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## A STUDY ON THE CLASSIFICATION OF HOUSEHOLD INCOME AND GRADUAL REMOVAL OF SUBSIDIES

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### Abstract:

Categorizing household income is not an easy task as it can easily generates dispute. The announcement by the Prime Minister of Malaysia, Datuk Seri Anwar Ibrahim's concerning the T15 subgroup for household classification is an example. The announcement has generated significant discussion among Malaysians. Questions have centred on: What is the meaning of T15 —the top income group? Will such removal create a fairer distribution of the economic pie? If implemented, will the removal benefit our economy? Thus, this research aims to (1) explore public opinion on the minimum household income required to classify a household into the decent, comfortable, and luxury categories; (2) finding out public feedback regarding the recent decision by the government to remove subsidies from the T15 group. A survey conducted among 514 respondents found that defining T15 solely based on income is insufficient, as other factors ought to determine the classification, such as the cost of living, location, household size, age group, ethnicity, and marital status. Furthermore, respondents believed that vague explanations about the subsidy removal were a concern that led to their opposition to this decision. Although the intention behind the move is clear, questions persist regarding the precise mechanics of its implementation. This research hopes to convey public concerns about implementing the T15 and the subsidy removal, enabling policymakers to establish a more comprehensive and inclusive mechanism to tailor an economic policy that benefits all Malaysians equally.

### Keywords:

T15, Subsidy, Removal, Budget 2025, Household Income

## Introduction

Income categories classify Malaysian households as B40, M40, and T20, which have always guided the nation's social economy policy. Nonetheless, the definition of such categorization is often seen as not conclusive and invite disputes. The latest is when the Prime Minister of Malaysia, Datuk Seri Anwar Ibrahim announced Malaysian government plan to remove subsidies from the T15 household income group, the group he called as “*The Mahakaya*” (ultra-rich), during the budget 2025 tabling on 18 October 2024. T15 is the 15% of top-income earners whose monthly income exceeds RM13,000 (Mohd Khairul Ramli, 2024). The announcement sparks debate among many Malaysians on the disparity between geographic and social-economic contexts.

**Table 1**  
**T20 vs T15 Classification**

	<i>T20</i>	<i>T15</i>
Definition	Top 20% of households	Top 15% of households
Income Threshold	RM11,820/month and above	Around RM13,000/month and above
Policy Context	General income classification	Introduced in Budget 2025 for targeted policies

Source: <https://www.stashaway.my/r/b40-m40-t20-t15-malaysia>

For instance, classifying T15 households based on income alone is insufficient, as there are other factors like cost of living, family size, and financial pressure for urban dwellers (Arfa Yunus, 2024). Aside from the controversial definition of T15, the Prime Minister also announced the implementation of targeted subsidy removal, including the withdrawal of RON95 subsidy access to health and education services provided by the government (Teh, Carvalho & Ho, 2024). However, the mechanism for removing subsidies from the top income group. was not explained. Thus, the government effort required mulling because it is important to tailor an economic policy that benefits all Malaysians fairly. There are multiple questions that have to be answered first. The questions centred on: What is the meaning of T15 —the top income group? Will such removal create a fairer distribution of the economic pie? If implemented, will the removal help our economy?

## Household Income Classification

Data to develop the current classification is based on the representative survey or census method. The Department of Statistic Malaysia (DOSM) (Ministry of Economy, 2023) normally conducts two Household Income Survey (HIS) in every Malaysia Plan. Household income refers to the income generated by a person or a group of people usually live together and make common provisions for food and other necessities of life. Their income could be drawn from paid employment, self-employment, income from property or investments and current transfers received. Malaysia's current household income classification is based on the HIS. In the 2022 HIS, the 7.9 million Malaysian households are divided into 3 categories, the B40, M40 and T20. Each represent the percentage of gross Malaysian household income that falls within a particular category. Based on this classification, the Prime Minister cum Finance Minister announced the plan to withdraw subsidies from the T15 group, a subgroup of the T20.

### ***Limitations Of The Current Classification***

The classification used by DOSM has several limitations, though there were attempts by DOSM to rectify the limitations. Even so, it is generally felt that the classification is still unable to represent the quality of life of that the classifications should represent. For instance, DOSM attempted to stratify the income according to states to make the classification more representative. Even so, such classification is considered as unrealistic. According to this classification, a household living in Kuala Lumpur will be included into the T20 if the total income earned is more than RM16,780. For many, the amount is impractical. Other factors such as the number of individuals living in the household, the number of dependents, the rising cost of living and other factors are not factored in (Carvalho, Gimino & Ho, 2024; Rahimy Rahim, 2024). Some unseen factors, such as culture are also missing. For example, as urban dwellers and living a hectic life, the Chinese everyday life are very dependent on services provided by the market, from childcare to food. Living such a lifestyle will increase their cost of living and the impact is many Chinese decided not to have children (Rashvinjeet & Aqil Haziq Mahmud, 2024; Zunaira Saieed, 2024). Aside from that, the proposed measure to remove subsidies from T15 households will trigger calculated measures. As the classification is not capable of reflecting the T15 quality of life, it is possible that some households will resort to altering their income so that they will fall into the income group that can enjoy the subsidies. One possible way is women from dual-income households to quit their jobs (Qistina Sallehuddin & Nor Ain Mohamed Radhi, 2024).

