Take 5 for business

Volume 7 Issue 2 - 12 October 2019

Budget 2020 Malaysia

EY
Building a better working world

“

Budget 2020 is a reasonable response to the immediate social and economic challenges faced by Malaysia and outlines the first steps in the journey towards realizing the Shared Prosperity Vision 2030. Personally, I am encouraged by the significant allocation for education.

Dato’ Abdul Rauf Rashid
EY Asean Assurance Leader,
Malaysia Managing Partner,
Ernst and Young

Perspectives on Budget 2020

Budget 2020 sends a clear message to the investment community that Malaysia aims to be the preferred investment destination. It is business-friendly, focused on spurring investments in the right sectors and will culminate in long term growth that is sustainable.

The various initiatives introduced are clearly targeted at investments which will move the country up the value chain, including:

- The introduction of customized tax incentive packages for mega investments
- Budget allocations to improve infrastructure and digital connectivity
- Enhancing employment conditions
- Improving overall ease of doing business
- Providing various grants for R&D and innovation

Bold measures were announced to build a Digital Malaysia, including the National Fiberisation & Connectivity Plan (NFCP). These measures will propel Malaysia into the digital age, removing physical barriers and opening up access to markets, knowledge and opportunities.

In line with the recently unveiled Shared Prosperity Vision 2030 (SPV 2030), Budget 2020 outlines various initiatives to address the income and wealth gaps and create a higher-skilled workforce.

Many of the proposed initiatives and measures cut across various Ministries and agencies. Perhaps there is a need for an implementation taskforce to ensure these initiatives are carried out in a streamlined and consistent manner.

No new taxes were introduced nor were existing taxes broadened, save for a two percentage point increase in the individual tax rate on taxable income exceeding RM2m. Instead, spurring further private sector investments and getting more Malaysians back to the workforce through the Malaysia@Work initiative should translate to enhanced economic growth and higher tax collections.

Further, continued emphasis on getting the tax administration system to be more efficient and effective, such as the initiative to introduce an automatic Tax Identification Number for individuals and businesses, should increase overall tax revenue.

We believe Budget 2020 took courage, foresight and conviction. The Budget takes bold steps to reestablish Malaysia's position as an Asian tiger.

Yeo Eng Ping
EY Asia-Pacific Tax Leader

Amarjeet Singh
EY Asean and Malaysia Tax Leader

Budget 2020

Budget 2020, themed "Driving growth and equitable outcomes towards shared prosperity" has four thrusts, namely:

- To drive economic growth in the new economy and digital era
- To invest in Malaysians: levelling up human capital
- To create a united, inclusive and equitable society
- To revitalize public institutions and finances

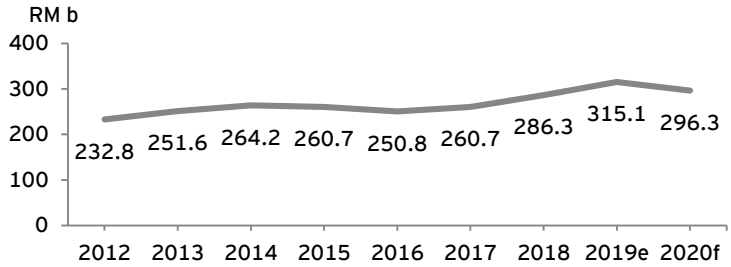
Moving forward, the Government has set out 15 strategies to ensure equitable and sustainable growth.

15 strategies

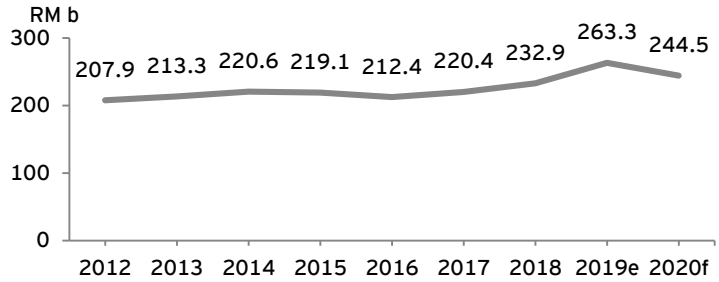
- Making Malaysia the preferred destination for investment
- Accelerating the digital economy
- Strengthening access to financing for businesses
- Strengthening economic diversity
- Enhancing job opportunities for Malaysians
- Modernizing the labour market
- Investing in education and talent
- Inclusive development – RM10.9 billion allocated for rural development
- Towards better health services
- Enhancing the transportation ecosystem
- Promoting access to housing
- Unity through sports
- Promoting environmental sustainability
- Commitment to fiscal consolidation
- Strengthening institutions, governance and integrity

Did you know?

