FROM TAXES TO PROSPERITY: THE ROLE OF TAX REVENUE IN MALAYSIA'S ECONOMIC GROWTH

Teh Siew Wai, Sharifah Sabrina Syed Ali*, and Khairil Annuar bin Mohd Kamal
Faculty of Economics and Business,
University Malaysia Sarawak, 94300 Kota Samarahan, Sarawak, Malaysia
*Corresponding E-mail: sassabrina@unimas.my

ABSTRACT

This study examines the relationship between Malaysia economic growth and tax revenue. The data were taken from year 2011 to 2020 from the World Bank and OECD. The data were analyzed using the descriptive analysis, correlation, Variance Inflation Factor (VIF), and Ordinary Least Squares (OLS). This study reveals a high and positive link between OT and GDP and between SCC and GDP, a very strong and positive relationship between PCG and GDP, a very weak and negative relationship between TGS and GDP, and a moderate and negative relationship between TP and GDP. In conclusion, the study on the relationship between tax revenues and economic growth in Malaysia has significant policy consequences and provides insightful information. The awareness of this association may help lawmakers create fiscal policies that encourage sustained economic growth, including the right tax rates, incentives, and structures. Furthermore, it could assist with resource allocation, budget planning, and predicting future tax revenues.

Keywords: Tax revenue, economic growth, profits and capital gain (PCG), social security contributions (SCC), taxes on goods and services (TGS), taxes on properties (TP), other taxes (OT)

INTRODUCTION

Malaysia has experienced impressive economic growth, especially since the 1980s. However, tax revenue has been a central issue in determining how well the government can finance development projects, reduce deficits, and address socioeconomic disparities. Malaysia traditionally relied on a mix of direct and indirect taxes, including corporate tax, personal income tax, sales tax, and later the introduction of the Goods and Services Tax (GST) before it was replaced by the Sales and Service Tax (SST) in 2018.

Taxation is a critical component of every nation's economy. The collection of monetary revenue through the imposition of taxes is the basis for the government's economic growth. Implementation of economic initiatives will assist the country in advancing. Without sufficient income from taxes, no policy will be put into effect. As a direct consequence of this, almost every government in the world imposes obligatory tax obligations on either individuals or businesses. Although the primary function of taxes is to raise income for the expenditure of public funds, this is not the only possible use of taxation. Taxation is critical to development because it provides governments with the funds needed for economic growth and advancement. This makes taxation an essential component on every development strategy. In nations with a lower level of economic development, taxes are used to encourage the expansion of the economy, whereas in countries with a higher level of economic development, taxes are used to quicken the pace of national development. Taxes are currently and will continue to be the most important source of revenue for the government of Malaysia, making it the most reliable source

of financing overall. Tax reductions are employed as a tool to stimulate economic expansion in a number of established, developing, and transitional economies across the world. Tax policy is an essential component of economic policy, and nations must prioritize its development if they wish to sustain or enhance their position as global competitors and scale. To ensure that the country is appealing to both domestic and foreign investors, it is essential that the tax structure be one that is beneficial to potential investors.

To improve Malaysia's reputation in the international community, the country must put its economic objectives into effect. Taxation in Malaysia is unpredictable because rates might vary in either direction depending on how the economy is operating at any given time. Malaysia's tax revenue is made up of income, profits, and capital gains taxes. Social security contributions, property taxes on products and services, and other taxes are all levied. Economic growth is the primary force behind rising levels of affluence. Imposition of taxes is an important part of economic policy. They are critical to the operation of modern businesses, and the consistency and dependability with which they operate reflects this (Kala et al., 2016).

According to Appah (2010), a tax is a mandatory levy imposed by the government on a person or his or her property in order to provide social amenities and provide conditions for the community's economic success. In other words, the government obtains revenue through the collection of taxes, and then uses that revenue to pay for services such as public safety, social safety, medical care, infrastructure roads, bridges, education, etc. As a consequence of this, the government often places a primary emphasis on broadening the scope of tax coverage and the net of tax providers. Taxation is crucial for Malaysia, particularly for a growing nation, in order for the government to implement new policies to sustain the country's economic success and maintain continuous economic performance (Taha, Colombage & Malslyuk, 2010).