Hence, ethnicity and other everyday life considerations are factors that influence household income. However, in the current classification, such of these factors have not been considered. Most recently, DOSM announced their plan to replace the current classification with Basic Expenditure for Decent Living (PAKW), which includes more factors to calculate the cost of living. However, no official announcement has been made on how PAKW will be utilised in government policies (Razak Ahmad, 2024; Syed Jaymal Zahiid, 2024). As it is now, the method adopted by the government appears to be “authority defined” and has yet to include the subjectivity of the meanings attached to income classification. A classification that can determine the income to maintain a decent, comfortable and luxurious way of life should be developed, and the threshold should include Malaysians’ voices since the classifications will be applied to them (Yeap, 2024).

### **Research Objective**

Therefore, what is the categorization method that should be used? Is there any differences between the people’s view and the authorities view when it comes to defining the household income categories? Based on these research questions, this study aims to conduct a study with the following objectives:

To explore public view on the minimum household income to qualify a household into the decent, comfortable and luxury categories.

To find out public feedbacks towards the recent decision by the government to remove subsidies from the T15 group.

### **Research Methodology**

An online survey was conducted to gather feedback and a quick poll. This method is used since it is the most economical and time-saving. A total of 514 respondents answered a questionnaire that required them to suggest the minimum income required for a household income to be categorised as a household income that lives decently, comfortably or luxuriously. The

questionnaire was designed by the researchers and a pilot study was done to ensure the questionnaire is understandable and is capable to achieve the objective of this research. Opinions from fellow colleagues and researchers from Institute of Strategy and Policy Analysis (INSAP) were sought to verify the questionnaire. In addition, the survey obtained feedback from respondents on removing subsidies from the T15 category. The survey was conducted among working adults in Malaysia and was carried out from 4th November 2024 – 20th November 2024. Announcements concerning the survey were made through media, NGOs, and other networks of the researchers involved in this project. Several Malaysian main media group such as The Star, Sin Chew Daily, Sinar Harian and Astro Awani reported the survey and published link to invite their readers to respond to the survey questionnaire.

It is important to note that this study does not intend to generalize the findings to the Malaysian population. This is because it is understood that online survey comes with its limitation, particularly concerning sampling. An online study cannot choose its sample and therefore the sampling is based on non-probability sampling. It depends on the willingness of any members of the public who meet the requirement of this study to respond. There were quite a number of responses from youth who were still studying and did not fulfil the requirement of this study. This study would like to get responses from working adults only as this group of Malaysians are already income earners and contribute to their household income. Therefore, this study intends to explore and find out public views on this issue. It intends to discover rather than confirming the patterns of Malaysians' views on household income categorization. The study tried its best to get as many feedbacks as possible from different groups of Malaysians through the researchers' networks, NGOs and the media.

## Literature Review

### *Subsidy*

Subsidy reforms have long been a contentious policy tool in Malaysia, where the government's continuous assistance with fuel, food, and utilities has historically cushioned living costs for citizens. However, the gradual removal of these subsidies—a strategy aimed at fiscal consolidation and economic efficiency—has sparked complex shifts in public perception. This review synthesises existing research to explore how Malaysians perceive subsidy removal, focusing on socioeconomic, political, and psychological dimensions.

Subsidy cuts often trigger immediate economic strain, particularly among lower-income households. For instance, fuel subsidy removals in 2013 and 2022 led to sharp increases in transportation and food prices, exacerbating cost-of-living pressures (Sulaiman, et al., 2022). Sulaiman, et al. (2022) also stated that such measures disproportionately affect B40 (bottom 40% income) households, whose expenditures on essentials like rice and cooking oil constitute a larger share of their income. Thus, such acts will result in public resentment from financial hardship and perceptions of inequity. Besides, subsidy reforms are frequently viewed as "anti-poor," eroding trust in institutional commitments to social welfare. However, some studies highlight nuanced public responses. Middle-class Malaysians, for example, may support subsidy rationalisation if it is framed as a step toward reducing fiscal deficits or redirecting funds to targeted aid. This duality underscores the role of government communication in shaping acceptance.