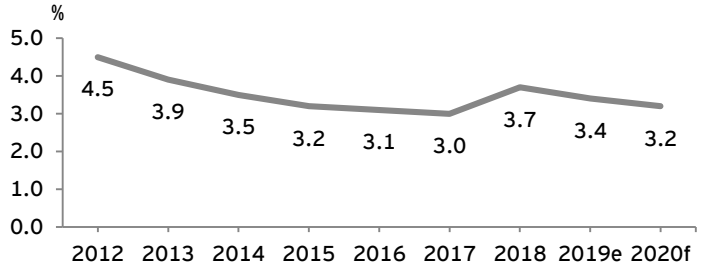
1 Budget allocation[1]



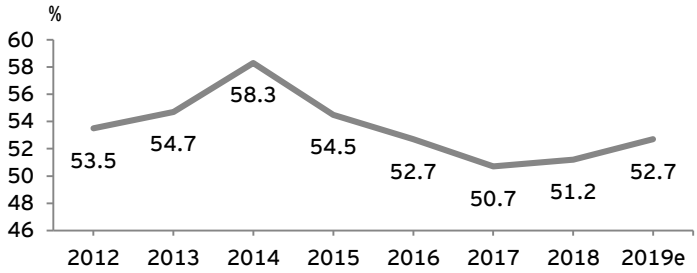
2 Government revenue



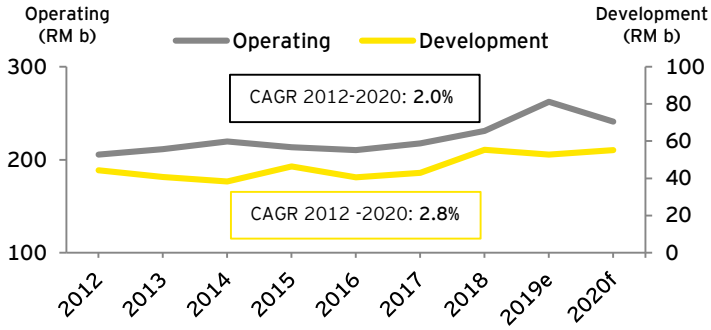
3 Budget deficit



4 Government debt/GDP ratio



5 Operating and development expenditure



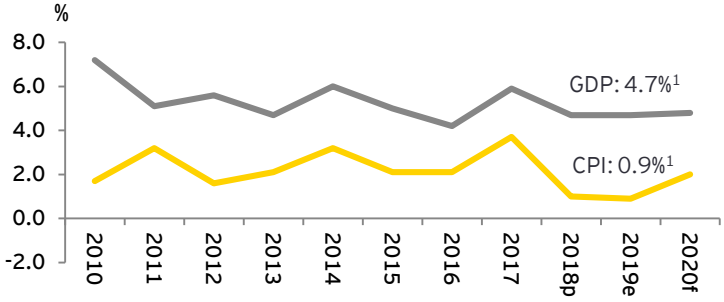
Notes:
[1] Budget allocation includes operating expenditure and development expenditure, but excludes contingency reserves
*Numbers may not add up due to rounding
e = Estimate
f = Forecast

Sources:
- Budget speeches from 2011 to 2020, Ministry of Finance (MoF)
- MoF economic reports

Economic indicators

Despite global economic uncertainties, the Malaysian economy continues to be resilient, with GDP expansion of 4.7% in 2019. The private sector remains the key growth driver, supported largely by the manufacturing and services sectors. Prospects for the Malaysian economy remain steady with GDP growth expected to improve marginally at 4.8% in 2020. This will be supported by capital spending across the services and industrial sectors and buoyant export growth from global trade activities, particularly in the Electrical & Electronics (E&E) sector.