As reported by Singh (2020), the Malaysian government announced a stimulus package worth more than RM300 billion in response to the COVID-19 outbreak. This was done in order to mitigate the effects of the pandemic. The governments of different countries all around the world have adopted a similar strategy, with the ultimate objective of preserving people’s livelihoods and preventing unnecessary deaths. According to a number of sources, governments from around the world have reportedly launched COVID-related stimulus programs totalling 17 trillion. This is comparable to twenty percent of the total GDP of the world. It is inevitable that Malaysia stimulus package would result in a wider budget deficit and a rise in the country total debt and this fact immediately raises issues regarding the most effective way to repair the budget gap and slow the growth of debt levels. Increasing the amount of money, the state brings in via taxes is one clear option to bridge the budget gap. The difficulty, however, is how best to grow tax revenues while ensuring that our nation continues to be hospitable to business, continues to attract both local and foreign investment, and is able to relieve the challenges that are now affecting its people. There are varieties of case studies that demonstrate how governments may promote economic development while simultaneously raising tax revenue over the long term by enacting tax reform that is both comprehensive and well thought out. The system of taxes in Malaysia may increase the amount of money it brings in and contribute to the country socioeconomic advancement in a number of different ways.

As mentioned earlier, the major objective of the system is to make the economy more dynamic, which is intended to, in the end, result in social advantages for the local population. As a result of the numerous responses to concerns about the potential and future of the taxation system in general, as well as in relation to the progression of social development, a number of ideas have been generated, and these ideas are now available. The taxation system is constrained and directed by the economic climate of the country. The development of a global economy and culture has been observed all around the world. In an economy like this one,

international money transactions have developed into an indispensable component. While taxes have been imposed on other kinds of commercial transactions, none of these cash transactions have been subject to taxation. When taxes were discussed, it is typically in the context of an incentive tool, such as a decrease in trade tariffs or a reduction in tax rates for foreign investors (Easson & Zolt, 2002).

The declared purpose of these policies is to increase competition and consumer choice. It has never been used as a weapon of redistribution to combat the equalizing effects of globalization on either the domestic or international scale. A structural aspect of financial globalization that encourages the movement of money throughout the world is an increase in the level of tax competition that exists between nations. Because of the mobility of capital, there has been decreasing pressure on the corporation tax rate, which has caused the burden of taxation to shift from employers to employees. It is long past time for countries such as Malaysia to investigate the possibility of taxing transactions using money in order to generate more funds for the advancement of social programs. Capital restrictions in Malaysia were introduced for the express purpose of reducing the volatility of the Malaysian ringgit they were not designed as a revenue-raising mechanism. In answer to the challenge, the research will conduct an analysis of the factors of Malaysian tax income and offer alternative policies or strategies to lower the amount of budget deficit. This research seeks to answer the question, Can a nation's tax system be improved to attract industry and investment foster entrepreneurship, innovation, and job creation and eliminate deadweight costs and red tape that stifle progress.

Taxation is an essential component of contemporary governmental structures for the following reasons it enables governments to collect reliable and stable amounts of revenue it lessens their reliance on outside financial assistance it boosts their level of financial autonomy it enables the government to offer various forms of monetary assistance to citizens who are in need it encourages responsible administration, accountability, and transparency it helps formalize the economy and boosts economic growth and so on. It is the governments right to collect taxes, but the taxpayer has the right to know how efficiently the government uses the money it receives from them for the sake of the entire country. A taxpayer has the right to pay their taxes without facing any kind of obstacle or anxiety in the process. The percentage of total income that is derived from excise taxes has decreased, and the tax mix that is applied to goods and services has undergone a dramatic shift toward a greater utilization of general excise taxes mostly value-added taxes and away from taxes on particular commodities and services. Property taxes and environmental levies have, for the most part, not changed much throughout the course of time. A number of countries that are members of the OECD have previously made adjustments to their personal income tax tables to make them more equitable. One of the most notable of these changes was a reduction in the highest rate of statutory income tax.

Research done by Mohamed and Mohamed (2016) indicated that in Malaysia, both corporate and individual income taxes had a positive impact on economic growth, particularly when tax rates were balanced to encourage investment while ensuring sufficient revenue generation. Studies show that the structure of tax revenue—whether the tax system is progressive or regressive—affects its capacity to stimulate economic activity. Higher tax rates tend to slow economic growth, but moderate taxation supports public investment, which in turn fosters long-term growth. Despite improvements, Malaysia faces challenges in optimizing tax revenue. A study done by Rahman and Mohamed (2020) suggested that while the government has made strides in modernizing tax administration and improving compliance, Malaysia's tax-to-GDP ratio remains relatively low compared to other developed nations. This limited tax capacity is often linked to the shadow economy, tax evasion, and an overreliance on natural resource revenues.