Public perception of subsidy removal is deeply intertwined with trust in political leadership. The 2018 electoral backlash against the Barisan Nasional coalition, partly attributed to dissatisfaction with austerity measures, illustrates how subsidy policies influence voter behaviour (Welsh, 2018). Conversely, the current unity government's "subsidy targeting" approach, which redirects savings to low-income groups, has garnered cautious approval, suggesting that fairness in implementation moderates' discontent (Lee, 2024). Ethnic and regional disparities further complicate perceptions. Sulaiman, et al. (2022) opined that the rural communities, which rely heavily on subsidised diesel for agriculture, often view reforms as urban-centric policies neglecting their needs. Similarly, Sabah and Sarawak residents report feeling marginalised in subsidy discourse, reflecting broader tensions in federal-state relations (Sulaiman, et al., 2022). Hence, any attempt to remove subsidy must be considered tactfully. It affects public opinion towards the government. If the measure is equated to subsidy reform to ensure it reaches the targeted group, presumably the lower income group, such rationalization may not be effective. A study conducted by Lim, Dolsak, Prakash and Tanaka (2022) shows that respondents from different income brackets in the United States and Japan were not in favour of targeted subsidy measures but more in favour of universalistic subsidy measures.

Meanwhile, the World Bank (2023) has produced a report indicating that removal of subsidy particularly on the consumption of energy will receive backlash from the public if the removal is not substituted by other compensatory measures. According to this report, subsidy reform in isolation will not get support and only one third of the respondents of its study agree with such measures. In the context of the subsidy reform measures announced in Malaysia, there is no universalistic compensatory measures that justify the removal of subsidy. The rationale given was just mere mention of equitable distribution of income, which itself is subjective in nature.

### ***Social Economic Classification***

Malaysia's social and economic classification is based on household income. The Department of Statistics Malaysia (DOSM) (Ministry of Economy, 2023) conducts several surveys to categorise households into three income groups: the B40, M40, and T20. This classification relies on household income data from the Household Income and Basic Amenities Survey, carried out every few years. The survey considers factors such as gross household income, living costs, and the number of household members. The total monthly income of households determines the income brackets for the B40, M40, and T20 categories. The B40 (Bottom 40%) households represent the lowest income levels, constituting the bottom 40% of earners in Malaysia; the M40 (Middle 40%) comprises middle-income earners, encompassing the middle 40% of households; while the T20 (Top 20%) includes the highest-income households, representing the top 20% of earners. This classification assesses income disparities and aids in directing resource distribution and policy decisions to address the needs of each group.

Nurul Nadzirah (2024) conducted a bibliometric review of the B40 household group in Malaysia and identified 246 papers in the Scopus database, published between 2019 and 2023, that examined this subject. The study revealed that the top three countries researching B40 household groups were Malaysia, the United States of America, and the United Kingdom. Furthermore, the research highlighted that Malaysia is the only country in the world that has undertaken extensive studies on the B40 household group due to its unique demographic of B40 individuals.



Malaysian households are primarily influenced by income. To ensure that Malaysians lead quality and economically comfortable lives, additional factors were considered when assessing the standard of living—specifically, the relationship between household income, household expenditure, and household size across Malaysian states. It has been observed that despite a significant rise in median household income, households have struggled to allocate the income increase towards their expenses, possibly due to soaring living costs necessitating adjustments in expenditure. Furthermore, regional factors also play a role in determining comfortable living. Therefore, it is vital for the government to periodically review the prices of goods and services to ensure they remain affordable for all households while simultaneously improving Malaysia's living standards and well-being (Syerrina Zakaria, Nor Fatimah Che Sulaiman & Siti Madhiyah Abd Malik, 2024).

The above literatures showed an evolving nature of subsidy reforms in Malaysia and the impact to social economic classification is multifaced on different groups, with a focus on public perception, political consequences, and economic implications.

## Findings

### *Respondents Background*

The survey captured a diverse range of ethnicities in Malaysia. Of the respondents, 48.64% were Chinese, 29.8% were Malays, 11.24% were Bumi (Sabah and Sarawak), 6.72% were Indian, and 1.55% identified as others. In terms of age, the majority of the respondents were between 46 to 50 years old, making up 20.35% of the total respondents. Respondents aged 36 to 40 followed closely with 19.96%, then 41 to 45 years old with 17.83%, and 31 to 35 years old with 13.76%. A smaller portion, 9.50%, were aged 51 to 55; 7.17% of respondents were aged 26 to 30; 5.62% were aged 56 to 60, and 4.07% were 61 years old and above. The remaining are those aged 16 to 25, with 1.74%. This study predominantly focused on early, middle and late adulthood. Geographically, respondents were spread across various regions, with 66.28% from urban areas, 29.26% from city areas and 4.46% from rural regions. The diversity in geographical background allows a holistic view across different environments. In addition, majority of respondents were from Selangor (42.25%) and Kuala Lumpur (18.60%).