Real GDP versus CPI[1]

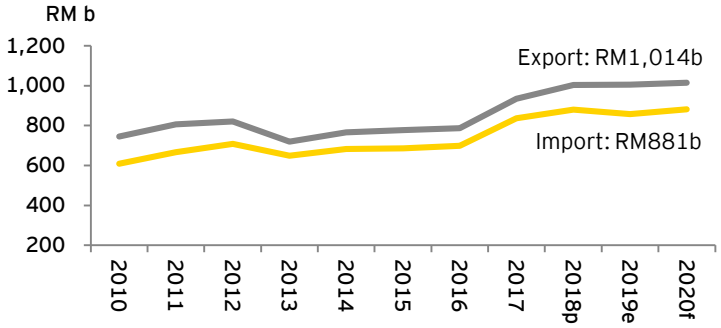


[1]Estimate for 2019

Malaysia's real GDP is expected to grow by 4.7% in 2019, driven largely by private consumption (growth of 6.8%) and a favorable external sector.

Malaysia's CPI is expected to moderate to 0.9% in 2019, mainly due to fixed fuel prices for vehicles.

Trade (goods and services)

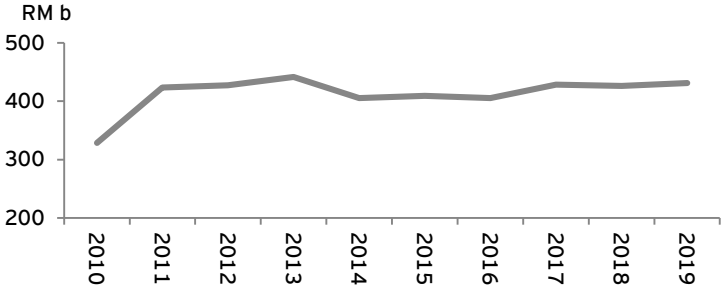


In 2019, total trade declined marginally by 1.1% to RM1.86 trillion. In 2020, total trade is expected to reach approximately RM1.90 trillion.

Softer global demand and global trade tensions are moderating export growth in the short term.

However, anticipated improvements in global trade activities and the uptick in the E&E cycle are anticipated to support export growth in 2020.

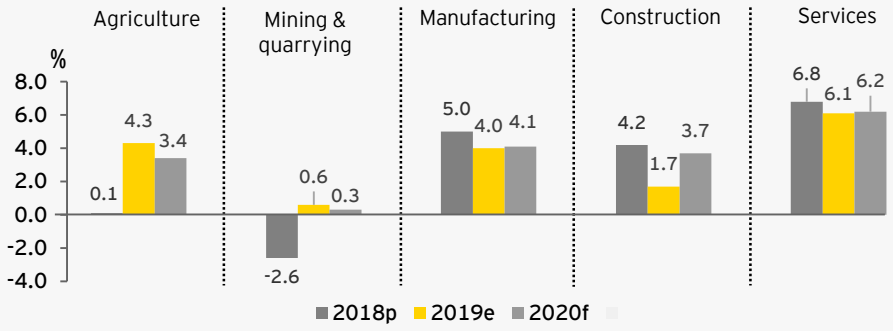
Net international reserves[2]



[2]As at 30 September 2019

As at 30 September 2019, Malaysia's total net international reserves amounted to RM431.3 billion, equivalent to 7.6 months of retained imports and 1.1 times external short-term debt.

Growth by sectors



From 2018 to 2020, the services, manufacturing and construction sectors continue to be on a positive growth track, supported by a stable labor market.

However, the agricultural and mining sectors contracted with reduced output.