On the other hand, regular employees have not experienced the same magnitude of a reduction in the amount of taxes they pay. Several countries have tried different in-work tax systems in an effort to entice those on the edge of the labor force to participate in the labor force. In many countries, individual income tax rates, as well as corporation tax rates, have been lowered, and this trend has been backed, at least in part, by an increase in the size of the tax base. In a similar vein, the primary reason behind the decline in the total top dividend margin is that corporate income tax rates have been lowered. In order to stimulate investment in research and development, a number of countries have offered tax incentives. Tax revenue in Malaysia is mainly derived from direct taxes such as income tax and indirect taxes such as goods and services tax, GST. Over the years, the Malaysian government has implemented several tax reforms and adjustments to achieve revenue targets and support economic development. Between 2011 and 2020, tax revenue in Malaysia has experienced fluctuations under the influence of economic factors and tax policy changes. The implementation of the Goods and Services Tax GST in April 2015 contributed significantly to the increase in tax revenue. However, it was replaced by the Sales and Services Tax SST in September 2018 due to public sentiment and concerns over the impact of GST on the cost of living. Also, since Malaysia is a major oil producer, oil and gas related revenue plays a significant role in Malaysian taxation. Fluctuations in global oil prices have had an impact on the overall revenue generated by the industry.

Malaysia tax revenue is influenced by several key determinants and factors. The first is that economic growth is a key determinant of tax revenues. When the economy expands, individuals and businesses tend to earn higher incomes and generate more taxable profits, which increases tax revenue. Second, the tax policies and tax rates formulated by the government directly affect tax revenue. Changes in tax laws, exemptions, deductions and tax rates can affect the amount of income collected. For example, adjustments to income tax brackets or the introduction of new taxes may have tax implications. Taxes are also affected by the country's employment and wage levels. More people in high-paying jobs help raise income tax revenues, while changes to the minimum wage or wage structure can also affect taxes. Consumer spending and the collection of indirect tax revenues are also altered by consumer behavior, such as Goods and Services Tax GST or Sales and Services Tax SST, which play an important role in tax revenue. The effectiveness of tax collection and administration, compliance measures and enforcement can affect tax revenues. Efficient tax collection systems, strict audits and penalties for non-compliance help boost tax revenues. In addition, significant contributions to taxation also include specific sectors, their economic significance and taxable activities such as manufacturing, services and petroleum. The performance of these sectors and related tax policies can affect revenue generation. Malaysian role in international trade and the collection of import and export duties would be facilitated by taxation. Tax revenues can have both direct and indirect effects on Malaysian total economic growth, such as providing funds to the government for infrastructure development, health care, education, and other critical services. The relationship between tax revenue and economic growth in Malaysia remains complex and multifaceted. While tax revenue is crucial for financing economic development, challenges such as inefficient tax collection can affect the economic growth which in turn complicate the relationship between tax revenue and economic growth.

The purpose of this study is to explore the link between tax revenue and economic growth in Malaysia from the year 2011 to the year 2020. And to investigate the relationship between each independent variable, such as profits and capital gains, social security contributions, property taxes, taxes on goods and services, and other taxes; and the dependent variable, known as gross domestic product (GDP), also known as economic growth.

The impact of tax revenue on economic growth in Malaysia has been influenced by several factors such as tax structure, tax reforms, fiscal policies, government expenditure, and the effectiveness of tax collection. Research by Lim and Tan (2020) explored the impact of the GST on Malaysia's economic growth, finding mixed results. While the tax generated significant revenue, it also led to higher costs for consumers and businesses, dampening some of the positive effects on growth. However, the research concluded that, if well-managed, a GST system could potentially offer a more stable and predictable revenue stream, which is essential for long-term economic planning. On the other hand, the shift back to SST in 2018 prompted studies to examine its impact on the economy. Yong and Razak (2021) showed that while SST was perceived to be less intrusive than GST, its efficiency in revenue collection and impact on growth remained uncertain, given Malaysia's need for broader tax reforms.