In terms of employment, a significant portion of respondents, 81.01%, were employed. It is a valuable professional perspective to the survey as most respondents were actively engaged in the workforce. Additionally, 9.88 were self-employed, followed by retirees with 6.01%. The remaining 3.10% were unemployed. The household sizes of respondents varied, with the majority, 45.93%, reporting a household of four to five people. Another 38.76% indicated they lived in households with fewer than three, suggesting that a large portion of the sample resided in smaller households. The remaining 15.31% of respondents had households of more than five people.

This research is conducted online and is intended to be a quick poll that gathers Malaysians' thoughts on income classification and removing subsidies from the T15 group. Since internet penetration in Malaysia exceeds 97.7%, this method is suitable for use. This study's only limitation is that the researcher cannot control the respondents. The largest group of respondents comprises Chinese urban dwellers residing in the central region (Selangor and Kuala Lumpur). Therefore, the findings cannot be generalised to the entire Malaysian population. Analysis by age group, ethnicity, locality, and other identity markers is conducted

to present a more comprehensive picture of Malaysians' thoughts. The researchers acknowledge that a more thorough face-to-face study must be conducted.

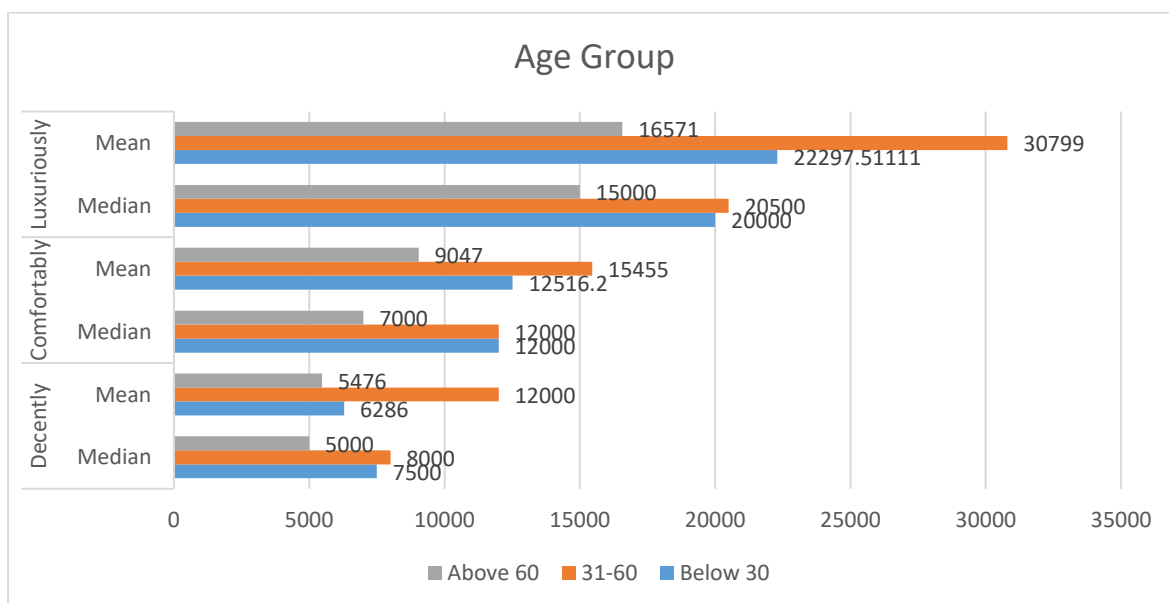
### *Minimum Income to Live Decently, Comfortably and Luxuriously*

**Table 2**  
**Minimum Income to Live Decently, Comfortably and Luxuriously**

	<b>Decently</b>	<b>Comfortably</b>	<b>Luxuriously</b>
Median	8000	12000	20000
Mean	8801.3	14659.2	30838

The findings from this survey revealed that the median minimum household income required for a decent living in Malaysia is RM8000, RM12000 for comfort, and RM20000 for luxury. It is essential to note that the mean minimum household income across all three categories surpasses the median. This implies that many respondents reported significantly high minimum household incomes for each category, leading to a positively skewed distribution. The minimum household income figures suggested by the respondents are higher than the standards outlined in the HIS 2022 categories. Consequently, there exists a disparity between how Malaysians perceive their household income, and the figures set by the government, particularly in light of the rising cost of living rise.

