KPMG

2020 Budget Snapshots

Driving Growth and Equitable Outcomes
Towards Shared Prosperity

KPMG in Malaysia

11 October 2019

Overview and Commentary

On **Friday, 11 October 2019,** the 2020 National Budget was tabled by Finance Minister, YB Tuan Lim Guan Eng.

Bearing the theme "Driving Growth and Equitable Outcomes Towards Shared Prosperity", the second budget under the Pakatan Harapan government focused on driving growth in high-technology, high-growth areas and ensuring the wellbeing of small businesses and the Rakyat.

Budget 2020 provided an allocation of RM297 billion, of which RM241 billion is earmarked for Operating Expenditure and RM56 billion for Development Expenditure.

In line with the zero-based budgeting approach proposed in the Budget 2019, the Government now has a clearer picture on the allocation of the budget in order to maximise resources. Key takeaways from this would be higher revenue, sustainable GDP and tractable inflation.

As 98.5% of existing businesses in Malaysia are SMEs, it did not come as a surprise that the Government has continued to provide support to SMEs to grow their businesses in the current volatile environment. Amongst others, SMEs will now enjoy 17% tax rate on the first RM600,000 of chargeable income, grants to fund the adoption of digitalization measures and allocations of RM50 million to encourage SMEs to engage in more promotion of export activities.

Although the Budget 2020 saw a limited amount of new incentives being introduced, incentives have been proposed targeting high growth sectors such as electrical and electronics (E&E), renewable energy, arts and tourism. The extension of the existing automation incentives, which is favoured by companies in the manufacturing industry is also a welcomed move.

Nevertheless, the Government has reiterated its intention to embark on a comprehensive review and revamp of the existing incentive framework and this is expected to be ready by 1 January 2021.

It is also encouraging that the Government has adopted an inclusive approach, with incentive being provided to create more employment opportunities for women and youth. From an indirect tax perspective, the Government has indicated that there would not be a reintroduction of the Goods and Services Tax thus allaying concerns over another policy flip-flop.

Overall, the Budget 2020 provides a clear message that the Government is focused on investing in the right priorities and sets the foundation in supporting businesses and individuals towards achieving high growth and digitalization ambitions.

The following pages set out a quick snapshot of the key changes that have been announced in this year's Budget.

Should you have any queries relating to this snapshot or any other tax matters, please contact your KPMG consultants or send us an email at info@kpmg.com.my

Happy reading!

Tai Lai Kok
Executive Director – Head of Tax
KPMG Tax Services Sdn Bhd

2020 Budget Highlights

Revised tax threshold for SME with capital of up to RM2.5 million and additional condition of annual sales of not more than RM50 million

- 17% for chargeable income of up to RM600,000;
- 24% for remaining chargeable income.

Increase in personal income tax rate (highest band) from 28% to 30% for resident individuals with chargeable income of more than RM2 million. Fixed income tax rate for non-resident individuals is also increased to 30%.

Market value as of 1 January 2013 is to be used as the acquisition price for disposal of real properties acquired prior to year 2013 for real property gains tax (RPGT) purposes. Only applicable for Malaysian citizens and permanent residents.

Expenses incurred on listing on the ACE or LEAP markets qualify for tax deduction of up to RM1.5 million. Qualifying expenses are fees to authorities, professional fees, underwriting, placement and brokerage fees.

Intellectual property (IP) incentive

Income tax exemption of 100% for up to 10 years on IP income (patent and copyright software) derived from qualifying activities. Under the Modified Nexus Approach, this only applies to income derived from IP developed in Malaysia.

Electrical and electronic (E&E) incentive

Investment tax allowance (ITA) of 50% on qualifying capital expenditure for 5 years to be set off against 50% statutory income for E&E companies that have exhausted 15-year reinvestment allowance (RA).

Automation incentives

Existing 100% accelerated capital allowance (ACA) for automation equipment and income tax exemption equivalent to 100% of the ACA are extended to Year of Assessment (YA) 2023.

The scope of the above incentive has also been expanded to cover the services sector.

Renewable energy incentives

Existing Green Investment Tax Allowance (GITA) incentive for qualifying green activities and Green Income Tax Exemption (GITE) incentive for qualifying green services activities are extended to YA 2023.

New income tax exemption of 70% of statutory income for 10 years for solar leasing companies.

Capital allowance

100% capital allowance on Small Value Assets for asset with a value of up to RM2,000, limited to qualifying capital allowance of RM20,000 per YA for non-SME.

Tourism incentives

- 100% income tax exemption for 5 years or Investment Tax Allowance of 100% for 5 years up to 70% statutory income for new investment for international theme park.
- 100% income tax exemption for promoting and organizing conference with at least 500 foreign participants annually.

Arts and cultural incentives

- 50% income tax exemption for organizing approved arts and cultural activities, international sports and recreational competitions.
- Tax deduction for sponsoring local arts, cultural and heritage activities is increased to RM1 million a year.

