 4.9 |
| Selangor | 51,930 | 7.0 | 2,450 | 350 | 2.9 |
| Melaka | 44,610 | 1.0 | 537 | 537 | 4.5 |
| Neg. Sembilan | 44,495 | 1.2 | 550 | 458 | 3.8 |
| Pahang | 41,313 | 1.6 | 1,071 | 669 | 5.6 |
| Johor | 36,474 | 4.0 | 1,732 | 433 | 3.6 |
| Perak | 34,338 | 2.5 | 1,190 | 476 | 4.0 |
| Terengganu | 30,901 | 1.2 | 1,991 | 1,659 | 13.9 |
| Sabah | 29,960 | 3.4 | 5,138 | 1,511 | 12.7 |
| Kedah | 23,575 | 2.2 | 1,059 | 481 | 4.0 |
| Perlis | 21,508 | 0.3 | 293 | 977 | 8.2 |
| Kelantan | 15,584 | 1.8 | 1,620 | 900 | 7.5 |
| Total 13 states | 41,153 | 30.4 | 29,418 | 968 | 8.1 |
| *Malaysia* | *47,439* | *32.5* | *388,100* | *11,942* | |

Source: Author's compilations from DOSM (2023) and news reports.
Note: 13 states exclude the Federal Territories (Kuala Lumpur, Labuan, Putrajaya).

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Appendix Table 4. Notable countries with subnational-national consumption tax structure

| | |
|---|---|
| Australia | GST of 10 per cent is collected by the federal government and then channeled to the states, based on the state's ability to generate revenue. |
| Brazil | Value-added tax (VAT) on sales and certain services is collected by state governments; federal government receives excise taxes and municipal governments receive service tax. |
| Canada | Federal GST is imposed at 5 per cent, and three provinces collect provincial retail sales tax (PST), while five maintain a harmonised sales tax (HST) comprised of the federal GST and a provincial component. |
| India | Goods and services taxes are collected separately by the different levels of government: Central GST accrues to the central government; state/union territory GST accrue to the state/union territory governments. |

Source: Author's compilations from https://taxsummaries.pwc.com/.

**ENDNOTES**

[1] Item 1 on List III, the Concurrent List, reads "Social welfare; social services subject to Lists I and II; protection of women, children and young persons." (List I and II refer to the Federal and State Lists, in which "social services" does not appear as category but can be presumed to mainly encompass education and health, and labour and social security). Item 7 on the Concurrent List: "Public health, sanitation (excluding sanitation in the federal capital) and the prevention of diseases."
[2] "Federal grant should reflect state contribution, says Khalid", *The Edge,* 1 March 2010 (https://theedgemalaysia.com/node/28073).
[3] Tsubasa Nair, "Reps complain of unfair federal funds for Selangor, Penang", *Free Malaysia Today,* 20 June 2022 (https://www.freemalaysiatoday.com/category/nation/2022/06/20/reps-complain-of-unfair-federal-funds-for-selangor-penang/)
[4] Ahmad Mukhsein Mukhtar, "Kedah State Assembly: Mukhriz calls for fairer distribution of funds to underdeveloped states", 13 March 2023 (https://www.nst.com.my/news/politics/2023/03/888869/kedah-state-assembly-mukhriz-calls-fairer-distribution-funds).
[5] "Steven Sim: Distribution of capitation grant to states not based on political affiliation", *Bernama,* 7 June 2023 (https://www.nst.com.my/news/nation/2023/06/917500/steven-sim-distribution-capitation-grant-states-not-based-political).
[6] John Bunyan, "Selangor MB sees 2024 as 'lucky' year as state will be able to fully clear its debt to Putrajaya", *Malay Mail*, 10 November 2023 (https://www.malaymail.com/news/malaysia/2023/11/10/selangor-mb-sees-2024-as-lucky-year-as-state-will-be-able-to-fully-clear-its-debt-to-putrajaya/101362).
[7] Macaranga's series of investigative journalistic articles, by Yao Hua Law, is instructive: "Forest Loss: Under Whose Watch?", 26 November 2020 (https://www.macaranga.org/forest-loss-under-whose-watch/); "Excision – The Main Threat to Forests in Peninsular Malaysia", 27 November 2020 (https://www.macaranga.org/excision-the-main-threat-to-forests-in-peninsular-malaysia/); "Revenue and Power Drive Forest Area Changes", 30 November 2020 (https://www.macaranga.org/revenue-and-power-drive-forest-area-changes/); "Forest-Use: The Public Wants a Say", 2 December 2020 (https://www.macaranga.org/forest-use-the-public-wants-a-say/).