Recent studies emphasize the importance of broadening the tax base and introducing new forms of taxation, such as digital or carbon taxes, to meet revenue needs in the face of economic challenges. Khoo and Cheong (2023) argue that Malaysia must focus on tax modernization to enhance its fiscal capacity. This includes improving tax collection mechanisms, broadening the tax base to include digital platforms and multinational corporations, and ensuring that tax policy is aligned with sustainable growth goals. Meanwhile, Lim et al. (2023) highlighted that the digital economy presents both challenges and opportunities for tax revenue generation. E-commerce, digital services, and multinational corporations operating in Malaysia need a tax framework that can capture the value generated by their activities.

A study done by Liew and Chia (2019) focused on the role of taxation in attracting both domestic and foreign investments. They suggested that Malaysia's tax policies were instrumental in creating a favorable business environment, which led to sustained economic growth. The relationship between tax revenue and economic growth in Malaysia is thus also linked to how effectively tax policies promote investment, particularly in sectors like manufacturing and services.

MATERIALS & METHODS

The theory used in this study is the Laffer curve. The Laffer curve hypothesis, put forward by Professor Arthur Laffer in 1974, elucidated the theoretical connection between tax rates and government tax income. The mathematical impact demonstrates that, in the currency of the tax base, a decrease in the tax rate would result in a proportionate decrease in tax income, and vice versa. However, economic impacts acknowledge that reduced tax rates will encourage development activities, which will benefit employment, production, employment, and the tax base. The reverse of economic impacts is an arithmetic effect. As a result, the impact of tax rate changes on total tax revenue is less noticeable when the economic and mathematical consequences of tax rate transpositions are added together. Tax revenues rise initially when taxes are raised from zero, but as the government keeps raising taxes, tax revenues fall, making the curve steeper. Any country's economic development would be severely hampered by subsequent tax rises. In the long run, significant rise in tax income results in a drop in the balance of the tax base because consumers spend more when taxes are high, which decreases demand. Government revenue will decrease as a result of more tax hikes (Laffer, 2004).

The Laffer curve illustrates the possibility of an ideal tax rate that maximizes tax revenue. The idea contends that a tax rate that is excessively high would deter economic activity and reduce incentives for people to work, invest, and develop. Higher tax rates may result in fewer tax collections, but so may less economic activity. On the other side, if the tax rate is too low, the government won't generate as much money as it might.

According to the Laffer curve, there is a perfect place to put taxes such that government revenue is maximized. Additionally, by promoting increased economic activity, lower tax rates can promote economic expansion and raise tax receipts. Finding the ideal balance between tax rates and tax receipts is essential to optimizing government income, according to this curve.

But it's important to note that supporters of the Laffer curve contend that lowering tax rates can boost economic expansion. The fundamental tenet is that lower tax rates encourage people and firms to labor, invest, and engage in profitable economic activity. As a result, there may be more economic expansion and possibly larger tax collections due to a bigger tax base.

It is crucial to understand that there are numerous elements besides tax rates that affect the link between tax receipts and economic development. Government policies, the regulatory environment, infrastructure, education, technical advancements, and global economic circumstances are just a few of the variables that have an impact on economic growth. One of the numerous variables that influence economic growth is tax policy.

However, this study will study about the relationship between dependent variable and independent variable. The dependent variable in this study is economic growth and several tax revenues is the independent variable. Type of taxation include taxes on income, profits and capital gains; Social security contributions; taxes property; taxes on goods and services and other taxes. The time series data covering in this study is year 2011 to 2020.

When specifying a tax input model, it is necessary to make judgments to determine which form of expression can best combine economic reasoning and statistical value. As Chelliah (1971) asserted, the assessment of the actual and potential tax performance of any country is a matter of judgment. It should be based on consideration of economic development and structural stages and should take into account the country's traditions and special circumstances.

However, it is impossible to develop a tax model that includes all variables, due to lack of data and small sample size. Therefore, based on the empirical literature, this study attempts to empirically investigate the effect of economic growth (GDP), profits and capital gains, social security contributions, taxes property, taxes on goods and services, and other tax. Therefore, in this study the model is specified as:

$$Y = B_0 + B_1 + B_2 + B_3 + B_4 + B_5 + \mu_i$$

OR

$$GDP = B_0 + B_1(PCG) + B_2(SCC) + B_3(TP) + B_4(TGS) + B_5(OT) + \mu_i$$

Where,
Y= Economic growth (GDP)
B_0=Constant parameter
B_1(PCG)= Profits and capital gains
B_2(SCC)= Social security contributions
B_3(TP)= Taxes property
B_4(TGS)= Taxes on goods and services
B_5(OT)= Other taxes
μ_i= error term or residual

This analysis relies heavily on statistics and a sample drawn from the Malaysian government's serval tax collection and economic development from 2011 to 2020. Both the OECD and the World Bank statistics were derived from secondary sources. Web sites like Stat

and The World Bank's are useful. The sample period covers the years 2011 through 2020, which should be long enough to capture both the short- and long-term relationships between the model's variables. In this investigation, we use EViews v10 to evaluate the data.

