

How Tax Officials View the Future of Carbon Tax in Malaysia?

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Abstract

Climate change and natural disasters have become a worldwide issue, threatening the environment, the economy, and human health. The Sixth Intergovernmental Panel on Climate Change (IPCC) report indicates that human activities, such as burning fossil fuels and deforestation, are major sources of carbon emissions. The accumulation of carbon gases in the atmosphere forms a layer that traps heat, leading to global warming and increased frequency of natural disasters. Malaysia has made appropriate efforts to reduce carbon emissions, concentrating mainly on tax incentives and environmental programs rather than implementing a tax mechanism. Policymakers globally are progressively embracing tax-based strategies to reduce carbon emissions. Malaysia is likely to introduce a carbon tax in the near future, adding a new dimension to its environmental strategy. This study seeks to assess the perception of the tax authority, specifically the officers of the Inland Revenue Board of Malaysia (IRBM), regarding the necessity of implementing a carbon tax in Malaysia. This study employs open-ended survey questions to gather in-depth qualitative data from officers within the IRBM, allowing for a more nuanced understanding of their perspectives and insights. This study has successfully uncovered and detailed the tax authority's perceptions regarding the implementation of a carbon tax, providing valuable insights into their views, concerns, and the potential challenges and opportunities associated with such a policy. The study's implications are thoroughly examined and emphasized, shedding light on the broader impact and significance of the findings.

Keywords: Climate change, carbon tax, tax authority

1. INTRODUCTION

On 4 November 2016, the Paris Agreement on climate change came into force, binding commitments from all countries to reduce greenhouse gas emissions. The agreement dictates a global responsibility to limit their increase in temperature to only 1.5 Celcius by 2050. Today, 192 countries have joined the Paris Agreement, including Malaysia. In the Paris Agreement, Malaysia has committed to reducing greenhouse gas (GHG) emissions across the economy by 45% in 2030. The report from the International Energy Agency-IEA (2019) discovered that Malaysia accounted for 28.8% of carbon dioxide emissions in the transportation sector, above the global average of 24.5%.

The then Prime Minister Datuk Seri Ismail Sabri Yaakob (The Star, 11 October 2021) highlighted the country's aspiration to achieve net-zero GHG emissions as early as 2050. The government has given the Ministry of Environment and Water (KASA) a mandate to strengthen climate change governance in the country. KASA established the Malaysian Green Technology and Climate Change Centre (MGTC) to carry the mandate. The MGTC has initiated the Low Carbon Cities Framework (LCCF) to transform cities and universities towards a low carbon city. The LCCF aims to assist the local councils, town planners, developers, and the public reduce city carbon emission levels to achieve a green environment and sustainable development. Four (4) main focuses of the LCCF in lowering carbon emissions systematically and effectively are the environment, infrastructures,

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transportation, and buildings. In 2020, the MGTC, under the supervision of the KASA, developed the Low Carbon Mobility Blueprint (LCMB) 2021-2030. The blueprint focuses on the transportation sector, Malaysia's second-largest carbon dioxide emitter after the energy sector. The transportation sector contributes 25% to 30% of the emissions, mainly from vehicles on the road.

The environmental frameworks available focus on the motivation towards a clean environment. For example, the key policy of the Low Carbon Mobility Blueprint (2021 -2030) is to shift the transportation sector towards electrification. The existing environmental laws, the GITA and GITE, also focus on tax incentives. Malaysia focuses on tax incentives, not tax penalties, to preserve the environment and reduce carbon emissions.

Zhang and Fujimori (2020) claimed that electrification and intermodal road-rail operations in the transportation policy would increase emissions rather than achieve a low-carbon transition without replacing fossil-fuel power plants. The transition of Malaysia to a fossil-free society is urgent, but the country lacks comprehensive instruments to deal with climate change. The available instruments are tax incentives on green capital expenditure and motivation for green buildings and technologies for industries. The situation shows that the environmental policy should be revisited to cope with the urgency of climate change. Economic theory suggests emissions pricing, such as carbon tax, as the most cost-effective policy to deal with climate change since the price provided is constant to adapt (Akerlof et al., 2019). Furthermore, Ariffin et al. (2023) emphasized the significance of public acceptance of green tax policies in fostering sustainable environmental growth and raising awareness, thereby promoting a shared responsibility.

The pressure of climate action becomes more crucial, the damages to the environment are irreparable, and the pollution causes severe diseases to senior citizens and children. Thus, Malaysia needs to achieve the promises set by the Paris Agreement. Therefore, proper policy, especially in the tax system that is carbon tax, must be formulated to ensure that greenhouse gases are reduced in both the short and long runs. However, the effectiveness of a carbon tax in reducing carbon emissions is still in question. Limited studies showing the significant effect of introducing the carbon tax and reducing total emissions. Further studies should be conducted, especially involving countries that intend to introduce carbon taxes as a new tax policy. Thus, this study will gauge the perception from the tax authority to the introduction of the carbon tax policy as a new environmental tax model in Malaysia.