Extension of existing tax incentives

- Existing tax treatment for investors of real estate investment trust (REIT) is extended to YA 2025.
- Existing tax incentive for angel investor is extended to applications received until 31 December 2023.
- Existing tax incentive for venture capital is extended to 31 December 2026.
- Double deduction for expenses incurred for National Dual Training Scheme for Industry 4WRD programme is extended to 31 December 2021.
- Tax deduction on issuance cost and further deduction on additional issuance cost for Sukuk Wakalah is extended to YA 2025.
- Tax deduction on issuance cost for Sustainable and Responsible Investment (SRI) Sukuk and tax exemption on fees for SRI fund management services are extended to YA 2023.
- Tax exemption on fees for Shariah-compliant fund management services is extended to YA 2023.
- Double deduction for Structured Internship Programme (SIP) is extended to YA 2021. Expanded to include Bachelor's Degree, Diploma, Vocational (DKM Level 4 and 5) and SKM Level 3 students in all academic fields.
- Tax deduction for PTPTN loan repayments by employers is extended until 31 December 2021.

Introduction of Approved Major Exporter Scheme for traders or manufacturers of exempted goods with export of not less than 80% of annual sales

- Full sales tax exemption on importation and purchase of goods or raw materials, components and packaging materials;
- Not required to determine quantity of goods to be exported at time of importation or purchase of goods.

Service tax group relief for taxable services under professional group which are provided by a company to third parties (other than company within the same group), provided the value of such services does not exceed 5% of the total value of services provided within 12 months.

Stamp duty remission of 50% for transfer of real property between parents and children and vice versa is restricted to Malaysian citizen only.

KPMG

Contact us

Petaling Jaya Office

Tai Lai Kok
Executive Director –
Head of Tax and Head of Corporate Tax
ltai1@kpmg.com.my
+603 7721 7020

Bob Kee
Executive Director –
Head of Transfer Pricing
bkee@kpmg.com.my
+603 7721 7029

Soh Lian Seng
Executive Director –
Head of Tax Dispute Resolution Practice
lsoh@kpmg.com.my
+603 7721 7019

Dato' Leanne Koh
Executive Director – Corporate Tax
leannekoh@kpmg.com.my
+603 7721 7026

Ong Guan Heng
Executive Director – Corporate Tax
guanhengong@kpmg.com.my
+ 603 7721 7027

Ivan Goh
Executive Director – Transfer Pricing
ivangoh@kpmg.com.my
+ 603 7721 7012

Long Yen Ping
Executive Director –
Head of Global Mobility Services
yenpinglong@kpmg.com.my
+603 7721 7018

Ng Sue Lynn
Executive Director –
Head of Indirect Tax
suelynnng@kpmg.com.my
+603 7721 7271

Nicholas Crist
Executive Director – Corporate Tax
nicholascrist@kpmg.com.my
+ 603 7721 7022

Neoh Beng Guan
Executive Director – Corporate Tax
bneoh@kpmg.com.my
+ 603 7721 7025

Chang Mei Seen
Executive Director – Transfer Pricing
meiseenchang@kpmg.com.my
+ 603 7721 7028

Outstation Offices

Penang Office
Evelyn Lee
Executive Director – Penang Tax
evewflee@kpmg.com.my
+604 238 2288 (ext. 312)

Kota Kinabalu Office
Titus Tseu
Executive Director – Kota Kinabalu Tax
titustseu@kpmg.com.my
+6088 363 020 (ext. 2822)

Ipoh Office
Crystal Chuah Yoke Chin
Tax Manager – Ipoh Tax
ycchuah@kpmg.com.my
+605 253 1188 (ext. 320)

Kuching & Miri Offices
Regina Lau
Executive Director – Kuching Tax
reglau@kpmg.com.my
+6082 268 308 (ext. 2188)

Johor Bahru Office
Ng Fie Lih
Executive Director – Johor Bahru Tax
flng@kpmg.com.my
+607 266 2213 (ext. 2514)

KPMG Offices

Petaling Jaya

Level 10, KPMG Tower,
8, First Avenue, Bandar Utama,
47800 Petaling Jaya, Selangor
Tel: +603 7721 3388
Fax: +603 7721 3399
Email: info@kpmg.com.my

Penang

Level 18, Hunza Tower,
163E, Jalan Kelawei,
10250 Penang
Tel: +604 238 2288
Fax: +604 238 2222
Email: info@kpmg.com.my

Kuching

Level 2, Lee Onn Building,
Jalan Lapangan Terbang,
93250 Kuching, Sarawak
Tel: +6082 268 308
Fax: +6082 530 669
Email: info@kpmg.com.my

Miri

1st Floor, Lot 2045,
Jalan MS 1/2,
Marina Square, Marina Parkcity,
98000 Miri, Sarawak
Tel: +6085 321 912
Fax: +6085 321 962
Email: info@kpmg.com.my

Kota Kinabalu

Lot 3A.01 Level 3A,
Plaza Shell,
29, Jalan Tunku Abdul Rahman,
88000 Kota Kinabalu, Sabah
Tel: +6088 363 020
Fax: +6088 363 022
Email: info@kpmg.com.my

Johor Bahru

Level 3, CIMB Leadership Academy,
No. 3, Jalan Medini Utara 1,
Medini Iskandar,
79200 Iskandar Puteri, Johor
Tel: +607 266 2213
Fax: +607 266 2214
Email: info@kpmg.com.my

Ipoh

Level 17, Ipoh Tower,
Jalan Dato' Seri Ahmad Said,
30450 Ipoh, Perak
Tel: +605 253 1188
Fax: +605 255 8818
Email: info@kpmg.com.my

kpmg.com/my

facebook.com/KPMGMalaysia
linkedin.com/company/kpmg-malaysia
twitter.com/kpmg_malaysia
instagram.com/kpmgmalaysia