The OECD, or the Organization for Economic Cooperation and Development, is a worldwide group with the stated goal of improving people's quality of life via the implementation of more beneficial policies. Their goal is to craft laws that improve people's lives generally by expanding opportunities, reducing discrimination, and increasing wealth. With their combined 60 years of experience, they are helping to make the globe more future-ready. Together with governments, politicians, and the general public, they work to provide globally consistent standards and implementable solutions to a wide range of social, economic, and environmental issues. They serve as a central repository for information and insight on public policies and worldwide standard-setting, including methods for boosting economic output, expanding employment opportunities, bolstering academic excellence, and thwarting tax evasion on a global scale. A group of archivists, records managers, and information specialists, however, oversees all of The World Bank Group's records and data (WBG). They provide the general public with exciting resources for learning about the past and access to the World Bank's archival holdings. In addition, they have a duty of care for the WBG's existing records management and information governance, which are made possible by WBG-wide policies, programs, and services.

RESULTS & DISCUSSION

Descriptive Analysis

Table 1: Descriptive Analysis.

	GDP	OT	PCG	SCC	TGS	TP
Mean	1514398	5949.9	112290.1	3252.5	47175.6	0.9
Median	1493557	5978.5	110968	3027	45775.5	0.5
Maximum	1698087	6508	128307	4783	63952	3
Minimum	1385468	4984	98018	2172	34114	0
Std. Dev.	110458.5	456.867	9502.698	903.53	10674.25	1.10051
Skewness	0.432126	-0.6964	0.307567	0.43174	0.429427	0.7276
Kurtosis	1.93633	3.04528	2.08349	1.81444	1.823731	2.1595
Jarque-Bera	0.782635	0.80923	0.507659	0.89631	0.883849	1.17668
Probability	0.676165	0.66723	0.775824	0.63881	0.642798	0.55525

The descriptive analysis of the variable utilized in this study is shown in the table above. The mean of GDP was RM 1,514,398 million, OT (RM 5,949.9 million), PCG (RM 112,290.1 million), SCC (RM 3,252.5 million), TGS (RM 47175.6 million) and TP (RM 0.9 million). For maximum and minimum, GDP is RM 1,698,087 million and RM 1,385,468 million, OT is RM 6,508 million and RM 4,984 million, PCG is RM 128,307 million and RM 98,018 million, SCC is RM 4,783 million and RM 2,172 million, TGS is RM 63,952 million and RM 34,114 million and TP is RM 3 million and 0. For standard deviations, GDP is RM 110,458.5 million, OT is RM 456.87, PCG is RM 9,502.7 million, SCC is RM 903.53 million, TGS is RM 10,674.25 and TP is 1.1 million. The five positive skewness and one negative skewness for variables in this study verified the volatility in the variables under examination, which is 0.4321 for GDP, -0.6964 for OT, 0.3076 for PCG, 0.4317 for SCC, 0.4294 for TGS and 0.7276 for

TP. The kurtosis value indicates that all variables had neither very high nor very low peaks (Mesokurtic) values, suggesting that the distribution of variables was normal across the time period analyzed, which is 1.9363 for GDP, 3.0452 for OT, 2.0845 for PCG, 1.8144 for SCC, 1.8237 for TGS and 2.1595 for TP. While, all of the probability are more than 0.05, so that all variable shows that were insignificant with 0.68 for GDP, 0.67 for OT, 0.78 for PCG, 0.64 for SCC, 0.64 for TGS and 0.56 for TP.