2. METHODOLOGY

A survey was carried out to seek perspectives from the tax officials concerning the introduction of a carbon tax in Malaysia. The participants representing tax official were the Inland Revenue Board of Malaysia (IRBM) officers, including the director, deputy director, and senior executives of the Tax Policy Department, IRBM Cyberjaya. Officers from the Tax Policy Department of IRBM are the best-chosen participants because the department is closely involved with the environmental and climate change mechanism, SDG 13, in Malaysia.

The participants were asked about their acceptance of implementing a carbon tax as a new tax policy in Malaysia. The questions asked were about the positive and negative effects of carbon taxes. The questions were to frame their consent on the implementation of a carbon tax in reducing emissions. Open-ended questions were posed to gather additional responses and clarifications on whether a carbon tax is the most effective method for reducing emissions. The section concluded with participants explaining and justifying their overall perception on the issues towards implementing a carbon tax in Malaysia.

The study utilised thematic analysis in analysing the data gathered to provides a comprehensive view and perspectives on the perception of the effectiveness of the carbon tax in Malaysia. It highlights a range of opinions, including support for the carbon tax, scepticism about its effectiveness, calls for alternative measures, and emphasis on public awareness and government intervention. This analysis can provide input to the discussions and policy decisions regarding carbon reduction strategies in Malaysia, emphasising the importance of considering diverse perspectives and approaches in addressing environmental challenges.

3. ANALYSIS

A total of 100 tax officials from the Inland Revenue Board of Malaysia, based in Cyberjaya, participated in the study. These officials, who possess in-depth knowledge and experience in tax administration, provided valuable insights, contributing to the comprehensive understanding of the issues in the study. Their involvement was crucial in ensuring that the perspectives gathered were well-informed and reflective of the current practices and challenges faced within the Malaysian tax system.

4. RESULTS

The thematic analysis conducted in this study provided a comprehensive synthesis of the perspectives held by tax officials regarding the implementation of a carbon tax as a strategic approach to mitigating carbon emissions in Malaysia. Through a systematic examination of qualitative data, key themes emerged that highlighted the officials' views on the effectiveness, challenges, and potential socio-economic impacts of this policy measure. Table 1 shows the identified theme.

Table 1. Identified Themes.

Themes	Initial Codes
Agreement with a carbon tax	Agree with carbon tax implementation Carbon tax is the best solution
Disagreement with carbon tax	Shared responsibility Scepticism about government implementation Doubt about effectiveness towards reducing carbon emission Concerns about economic impact Calls for further study
Mixed opinion and neutral	Neutral or no position Acknowledgment with reservations
Suggestions for alternatives or additional measures	Advocacy for diverse policy options Alternative approaches
Public awareness and education	Public awareness of carbon reduction Awareness through education Attitude is key
Support for green energy and renewable sources	Support for green energy solutions Socioeconomic consideration Emphasis on the transition to solar energy
Government incentives and penalties	Advocacy for government incentives Penalties to responsible sectors

1. **Agreement with carbon tax:**
This theme represents participants who support the implementation of a carbon tax and perceive it as the best solution for reducing carbon emissions. The initial codes include agreeing with carbon tax implementation and viewing carbon tax as the best solution.
2. **Disagreement with carbon tax:**
This theme encompasses participants who disagree with the effectiveness or appropriateness of a carbon tax. Initial codes under this theme include expressing a shared responsibility for carbon reduction, scepticism about government implementation, doubt about the effectiveness of the tax in reducing emissions, concerns about its economic impact and calls for further studies.
3. **Mixed opinion and neutral:**
This theme captures responses that express neutrality or a mixed opinion regarding the effectiveness of carbon tax in reducing emissions. Initial codes include expressing a neutral or no position and acknowledging the concept with reservations.
4. **Suggestions for alternatives or additional measures:**
Participants in this theme propose alternative approaches or other measures beyond carbon tax. Initial codes include advocating for diverse policy options and suggesting alternative approaches.
5. **Public awareness and education:**
This theme focuses on the importance of public awareness and education in carbon reduction efforts. Initial codes include promoting public awareness of carbon reduction, advocating for awareness through education, and emphasising the role of attitudes in driving change.
6. **Support for green energy and renewable sources:**
Participants in this theme support green energy solutions and emphasize the transition to renewable energy sources like solar energy. Initial codes include supporting green energy solutions, considering socioeconomic factors, and emphasising the transition to solar energy.