**Table 3**  
**Minimum Income – By Age Group**



The findings indicated that each age group has different expectations and responsibilities, which affect their views on what is considered decent, comfortable, and luxurious. Those aged 31 to 60 have the highest expectations of all the age groups. For this age group, the mean

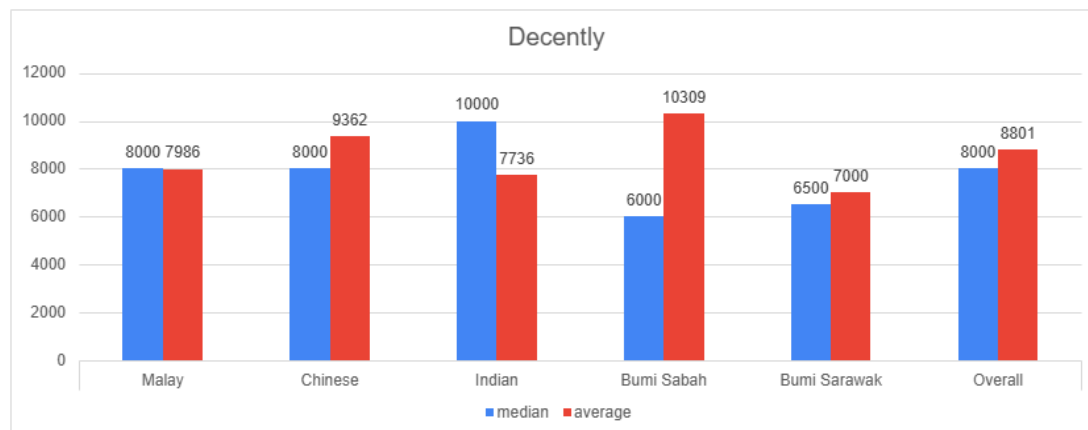
minimum household income indicated by the respondents for enjoying a luxurious lifestyle is RM30799, while the median is RM20,500. To live decently, the mean minimum household income is RM12,000, and the median is RM8,000. This is understandable, as individuals in this age group typically bear the costs of supporting their families. At this stage, they also incur expenses for purchasing property, vehicles, and more.

### ***Minimum Income – Ethnicity***

Their ethnicity also influences the expected minimum income from respondents for each classification. Malaysians led diverse lives, and each individual is shaped by their cultural definitions of decent, comfortable, and luxurious. This shapes their perceptions of what is essential for maintaining their way of life. As mentioned earlier, the Chinese community heavily relies on market services, ranging from childcare to food. The cost of living for a Chinese individual is substantial, as reflected in the findings.

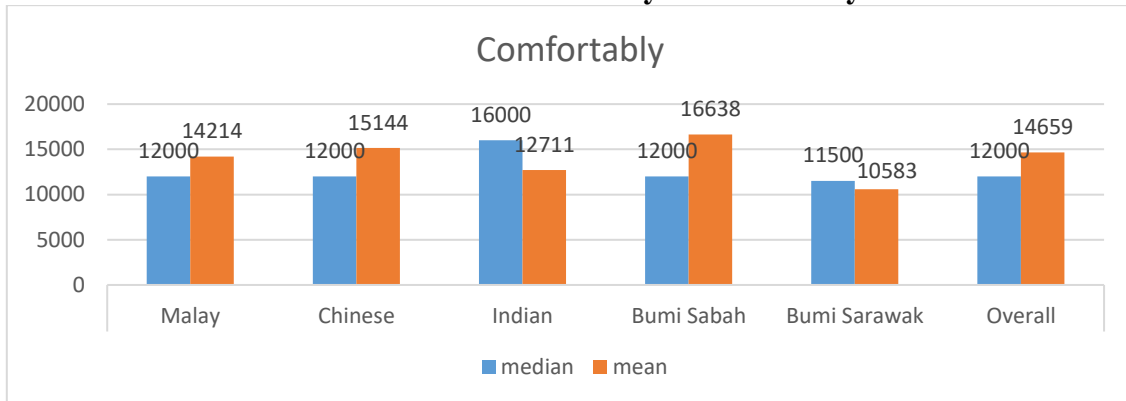
The findings showed that the Chinese and Indians have relatively higher expectations regarding their minimum household income. For instance, the mean minimum household income necessary for a decent living among Chinese respondents is RM9362, RM15144 for comfortable living, and RM31,178 for a luxurious lifestyle. Consequently, their cost of living is higher, which translates into a greater income requirement. Meanwhile, regional factors also play a role. Among all ethnic groups, Bumi Sabahan indicated that they require a higher income (in fact, the highest) to sustain a decent standard of living.