Correlation Analysis

Table 2: Correlation Analysis

Correlation Probability	GDP	OT	PCG	SCC	TGS	TP
GDP	1.000000 -----					
OT	0.651936 0.0411	1.000000 -----				
PCG	0.898398 0.0004	0.771699 0.0089	1.000000 -----			
SCC	0.773447 0.0087	0.384862 0.2721	0.573425 0.0831	1.000000 -----		
TGS	-0.117646 0.7462	0.051475 0.8877	-0.073911 0.8392	0.409592 0.2398	1.000000 -----	
TP	-0.415097 0.2329	0.081745 0.8224	-0.158584 0.6617	-0.473626 0.1667	0.096881 0.7901	1.000000 -----

The correlation analysis in the table above demonstrates the relationship between the variables employed in this study. The correlation coefficient of GDP is OT with 0.6519, PCG with 0.89984, SCC with 0.7734, TGS with -0.1176 and TP with -0.4151. The relationship between GDP with OT and GDP with SCC are strong and positive association because their correlation coefficient is between + 0.6 to 0.8, which is 0.6519 and 0.7734. While, the relationship between GDP and PCG is very strong and positive association because the correlation coefficient is between + 0.8 to 1.0, which is 0.8984. The relationship between GDP and TGS is very weak and negative association because the correlation coefficient is -0.1176, which is between 0.0 to -0.2. However, for the relationship between GDP and TP was moderate and negative association because the correlation coefficient is between -0.4 to -0.6, which is -0.4151.

Variance Inflation Factor (Vif)

The centered VIF value of all the variable are less than 10, which is PCG is 4.1331, SCC is 3.5603, TP is 1.7851, TGS is 1.9181 and OT is 2.8452. The VIF value is less than 10 means no severe multicolinearity exists in this model, if the VIF value is equal or greater than 10 means there is severe multicolinearity exist in the model and need to fix it. In this model, all

the VIF value of the independent variables are less than 10, so there are no severe multicolinearity exists.

Ordinary Least Squares

Table 3: Ordinary Least Squares (OLS)

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	712832.7	117525.1	6.065367	0.0037
PCG	5.361383	1.538587	3.484614	0.0252
SCC	72.20484	15.01866	4.807675	0.0086
TP	-3798.141	8731.018	-0.435017	0.6860
TGS	-3.377251	0.933108	-3.619356	0.0224
OT	21.41734	26.54407	0.806860	0.4650

R-squared	0.983044	Mean dependent var	1514398.
Adjusted R-squared	0.961849	S.D. dependent var	110458.5
S.E. of regression	21574.97	Akaike info criterion	23.08016
Sum squared resid	1.86E+09	Schwarz criterion	23.26172
Log likelihood	-109.4008	Hannan-Quinn criter.	22.88100
F-statistic	46.38132	Durbin-Watson stat	2.826564
Prob(F-statistic)	0.001237		

The table above shows the result of Ordinary Least Squares with GDP as the dependent. For PCG, according to the probability values of the slope coefficient, it was positively correlated with GDP (B_1=5.3614) and statistically significant at the 5% level P(X_1 =0.0252>0.05)which means it is significant. This means the hypothesis of $H_1: \beta_1 \neq 0$ (Significant, there has a relationship between Profits and capital gains and GDP) is accepted and the hypothesis of $H_0: \beta_1 = 0$ (Insignificant, no relationship between Profits and capital gains and GDP) need to be rejected. While, the result of this study is not same as the previous study by Kumai (2009)shows that the impact of capital gains tax on Nigeria's overall tax take and economic development is insignificant.

For SCC, it had a positive relationship with GDP (B_2=72.2048) and was statistically significant at the 5% level, as shown by the probability values of the slope coefficient P(X_2 =0.0086>0.05), which means it is significant. So that, hypothesis of $H_0: \beta_2 = 0$ (Insignificant, no relationship between Social security contributions and GDP) has been rejected and accepted the hypothesis of $H_1: \beta_2 \neq 0$ (Significant, there has a relationship between Social security contributions and GDP). The result similar with the study of Zhang & Zhang (2004),which is examines the relationship between social security and the factors that influence growth, such as savings, philanthropy, and fertility. According to the findings of our empirical study, social security may actually promote development by favoring the quality of children over quantity in the trade-off between them.

For TP, it had a negative relationship with GDP (B_3= -3798.141) and was statistically significant at above the 5% level, as shown by the probability values of the slope coefficient P(X_3 =0.6860<0.05),which means it is insignificant.. So that, hypothesis of $H_0: \beta_3 = 0$ (Insignificant, no relationship between Social security contributions and GDP) has been accepted and reject the hypothesis of $H_1: \beta_3 \neq 0$ (Significant, there has a relationship between Social security contributions and GDP). The result are somewhat familiar but not exactly the

same with the study of Neog & Gaur (2020), since the two-stage approach yields negative insignificant coefficients and property taxes have positive insignificant coefficients, there is no basis to make definite conclusions about the nature and importance of the link. First difference does not change the situation either. Property taxes seem to have no negative effects on economic expansion.