7. Government incentives and penalties:

This theme highlights the importance of government incentives and penalties in promoting carbon reduction efforts. Initial codes include advocating for government incentives and proposing penalties for responsible sectors.

These themes categorized not only the anticipated environmental benefits of a carbon tax but also the complexities associated with its enforcement, such as concerns about economic competitiveness, administrative feasibility, and public acceptance. The analysis, therefore, offers a nuanced understanding of the factors influencing the officials' support for or against the carbon tax, contributing valuable insights into the broader discourse on environmental policy and sustainable development in Malaysia. Table 2 presents the results of a thematic analysis that explores additional comments and justifications provided by participants regarding the implementation of a carbon tax. This analysis identifies and categorizes the underlying themes that reflect diverse viewpoints on the policy's rationale and its anticipated outcomes.

Table 2. Thematic Analysis of Participant Comments and Justifications on Carbon Tax Implementation

Themes	Initial codes	Comments
Agreement with a carbon tax	Agree with carbon tax implementation	“Disagree” “Agree because increasing the penalty amount is the best solution.” “Agree. Cause high compliance & cooperation to reduce carbon emissions.” “As a negative reinforcement.” “Disagree, and Gov by NRECC should start implementing this matter as a matter of prevention.” “I agree that carbon tax is the best solution.” “I agree we should introduce a carbon tax in Malaysia.” “No, we must implement the carbon tax to reduce carbon emissions in Malaysia.” “Should be done to reduce carbon emissions in Malaysia.” “They will reduce carbon emissions in order to reduce loss.” “To avoid worst impact.” “Yes, agree. It has never been implemented before, but we can try to implement it as one of the efforts to stop carbon emissions.” “Yes, industry will reduce carbon waste.”
	Carbon tax is the best solution	“Carbon tax is one of the best solutions.” “Carbon tax is the best solution to reduce carbon emission by far.” “Carbon tax is the best solution to reduce carbon emissions in Malaysia.” “It's only to help awareness among the public. Rules and regulations plus effective enforcement are the main weapon to combat pollution.”
Disagreement with carbon tax	Shared responsibility	“Agreed. All citizens and industry players should be responsible for reducing carbon emissions and not depend only on the carbon tax.”
	Scepticism about government implementation	“New tax has never been easy to introduce.”
	Doubt about effectiveness towards reducing carbon emission	“Not proven in other countries that carbon tax would reduce carbon emission.”
Mixed opinion and neutral	Concerns about economic impact	“It will increase production cost.”
	Neutral or no position	“No comment” “No idea”
Suggestions for alternatives or additional measures	Acknowledgment with reservations	“I would somehow agree with this statement. However, post-effect repair and the return to the community is also very important.” “It is not the best solution but a step towards the correct direction to reduce carbon emissions.”
	Advocacy for diverse policy options	“Yes, because it might burden the public/organisation with many types of tax imposed. It does not encourage the public/organisation to reduce carbon emissions if they are capable of paying the tax. The maintenance/repair cost for keeping the environment fresh might be higher. It is better if the government encourages the public/organisations to alternate operations that will reduce carbon emissions.”
	Alternative approaches	“Must be other ways.”

		“There are other measures.”
Public awareness and education	Public awareness of carbon reduction	“I agree with the factory sector, but self-awareness is more important.”
		“At this point, we should spread awareness first, especially in Malaysia, which is still lacking.”
		“At least we can try, and most industrial sectors have awareness, which can help reduce pollution.”
		“Because awareness is needed on all sides.”
	Awareness through education	“I only agree partially that carbon tax can help to reduce carbon emissions. The main factor is public awareness and education regarding pollution and environmental health.”
	Attitude is key	“Self-awareness also plays an important role in reducing carbon emissions.”
		“The awareness of the public is the best solution.”
		“Put into the school syllabus to increase awareness.”
		“A change of people's attitude and enforcement of regulations will better help in making sure there is faster enlightenment to people regarding the importance of reducing carbon emissions in Malaysia.”
		“Attitude is the key.”
Support for green energy and renewable sources	Support for green energy solutions	“One other way is by planting trees.”
		“There are many ways to reduce carbon emissions, for example, by planting more trees.”
Government incentives and penalties	Advocacy for government incentives	“High cost/capex to install solar panels and EV charging station at the house. Especially in urban areas.”

The analysis presents participants' concerns about shared responsibility, economic impact, environmental efficacy, and the role of government in regulating carbon tax. Additionally, the table highlights the complexity of balancing environmental objectives with economic growth, as well as the economic considerations associated with imposing a tax that may disproportionately affect different sectors and communities. The analysis provides a deeper understanding of the arguments and justifications for and against the carbon tax, contributing to a more informed debate on its potential role in Malaysia's carbon tax policy framework.