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[8] Rani Rasiah, "Insecurity in Perak food production looms as state evicts Kanthan farmers", *Aliran,* 2 November 2023 (https://aliran.com/thinking-allowed-online/insecurity-in-perak-food-production-looms-as-state-evicts-kanthan-farmers).
[9] "Kedah Forestry Dept proposes open tender for logging concessions", *The Edge,* 24 January 2014 (https://theedgemalaysia.com/article/kedah-forestry-dept-proposes-open-tender-logging-concessions).
[10] Author's calculations from Selangor and Perak state government budget documents: *Anggaran Belanjawan Selangor 2023* (Selangor Estimated Expenditure), https://www.selangor.gov.my/index.php/pages/view/107?mid=649; *Belanjawan 2023 Negeri Perak Darul Ridzuan*, https://kewangan.perak.gov.my/images/buku_belanjawan/buku-bajet-2023.pdf.
[11] Malaysia's forest cover data are questionable due to inconsistency and opacity, including the classification based on land use, which does not necessarily reflect the reality on the ground, and disparities between gazetted forest reserves and official records (Law Yao Hua, "Navigating the Multiverse of Forest Data", *Macaranga*, 3 March 2023, https://www.macaranga.org/navigating-the-multiverse-of-forest-data-peninsular-malaysia/). Friends of the Earth, the conservation civil society organisation, instructively categorise conservation forest and production forest in its critique of Malaysia's forest data conventions that inadequately report the distinction ("Statistical data on forested and conservation areas in Malaysia", *Friends of the Earth Malaysia*, 9 November 2020, https://foe-malaysia.org/articles/statistical-data-on-forested-and-conservation-areas-in-malaysia/).
[12] *Anggaran Belanjawan Selangor 2023*, *Belanjawan 2023 Negeri Perak Darul Ridzuan.*
[13] Tenth Schedule [Articles 109, 112c, 161c(3)], Grants and Sources of Revenue Assigned to States: RM72.00 per person for first 100,000 population; RM10.20 for population 101,000-600,000; RM10.80 for population 601,000-1.1 million; RM11.40 for population above 1.1 million.
[14] The tourism tax, split 50-50 between federal and state governments, was a notable experiment, albeit amounting to a mere RM50 million share to be divided across all states in 2019. The practice was also disrupted by the Covid-19 pandemic, and has not reappeared in recent federal budget speeches.
[15] Supplement to Concurrent List for States of Sabah and Sarawak: Personal law relating to marriage, divorce, guardianship, maintenance, adoption, legitimacy, family law, gifts or succession, testate or intestate, adulteration of foodstuffs and other goods, shipping under 15 registered tons, maritime and estuarine fishing and fisheries, the production, distribution and supply of water power and of electricity generated by water power, agricultural and forestry research, control of agricultural pests, and prevention of plant diseases, charities and charitable trusts and institutions in the State, theatres, cinemas, cinematograph films, places of public amusement, elections to the State Assembly held during the period of indirect elections.
[16] Supplement to State List for States of Sabah and Sarawak: Native law and custom, incorporation of authorities and other bodies set up by State law, Ports and harbours (other than those declared to be federal), regulation of traffic by water in ports and harbours or on rivers wholly within the state, except traffic in federal ports or harbours, foreshores, Cadastral land surveys, In Sabah, the Sabah Railway, and subject to the Federal list, water supplies and services.
[17] Boarding houses and lodging houses, burial and cremation grounds, pounds and cattle trespass, markets and fairs, and licensing of theatres, cinemas and places of public amusement.
[18] Includes rivers and canals, excludes water supplies and services; Control of silt and riparian rights.

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