**Table 4**  
**Minimum Income Ethnicity – Decently**

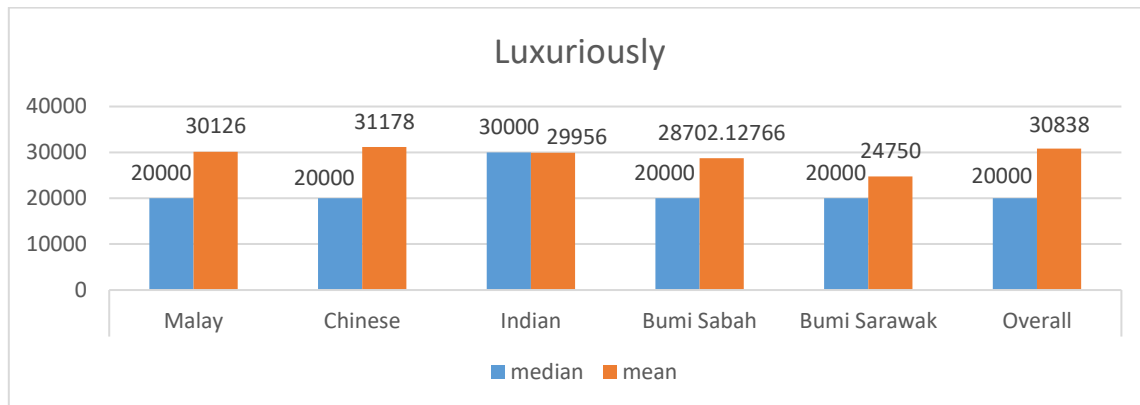




**Table 5**  
**Minimum Income Ethnicity - Comfortably**



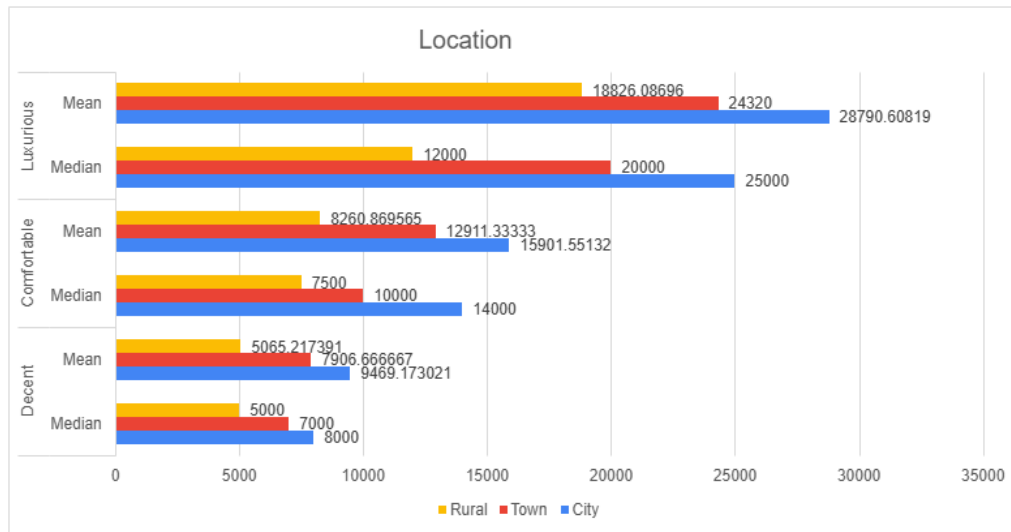
**Table 6**  
**Minimum Income Ethnicity - Luxuriously**



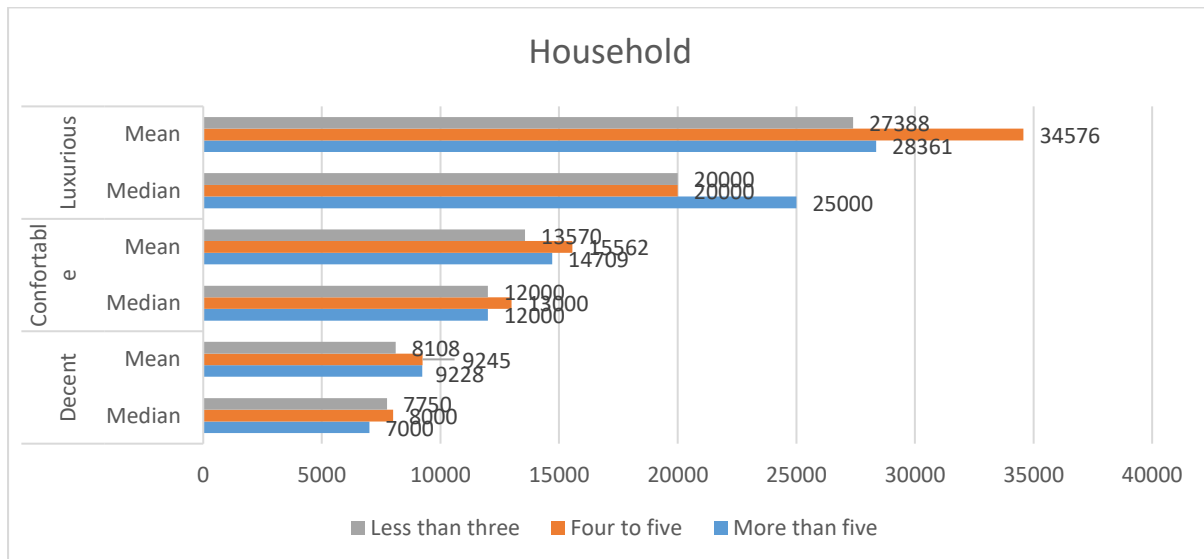
### ***Other Factors***

Factors such as location and household size must be considered when determining classification. The findings from this research indicate that both factors affect the cost of maintaining a certain quality of life. Regarding location, the minimum cost of enjoying a luxurious lifestyle in the city is twice that of rural areas. Similarly, the cost of sustaining a larger household will influence the minimum income required to live luxuriously.