p = preliminary

Sources:
- Budget 2020 speech, MoF
- MoF economic reports

Selected sector initiatives

Agriculture and produce	► RM4.9b in total allocated to the Ministry of Agriculture for measures including: ► RM855m to increase the paddy yield under Skim Baja Padi Kerajaan Persekutuan (SBPKP) and Skim Insentif Pengeluaran Padi (SIPP) ► RM152m to increase allowances for fishermen from RM200 to RM250 per month ► RM150m for farmers to facilitate crop integration of chili, pineapple, coconut, watermelon and bamboo ► RM43m for Agriculture Industry 4.0 to develop new crop varieties
Education and training	► RM64.1b in total allocated to the Ministry of Education for measures including: ► Targeted assistance by MARA for low-income and rural Bumiputeras ► RM2b allocated for student loans benefitting 50,000 students under MARA sponsorship ► RM1.3b allocated for educational institutions ► Improvement and maintenance of schools: ► RM783m for repairing dilapidated schools, particularly in Sabah and Sarawak, and construction of new schools ► RM735m allocated for school maintenance and upgrading works ► Technical Vocational Education and Training (TVET) ► RM5.9b allocated to TVET programmes ► RM50m through Perbadanan Tabung Pembangunan Kemahiran (PTPK) to fund TVET courses conducted by State Skills Development Centres ► RM30m to provide TVET training to more than 3,000 youths ► RM20m to support customized TVET courses and RM20m to expand skills training and programmes for prison inmates in areas such as food & beverage, carpentry, laundromat and metal works ► Professional certifications ► RM40m from Government and HRDF to encourage working adults to undertake professional certification examinations in fields relating to the Fourth Industrial Revolution ► Others: ► RM299m to implement the Sports For All program, including rehabilitating and upgrading of sports facilities, youth and sports complexes and community sports complexes ► RM179m for preparation for international sporting events ► RM138m for the Youth Power Club (YPC), Malaysia Future Leaders School (MFLS) and volunteerism initiatives
Commodities-related	► Support for the palm oil sector: ► RM550m palm oil replanting loan fund for the provision of collateral-free loans to smallholders at interest rate of 2% p.a., with a tenure of 12 years including a four-year moratorium on repayment ► RM27m for Malaysian Palm Oil Board (MPOB)'s marketing efforts and to counter anti-palm oil campaigns ► Support for smallholders in the rubber sector: ► RM200m for Bantuan Musim Tengkujuh to eligible smallholders ► RM100m for Rubber Production Incentive to enhance income of smallholders ► Support for FELDA community: ► RM250m for income enhancement program benefitting 11,600 settlers ► RM300m to write-off the interest on the settlers' debts ► RM100m for FELDA water supply projects ► RM738m for RISDA and Federal Land Consolidation and Rehabilitation Authority (FELCRA) to implement various income-generating programmes

Selected sector initiatives

Financial services and capital market	► RM1b 1:5 matching guarantee for dedicated private equity funds to invest in Malaysian consortiums
	► Tax incentives for venture capital and angel investors to be extended until 2023
	► 2% annual interest subsidy under Bank Pembangunan Malaysia Berhad for:
	  ► RM2b of the Sustainable Development Financing Fund
	  ► RM1b Maritime & Logistics Fund
	  ► RM2b Industry Digitalization Transformation Fund
	► Extension for five years until 2025 for current tax deduction on the cost of issuance and additional tax deduction on sukuk issuance cost under the principle of Wakalah
	► Extension of tax exemption for three years until 2023 for fund management companies managing Shariah compliant funds and Sustainable and Responsible Investment funds
	► Extension for three years until 2023 on tax deduction on cost of issuing Sustainable and Responsible Investment Sukuk

Green technology	► Green Investment Tax Allowance and Green Income Tax Exemption incentives extended to 2023 ► 70% income tax exemption up to 10 years given to companies undertaking solar leasing activities ► Acceleration of Energy Performance Contracting for Government buildings, prioritizing hospitals and educational institutions

Information & Communication Technology (ICT) and Industry 4.0	► Enforcement of the Mandatory Standards for Access Pricing (MSAP) to reduce broadband prices by 49%
	► Implementing the National Fiberisation & Connectivity Plan (NFCP) over the next five years. This will involve a total investment of RM21.6b whereby the Government (through MCMC) will finance at least half the required investment via a matching grant mechanism
	  ► RM250m to leverage various technologies, including satellite broadband, to improve connectivity in remote areas of Malaysia, including Sabah and Sarawak
	  ► RM210m to accelerate the deployment of new digital infrastructure for public buildings, particularly schools and industrial parks
	► Introduction of 5G Ecosystem Development Grant of RM50m
	► Introduction of Digital Social Responsibility (DSR) to improve digital skills of the future workforce through initiatives such as technology scholarships, training and upskilling for digital skills
	► One-time RM30 digital stimulus for qualified Malaysians aged 18 and above and with annual income less than RM100,000, for the usage of e-wallets. The RM30 credit must be used within a two-month period.
	► Tax incentives up to 10 years for E&E companies transitioning into the 5G digital economy and Industry 4.0
	► RM550m for Smart Automation matching grants to 1,000 manufacturing and 1,000 services companies, to automate business processes