For TGS, according to the probability values of the slope coefficient, it was negatively correlated with GDP (B_4= -3.3773) and statistically significant at the 5% level P(X_4 =0.0224>0.05), which means it is significant. So, which means the hypothesis of $H_1: \beta_4 \neq 0$ (Significant, there has a relationship between Profits and capital gains and GDP) is approved and the hypothesis of $H_0: \beta_4 = 0$ (Insignificant, no relationship between Profits and capital gains and GDP) need to be rejected. While, according to Hakim et al. (2016) , the empirical findings show that the GST is statistically significant and positively connected with economic development in industrialized nations, but adversely correlated with economic growth in underdeveloped ones. The higher (lower) GST tax rates enacted by emerging (developed) nations have no bearing on the impact of GST on growth.

For OT, it had a positive relationship with GDP (B_5= 21.4173) and was statistically significant at above the 5% level, as shown by the probability values of the slope coefficient P(X_5 =0.4650<0.05), which means it is insignificant.. So that, hypothesis of $H_0: \beta_5 = 0$ (Insignificant, no relationship between Social security contributions and GDP) has been accepted and reject the hypothesis of $H_1: \beta_5 \neq 0$ (Significant, there has a relationship between Social security contributions and GDP).

In conclusion, the Durbin Watson Statistic is 2.8266, indicating that there is negative autocorrelation, and the coefficient of determination (R-squared) is 0.98, indicating that 98% of fluctuations in GDP are explained by the independent variables. Prob (F-statistic) = 0.0012 is less than the threshold value of 0.05, indicating that the regression model's overall significance value is significant in predicting the association between one or more independent variables and the dependent variable.

Understanding the factors that affect tax income in Malaysia is crucial since the government uses this money to implement the right policies and tactics that can boost the economy of the nation. This investigation utilized using annual statistics from 2011 to 2020, Malaysia's tax income and economic growth were compared.

To investigate the relationship between the dependent variable (GDP) and the independent variable (profits and capital gains, social security contributions, taxes on property, taxes on goods and services, and other taxes), we will use descriptive analysis, correlation analysis, Variance Inflation Factor (VIF) and Ordinary Least Squares (OLS).

Firstly, the result from descriptive analysis show that all variables are also insignificant to reject null hypothesis at a significant level of 0.05. Secondly, the result of this study was supported by the result obtained from correlation analysis. It shows that the relationship between GDP with OT and GDP with SCC are strong and positive association, GDP and PCG is very strong and positive association, GDP and TGS is very weak and negative association and GDP and TP is moderate and negative association.

Thirdly, the Variance Inflation Factor (VIF) test shows all the VIF value of the independent variables are no severe multicolinearity exists. According to Effiong et al. (2020), this study also get the result of the centered VIF value of all the variable are less than 10, which means it also are no severe multicolinearity exists.

Lastly, when the economic growth (GDP) is put as the dependent variable in ordinary least squares, it shows that it is positive significantly affected by profits and capital gain (PCG), social security contributions (SCC) and taxes on goods and services (TGS) at 2.52%, 0.86% and 2.24% significant level and accepted the hypothesis of $H_1: \beta_1 \neq 0$, $H_1: \beta_2 \neq 0$, $H_1: \beta_4 \neq 0$

and rejected $H_1: \beta_1 = 0$, $H_1: \beta_2 = 0$, $H_1: \beta_4 = 0$. While, taxes property (TP) and other taxes (OT) are negative insignificantly in this study at 86.8% and 46.5% with accepted the hypothesis of $H_0: \beta_3 = 0$, $H_0: \beta_5 = 0$ and not accept $H_1: \beta_3 \neq 0$,$H_1: \beta_5 \neq 0$.

CONCLUSION

Understanding the relationship between tax revenue and economic growth might help Malaysian policymakers establish effective fiscal policies. Policymakers can decide on tax rates, tax incentives, and tax structures to support sustainable economic growth by carefully considering the effect of tax revenues on economic growth. Second, researching the link between tax receipts and economic expansion aids in forecasting future tax receipts for the government. Policymakers can calculate the prospective tax revenues produced by various rates of economic growth by examining historical data and patterns. Planning a budget and allocating resources need the use of this information. The study also sheds light on the efficacy of various tax regimes and strategies. Policymakers can weigh the advantages and disadvantages of particular tax policies by examining how tax changes affect economic growth.