**Table 7**  
**Other Factor – Location**



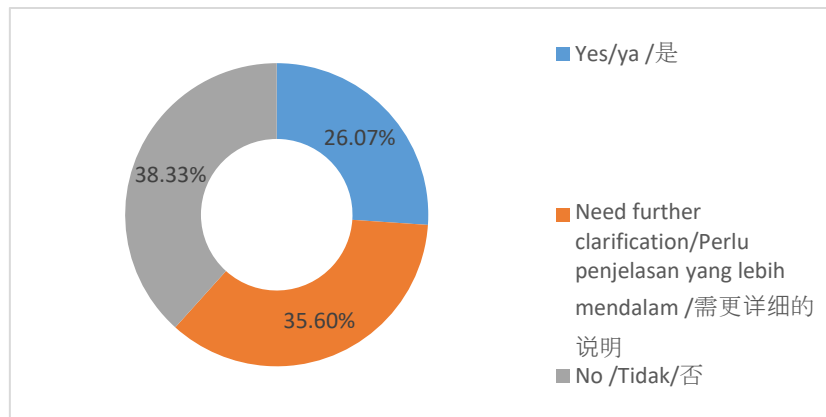
**Table 8**  
**Other Factors – Household**



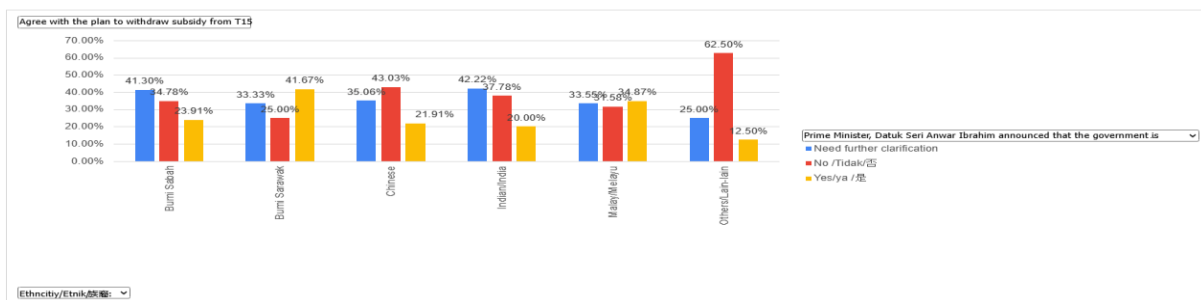
### ***Agree With The Plan To Withdraw Subsidy From T15***

Based on the feedback received, it is apparent that the plan to withdraw the subsidy from the T15 group is neither well understood nor well received by the respondents. Only 26.07% of respondents indicated their agreement, while 38.33% disagreed and the remainder wanted the government to provide more information. A similar trend in responses can be observed among Malay respondents, where the percentage of those who disagreed is greater than that of those who agreed.

**Table 9**  
**Opinion on the Plan to Withdraw Subsidy from T15**



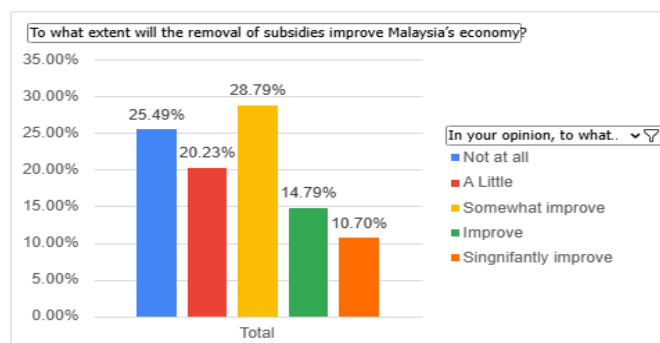
**Table 10**  
**Opinion on the Plan to Withdraw Subsidy from T15 Based on Ethnicity**



### The Impacts Of The Removal Of Subsidy From T15 To The Economy

The respondents do not view the plan to remove the subsidy from the T15 as an initiative to improve the economy or ensure wealth is distributed equitably. Only 25.49% of respondents agreed that the removal would benefit Malaysia's economy, while 20.62% believed it would promote equitable wealth distribution. In general, most respondents are sceptical.