Selected sector initiatives

Logistics and infrastructure	► RM10.9b allocation for rural development projects
	► RM5.2b and RM4.4b, respectively, for Sabah and Sarawak development expenditure
	RM4.85b to all state governments from MARRIS fund, to maintain roads
	  ► 15% or RM20m (whichever is lower) to upgrade roads, slopes, bridges and drains
	► RM1.1b for corridor development projects:
	  ► RM50m for development of Chuping Valley Industrial Area in Perlis by the Northern Corridor Investment Authority (NCIA)
	  ► RM69.5m for Kuantan Port related projects by the East Coast Economic Region Development Council (ECERDC)
	  ► RM42m for the construction of Sungai Segget Centralised Sewerage Treatment Plant in Johor by the Iskandar Regional Development Authority (IRDA)
	  ► RM55m for infrastructure in the Samalaju Industrial Park in Sarawak by the Regional Corridor Development Authority (RECODA)
	  ► RM20m for the Sabah Agro-Industrial Precinct by the Sabah Economic Development and Investment Authority (SEDIA)
	► RM1b for rural roads throughout Malaysia
	► RM587m for rural water projects
	► RM500m for rural electrification
	► RM450m to acquire up to 500 electric buses for use in selected cities nationwide
	► RM444m allocated to flood mitigation projects
	► RM146m for subsidizing bus operators
	► RM150m for maintenance of existing flood retention ponds
	► RM85m for 50 additional counters that will be opened for motorcyclists, as well as to streamline immigration and PLUS counters to ease traffic flow
	► RM85m for development and repair of basic infrastructure in new villages
	► RM53.4m and RM32m, respectively, for Sabah and Sarawak under the Special Grant
	► RM50m for the repair and maintenance of roads leading to Port Klang
	► RM50m for Kota Perdana Special Border Economic Zone (SBEZ) truck depot at Bukit Kayu Hitam
	► RM50m for upgrading rail tracks from Gorge Line between Halogilat Station to Tenom Station in Sabah
	► Upgrade of Sultan Azlan Shah Airport in Ipoh, including extension of its runway
	► Minimum reduction of average toll charges by 18% across all PLUS highways
	► Approval of proposed offer to acquire KESAS, LDP, SPRINT and SMART to be funded via Government-guaranteed borrowings
	► Introduction of congestion charges which will be up to 30% lower than present toll rates during near peak and normal hours, and free during off-peak hours
	► Toll rates for cars at Second Penang Bridge will be reduced from RM8.50 to RM7.00

Selected sector initiatives

Healthcare	► RM1.6b for construction of new hospitals and upgrading and expansion of existing hospitals ► RM319m for construction and upgrading of health and dental clinics ► RM227m to upgrade medical equipment ► RM95m to renovate medical infrastructure and facilities ► RM60m to kick-start pneumococcal vaccination for children

Real estate and property	► Fund for Affordable Homes
	  ► Introduction of Rent-to-Own (RTO) financing scheme. This will comprise up to RM10b in loans to be provided by financial institutions. Such loans will be supported by the Government via a guarantee of 30% or up to RM3b. The RTO scheme is for the purchase of first homes priced at up to RM500k.
	  ► Home Ownership Campaign – a discount of at least 10% by developers on qualified properties will be matched with stamp duty exemptions
	  ► From 2020, foreigners will be able to purchase condominiums or apartments in urban areas worth RM600k or more (reduced from a previous threshold of RM1m)
	  ► Youth Housing Scheme – offers a 10% loan guarantee through Cagamas, and RM200 monthly instalment assistance for the first two years, limited to 10,000 home units
	  ► For disposal of real property which was acquired prior to 2013 by Malaysian citizens or Permanent Residents, the acquisition price is substituted with the market value of such property on 1 January 2013.

Small and Medium Enterprises (SMEs)	► Provide 50% matching grant of up to RM5k per company (totaling RM500m over five years) for the subscription of electronic Point of Sales (e-POS), Enterprise Resource Planning (ERP), electronic payroll system, etc. for first 100,000 SMEs ► Expenses of up to RM1.5m incurred for listing of technology-based companies and SMEs on the ACE and LEAP markets of Bursa will be allowed a tax deduction ► Enhancement to Skim Jaminan Pinjaman Perniagaan (SJPP) – increase in Government guarantee to 80% and reduction of guarantee fees to 0.75% for Bumiputera SMEs, export-oriented SMEs and SMEs investing in automation and digitalization ► RM1b financing for Bumiputera SMEs, for example from SJPP and SME Bank ► RM300m fund to support Bumiputera SMEs, by way of an annual interest subsidy of 2% to reduce borrowing costs. Priority will be given to producers of halal products and manufacturers with high local content. ► RM445m grant for Bumiputera entrepreneurial development ► RM100m for Program Pembiayaan Usahawan Perusahaan Kecil Komuniti Cina via Bank Simpanan Nasional at 4% interest rate ► RM75m by SMECorp for capacity building and export focus for Bumiputera SMEs ► RM70m allocated to MDEC to set up one-stop Digital Enhancement Centers to facilitate financing and capacity building of businesses, especially SMEs