There are limitations on this research One significant disadvantage of this study is the lack of thorough and accurate data. We were unable to acquire adequate data because of this constraint, forcing us to reduce the study sample size. The goal was initially to evaluate quarterly data from 2011 to 2022 in order to investigate the influence of taxation on the economy during and after the COVID-19 pandemic and following recovery phase. The absence of quarterly data for some variables, however, makes it difficult to utilize this time range for prospective research. As a result, the methodology for the analysis needs to be updated in order to include all accessible yearly data sources from 2011 through 2020. While annual data can still be useful, the difficulty to get quarterly data for several crucial variables restricts the granularity and precision of our conclusions. Because of the scarcity of data, it is difficult to capture the dynamic character of the link between taxation and the economy across shorter time intervals. It reduces the capacity to monitor and evaluate possible changes, trends, and seasonal patterns within a given quarter. As a result, our analysis may understate the nuanced influence of taxes on the economy at various stages of the COVID-19 epidemic and recovery. Despite these data constraints, the researchers opted to keep utilizing the available yearly data since it still gave useful insights into the wider trends and linkages studied. It is critical to recognize this restriction when evaluating the results and making implications from our study, since the inability to use quarterly data may alter the comprehensiveness and timeliness of our findings. Future research efforts in this field should attempt to overcome these data restrictions by including more detailed and up-to-date information in order to get a more nuanced picture of the dynamics of taxes and the economy.

For future growth, it is crucial that the country finds a balance between effective tax collection and fostering an environment conducive to investment and productivity. Future research should attempt to conduct robust empirical studies of the causal relationship between tax revenue and economic growth using more advanced econometric methods. Second, since entrepreneurial activity and innovation are the main drivers of economic growth, it is also possible to examine how tax laws and incentives affect them. Examines the impact of tax cuts, deductions, and credits on entrepreneurship, investing, and long-term economic growth.

Third, examine the impact of international tax competitiveness on economic growth. Fourth, examine regional or global tax policy coordination and its impact on economic growth. Fifth, understand that the link between taxation and economic growth may vary across countries, regions, and historical periods.

In conclusion, this research has significant policy consequences and provides insightful information. First, awareness of this connection may help lawmakers create fiscal policies that encourage sustained economic growth, including the right tax rates, incentives, and structures. In addition, it helps in resource allocation, budget planning and forecasting of future tax revenues.

In addition, the study illuminates the effectiveness of various tax systems and techniques, allowing policymakers to measure how tax reform affects economic development. The assessment helps identify areas for improvement and guides the development of tax regulations that support economic growth while maintaining budgetary viability.

Understanding how tax regulations affect Malaysia's investment climate is also crucial to attracting domestic and foreign investment, boosting the economy and creating jobs. Policymakers can consider factors such as tax rates, incentives, and stability to create a tax system that promotes investment and promotes economic growth.

The report also highlights how tax policy may affect the distribution of income across the country. Policymakers can assess the progressivity of tax systems and their impact on income inequality by examining the relationship between tax revenues and economic growth. This information can be used to formulate tax policies that support fairness and socially desirable goals.

Comprehensive research is further complicated by the lack of published material on the topic. A complete understanding of this relationship and the underlying processes is difficult due to the lack of journal publications discussing the relationship between factors. To move beyond these limitations requires a careful and thorough research strategy, which includes investigating alternative data sources and drawing conclusions from adjacent research areas.

Given these effects and limitations, some suggestions for further research were presented. These include solid empirical research using cutting-edge econometric techniques to establish a causal relationship between tax revenues and economic growth. It also recommends research on how tax rules and incentives affect innovation, entrepreneurship, and global tax competitiveness. Studies considering institutional, cultural and socioeconomic variables, as well as studies on regional or global tax policy coordination are also recommended.

In order to gain a deep understanding of the relationship between tax revenue and economic growth, future research should generally adopt rigorous methods, study various situations, and synthesize information from multiple sources. Such research may help to create efficient, growth-oriented tax structures and help guide the development of evidence-based policy choices. For future growth, it is crucial that the country finds a balance between effective tax collection and fostering an environment conducive to investment and productivity. Future studies may incorporate variable such as tax policy, digital taxation and tax administration for further study on Malaysia economic growth.

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