**Table 11**  
**To What Extend Will the Removal of Subsidies Improve Malaysia's Economy**



## Discussion

Based on the findings, Malaysians generally have their own methods of gauging their household income categories. Classifying these categories involves more than simply adding up the income generated by the household members. While considering location and household size may help, these factors are not comprehensive enough. Numerous other considerations must be considered, including age group, ethnicity, and marital status. By integrating these factors, we will be better positioned to understand how income impacts each individual household.

Since Malaysia is a multicultural country, it is also important for the government to address the needs of diverse populations. The government must consider these factors to understand the varying expectations of different communities. Additionally, understanding how cultural values and regional disparities impact economic behaviour can lead to more tailored solutions for improving living standards across the country.

Consequently, a good classification system should be as inclusive as possible and consider people's perspectives. A top-down defined classification is likely to be perceived as unfair. It would be ironic if the intention behind the removal of subsidies is to promote fairness, yet it faces accusations of unfairly categorising Malaysians into groups they feel they do not belong to. As stated by Syerrina Zakaria, et al. (2024), further studies, particularly from the perspectives of Malaysians, must be conducted.

Moreover, many unexplained aspects surround the removal of the subsidy from the T15 group. As a result, many Malaysians are likely to oppose this decision. Although the intention behind the move is clear, questions persist regarding the precise mechanics of its implementation. Without a classification that aligns with Malaysians' perspectives, the removal will be viewed as unjust, leading to doubts about its potential to support Malaysia's economy.

A key takeaway is the apparent need for better communication and transparency from the government. A significant portion of respondents (around 35%) want more information about the rationale behind the decision. This suggests that the government has not adequately explained why this policy is being implemented, its long-term goals, or how it fits into broader economic reforms. For a subsidy removal policy to succeed, citizens need to understand how it aligns with their interests and the country's overall economic strategy. Without this clarity, it is easy for people to view it negatively or with suspicion.

Although the reform of subsidies has disproportionately affected the B40 demographic (Sulaiman, et al., 2022), it does not exempt the T15 group from being adversely impacted as well. Further explanation regarding the removal of subsidies from the T15 group is necessary. The question of whether some members of the T15 group will be affected needs to be addressed, as this group still perceives a need for the subsidy. To prevent this scenario, the government should focus on removing the subsidy from those who do not require it at all, and a more thorough examination of who these individuals are must be conducted. Failing to undertake this will lead to the removal being viewed as exacerbating disparity and inequity.

## Conclusion

The classification of household income in Malaysia demands a far more nuanced and detailed approach than simply considering income levels. It is essential to consider various factors such

as location, household size, age, ethnicity, and marital status to understand each household's financial situation better. Given Malaysia's multicultural composition, it is crucial that the government designs policies that reflect the diverse needs, expectations, and cultural dynamics of the different communities across the nation. The current issue surrounding the removal of subsidies, especially from the T15 group, has raised significant concerns due to a lack of clear communication and transparency. This has led to widespread perceptions of unfairness and distrust in the system, as people feel the policy does not align with their realities.

The government must be cautious when classifying household income, as any failure to properly assess and categorize it could result in unintended injustice, ultimately undermining the objective of subsidy removal. For the policy to be effective, it must be rooted in a comprehensive, inclusive, and well-thought-out mechanism that acknowledges the complex and varied nature of income disparities. By adopting such an approach, the government can ensure that the intent to remove subsidies from wealthier households is more effectively communicated and understood. Legitimizing a policy requires more than just making decisions that are popular or seemingly straightforward; it involves a deep understanding of the lived experiences and perceptions of the citizens who are most impacted by those decisions. Policymakers must, therefore, recognize the importance of considering people's perspectives—particularly those of the households they aim to categorize and support.

On top of that, for such policies to be successfully implemented and broadly accepted, transparent communication from the government is key. Clear, thorough explanations of the rationale behind the subsidy removal must be provided to the public, outlining the long-term benefits and how it fits into the overall economic strategy. Furthermore, the government must remove subsidies from those who genuinely do not need them, ensuring that the policy does not inadvertently worsen inequality or disproportionately affect vulnerable groups. By ensuring that the classification system is inclusive, well-communicated, and fair, the government can avoid accusations of unfairness and foster greater public support for economic reforms. This approach will help build trust, promote equity, and ultimately lead to more effective and sustainable policies for improving the living standards of Malaysians across all income groups.

In conclusion, research successfully explored public views on the minimum household income required to qualify for decent, comfortable, and luxury living categories, highlighting concerns about the limitations of the current income classification system. Additionally, the feedback gathered regarding the government's decision to remove subsidies from the T15 group revealed significant public apprehension about the fairness and practicality of the existing thresholds, especially considering factors like cost of living and cultural differences. These findings indicate that the objective of understanding public sentiment on household income classification and subsidy policies has been effectively achieved.

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