Tourism (including health tourism and hospitality)	► RM1.1b allocated to Ministry of Tourism, Arts and Culture including RM90m to drive awareness, promotions and programmes for the Visit Malaysia Year (VMY) 2020.
	► Amplify the economic benefits of VMY2020 through tax incentives for the arts and tourism sectors:
	  ► Income tax exemption for approved organizers
	  ► 100% income tax exemption or 100% Investment Tax Allowance (to be utilized against 70% of statutory income), for five years, for new investments in international theme park projects
	  ► Increase in tax deductions from RM700k to RM1m per year for companies sponsoring arts, cultural and heritage activities
	  ► Accelerated capital allowance for purchase of new locally-assembled excursion buses
	  ► 50% excise duty exemption for tour operators purchasing locally-assembled vehicles
	► RM100m for the construction of a new cable car system to Penang Hill
	► RM25m to Malaysian Healthcare Tourism Council (MHTC) to promote Malaysia as the preferred destination for health tourism

Other initiatives

Employment	► RM500m for a new SOSCO rehabilitation centre in Perak
	► RM6.5m over five years for the Malaysians@Work initiative:
	  ► Graduates@Work: RM500 per month wage incentive for graduates and RM300 per month hiring incentive for employers, for two years, where a graduate who was unemployed for more than 12 months is hired
	  ► Women@Work: RM500 per month wage incentive for women returning to the workforce and RM300 per month hiring incentive for employers, for two years, where women return to work after a year or more away. Further, income tax exemption for women returning to work after a career break is extended until 2023
	  ► Locals@Work: RM350 or RM500 per month wage incentive for Malaysians, for two years, depending on sectors. This applies to Malaysians who replace foreign workers. A further RM250 hiring incentive per month for employers, for two years.
	  ► Apprentice@Work: Additional allowance of RM100 per month for trainees on apprenticeships. Double tax deduction on expenses incurred by companies participating in Skim Latihan Dual Nasional (LSDN) is extended to include academic fields other than engineering and technology.
	► RM1.2k per month minimum wage in major cities effective 2020
	► Maternity leave to be increased from 60 to 90 days effective 2021
	► Eligibility for overtime extended to those earning less than RM4K per month (previously less than RM2k per month)
	► Improve protection and procedures for handling sexual harassment complaints
	► Introduction of new rules prohibiting discrimination on the basis of religion, ethnicity and gender
	► EPF to cover contract workers
	► SOCSO to be expanded to enable contributions by other self-employed groups across 18 key sectors

Research and Development (R&D)	► RM524m allocated to ministries and public agencies to intensify R&D in the public sector ► RM30m for R&D matching grants for academia to collaborate with industry to develop higher value-added downstream uses of palm oil ► RM10m to establish a Research Management Agency to centralize and coordinate the management of public research resources ► To establish a one-stop Innovation Office to promote commercialization of R&D by the public sector (research universities) and to transform IP into commercially exploitable opportunities

Social welfare	► To improve social benefits:
	  ► RM5b allocation for the Bantuan Hidup Scheme (BSH) for single individuals aged above 40 years and earning less than RM2k per month
	  ► RM575m socio-economic assistance to senior citizens and RM4.6m to the Senior Citizens Activity Centre
	  ► RM140m to provide and improve the welfare, assistance, overall economic development and education of, as well as infrastructure facilities for, the Orang Asli
	  ► RM80m for upgrading, repair and maintenance of 67 various institutions under the Department of Social Welfare
	  ► RM4.5m to Anjung Singgah for homeless Malaysians
	  ► RM300 for all disabled persons aged 18 years old and above
	  ► Tax deduction on donations by individuals to charitable and sports activities and projects of national interest will be increased to 10% of chargeable income
	  ► Allowing pre-retirement withdrawals from the Private Retirement Schemes for the purposes of healthcare or housing
	  ► From 1 January 2020, the coverage under the MySalam protection scheme will be extended to:
	  ► 45 illnesses (from 36)
	  ► Recipients up to 65 years old (from 55)
	  ► Those with gross annual income up to RM100k. They will receive a critical illness payout of RM4k and daily hospitalization income replacement of RM50 for up to 14 days