Overall, Table 2 reveals several key insights and perspectives as follows:

1. **Agreement with carbon tax:**
Participants who support the implementation of a carbon tax believe it to be an effective solution for reducing carbon emissions. They perceive it as a means of increasing compliance and cooperation among industries. Some participants emphasise the need for preventive measures and acknowledge the potential benefits of introducing a carbon tax.
2. **Disagreement with carbon tax:**
Participants express scepticism about the effectiveness and feasibility of implementing a carbon tax. They highlight concerns about the economic impact, doubt the effectiveness of carbon tax in reducing emissions, and express uncertainty about the government's ability to implement such a tax successfully.
3. **Mixed opinion and neutral:**
Some participants express a neutral stance or have mixed views about the effectiveness of a carbon tax. They acknowledge the importance of reducing carbon emissions but may not fully endorse a carbon tax as the best solution. Some participants emphasise the importance of post-effect repair and community return.
4. **Suggestions for alternatives or additional measures:**
Participants advocate for diverse policy options beyond a carbon tax. They suggest exploring alternative measures that may be more effective or less burdensome on the public and organisations. Suggestions include encouraging alternative operations that reduce emissions and providing incentives for environmental initiatives.

5. **Public awareness and education:**
Participants stress the importance of public awareness and education in reducing carbon emissions. They believe raising awareness and educating the public, especially in schools, can lead to meaningful changes in behaviour and attitudes towards environmental conservation.
6. **Support for green energy and renewable sources:**
Participants express support for green energy solutions as an alternative to carbon-intensive practices. They suggest planting trees and increasing green spaces as effective measures for reducing carbon emissions.
7. **Government incentives and penalties:**
Participants advocate for government incentives to encourage environmentally friendly practices and investments. They highlight the high costs associated with implementing green energy solutions and suggest that government incentives can help offset these costs.

In conclusion, the perspectives on carbon tax implementation are varied, ranging from strong support to skepticism, with participants highlighting both its potential benefits and challenges. While some view carbon tax as an effective tool for reducing emissions and promoting industry compliance, others raise concerns about its economic impact and feasibility. Some of participants remain neutral or hold mixed opinions, suggesting that additional measures and preventive strategies may be more effective. Alternative solutions, such as promoting green energy, increasing public awareness, and offering government incentives, were also proposed. Overall, the discussions underscore the need for a comprehensive approach that includes education, incentives, and sustainable practices to foster a low-carbon future.

5. DISCUSSION

Overall, the study gathered a diversity of opinions and considerations regarding the implementation of a carbon tax in Malaysia. While some participants support it as an effective measure for reducing emissions, others express doubt and advocate for alternative approaches that prioritise public awareness, education, and government incentives for sustainable practices. The findings underscore the importance of considering diverse perspectives and exploring comprehensive strategies to address environmental challenges effectively.

The study offers valuable insights into various perspectives regarding the potential implementation of a carbon tax in Malaysia. The distinct viewpoints emerge from the study, that is, those who advocate for the adoption of a carbon tax view it as a viable solution to mitigate carbon emissions, citing its potential to foster compliance and cooperation among industries. Conversely, dissenting voices express reservations about the efficacy and practicality of such a tax, raising concerns about its economic implications and doubting its ability to curb emissions effectively. Additionally, some respondents adopt a neutral stance or express mixed opinions, acknowledging the importance of emission reduction while questioning the comprehensive impact of a carbon tax alone. Alternative proposals are to increase public awareness and education which emphasizing the need for comprehensive strategies in addressing environmental concerns. Moreover, there is a notable emphasis on supporting green energy initiatives and advocating for government incentives to incentivize sustainable practices.

The study reveals a spectrum of viewpoints on carbon tax implementation, ranging from strong support for its potential to reduce emissions, to skepticism about its economic impact and effectiveness. While some advocate for a carbon tax as a key solution, others emphasize the need for alternative strategies, public education, and government incentives to promote sustainable practices. The study identified the complexity of the issue, highlighting the importance of integrating diverse perspectives and comprehensive approaches to address environmental challenges effectively.

In conclusion, the study underscores the importance of adopting a comprehensive strategy to effectively address carbon emissions, suggesting that a comprehensive approach is crucial. This includes not only the implementation of a carbon tax but also exploring alternative proposals that may complement or enhance the tax's impact.

Increasing public awareness and education about the significance of emission reduction is identified as a key action, ensuring that the broader population understands and supports environmental policies. Additionally, the study highlights the need to support green energy initiatives, advocating for government incentives to encourage sustainable practices across industries. By considering diverse perspectives and integrating them into policy development, the analysis emphasizes the complexity of the issue and the necessity of crafting well-rounded, effective environmental strategies.

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