Other initiatives

Women development and welfare	► RM500m allocation for SJPP to provide a guarantee facility for women entrepreneurs
	► RM200m fund for women entrepreneurs, offering loans of up to RM1m per SME, where the Government will provide an annual interest subsidy of 2%
	► RM45m allocation to i-Suri programme, to supplement contributions made by husbands to housewives
	► RM20m allocation to extend the benefits under i-Suri via social safety coverage under SOCSO
	► RM10m allocation to promote women in sports
	► List of serious illnesses, for which income tax relief of up to RM6k is given on treatment costs, is expanded to include fertility treatment
	► EPF will introduce a new category of withdrawals, allowing withdrawals for fertility treatments such as in-vitro fertilization (IVF)
	► Improve working environment for women and parents:
	  ► RM30m fund to provide more TASKAs
	  ► Individual tax relief for nursery and kindergarten fees increased to RM2k (from RM1k)
	► Husbands may voluntarily elect to contribute 2% from their 11% EPF employee contribution to their wives' EPF account

Targeted fuel subsidy programme	RM2.2b for the proposed programme which will benefit more than 8m motorists. The programme includes the following:
	► Individuals who own not more than two cars and two motorcycles are eligible to receive Program Subsidi Petrol (PSP). PSP can only be claimed on one vehicle, which meets one of the criteria below:
	  ► A passenger car of 1,600cc engine capacity and below
	  ► A car above 1,600cc which is more than 10 years old
	  ► A qualified motorcycle which is 150cc and below
	  ► A motorcycle above 150cc which is more than seven years old
	► For eligible recipients of BSH, the petrol subsidy will be given via cash transfer as follows:
	  ► RM30 per month for car owners
	  ► RM12 per month for motorcycle owners
	► For motorists who are not BSH recipients, the petrol subsidy will be given via a special Kad95, which allows holders to enjoy a fuel subsidy of RM0.30 per litre on RON95 subject to the following:
	  ► Cars: Maximum 100 litres per month, or
	  ► Motorcycles: Maximum 40 litres per month
	► Any amount above RM2.08 per litre for RON95 will be subsidized
	► Motorists in Sabah and Sarawak will continue to enjoy a fuel price ceiling of RM2.08 per litre for RON95 and RM2.18 per litre for diesel

Key tax proposals

Making Malaysia the preferred destination for investment

- **Multinational corporations:** RM1b per year allocation for customized incentive packages for five years. This is a strategic push to attract targeted Fortune 500 companies and global unicorns in high technology, manufacturing, creative, and new economic sectors to Malaysia. To qualify, these companies must invest at least RM5b each, which will generate additional economic activities that will support our SMEs, create 150,000 high-quality jobs over the next five years and strengthen our manufacturing and service ecosystems.

- **Malaysian export-oriented businesses:** RM1b per year allocated for customized incentive packages for five years for companies that can prove their ability to grow and export their products and services globally

- **China-centric investments:** Establish a 'Special Channel' under InvestKL to attract investments from China

- **E&E sector:** To promote high value-added activities in the E&E sector and to help the sector transition to a 5G digital economy and Industry 4.0, the following have been proposed:
  - Income tax exemption of up to 10 years for E&E companies investing in selected knowledge-based services
  - Special Investment Tax Allowance of 50% on qualifying capital expenditure incurred within a period of five years, to be set-off against 50% of statutory income for each year of assessment, for companies whose Reinvestment Allowance period has expired

The above incentives will be considered in respect of applications received by MIDA from 1 January 2020 until 31 December 2021.

Taken together, these initiatives send a clear message to investors that Malaysia aims to be the preferred investment destination. The Government has set a cap of RM1b per year for each initiative. While this amount may look large initially, such an investment amount would only support approximately RM4b in profits annually. Given the size of the companies we are seeking to attract, we would expect that they would generate significant profits. How many companies can the Government support with this allocation and what happens when the allocations run out?

It is also worth mentioning that the Government has embarked on a comprehensive review and revamp of the existing tax incentive framework. The new framework is expected to be ready by 1 January 2021.

Indirect Tax

Whilst some were expecting the Goods and Services Tax (GST) to be reintroduced, or for the Sales Tax and Service Tax (SST) scope to be widened, neither of these was proposed. Instead, the Government decided to continue with its plan to introduce Service Tax on Digital Services to increase indirect tax revenue. The Government reiterated that GST had contributed significantly to higher prices, and by replacing it with SST, the country's inflation rate has reduced. Hence, GST will not be reintroduced.

Budget 2020 contains the following positive indirect tax measures:

- From a Sales Tax perspective, it has been proposed that full tax exemptions be granted to traders and manufacturers of exempted goods upon importation / purchase, without the requirement to reconcile the importation / purchase with the quantity of goods to be exported. This is effective from 1 July 2020. The introduction of this Approved Major Exporter Scheme should be beneficial to traders and manufacturers who are export-oriented. This initiative would assist them from a cash flow perspective when goods are imported.

- Introduction of deferred payment facility by the Royal Malaysian Customs Department to expedite the clearance process for cross-border movement of goods

- Intragroup exemption is relaxed by allowing the company to provide professional taxable services to a third party. This is provided that income from the third party does not exceed 5% of the total value of services provided by the company within 12 months. This is effective from 1 January 2020.

Previously, any services rendered to businesses outside the group (regardless of the amount) would invalidate the intra-group exemption. The relaxation of the intra-group exemption will allow more groups of companies to enjoy/preserve such exemption.

From a dispute resolution perspective, the Government will merge the Special Commissioner of Income Tax and Customs Appeal Tribunal into the Tax Appeal Tribunal, which will be in operation in 2021.

Key tax proposals

Innovation

Intellectual Property (IP)

- It is proposed that qualifying income generated from patents and copyright software be given 100% income tax exemption for a period of up to 10 years. This is an OECD-compliant incentive, such that a significant proportion of the actual R&D activities would need to be undertaken in Malaysia in order for the incentive to apply.

The above is similar to the "patent box" regimes being introduced globally to incentivize substance-based IP development activities. In order for this incentive to attract such activities to Malaysia, the Government will also need to encourage the hiring and development of the right talent. This could include providing training grants, developing facilities to recruit/train local talent and putting in place strict conditions for knowledge transfer and training when granting incentives to multinationals.

Digital

The initiatives proposed as part of the Government's vision to build Digital Malaysia include :

- RM25m to set up a contestable matching grant fund to spur pilot projects on digital applications such as drone delivery, autonomous vehicle, blockchain technology, and other products and services that leverage Malaysia's investments in fibre optics and 5G infrastructure
- RM20m to Malaysian Digital Economy Corporation (MDEC) to grow local champions in creating digital content, especially in e-Games, animation and digital

To facilitate this, it is important for the Government to ensure that the necessary infrastructure is in place and grants are distributed equitably to promote the development of new and emerging digital start-ups and SMEs. Similarly, the public and private sectors as well as consumers will have a part to play by actively participating in and embracing the move towards a digital economy.

Automation

- The application and incentive periods for Accelerated Capital Allowance (ACA) for automation equipment in the manufacturing sector i.e. (i) the first RM4m (for labour intensive industries) and (ii) the first RM2m (for non-labour intensive industries) have been extended to 31 December 2023. Companies in both categories are also eligible for income tax exemption equivalent to 100% of the ACA on automation equipment.
- This incentive now also applies to the services sector on the first RM2m of qualifying capital expenditure incurred. The application period is from 1 January 2020 until 31 December 2023.

Continuing focus on SMEs

SMEs make up 98.5% of the business establishments in Malaysia, which contributed 38.3% to the country's GDP in 2018. Under the Shared Prosperity Vision 2030, the Government aims to achieve the following targets:

- SME and micro businesses to contribute 50% to GDP
- To create 30% high technology companies from SMEs in the manufacturing and services subsectors

In order to achieve the above targets, the following measures have been proposed:

- The chargeable income threshold on which the 17% preferential tax rate applies be increased from RM500,000 to RM600,000. This is subject to the SME having paid-up capital of not more than RM2.5m and having annual sales of not more than RM50m. This proposal is effective from YA 2020.
- For Bumiputera SMEs, export-oriented SMEs and SMEs investing in automation and digitalization, the Government guarantee will be increased from 70% to 80% of loans and the guarantee fee will be reduced to 0.75%.
- Increase the grant ceiling for the Market Development Grant (MDG) initiative by Malaysia External Trade Development Corporation (MATRADE) from RM200,000 to RM300,000 per company
- Grant ceiling for participation in each export fair will be revised from RM15,000 to RM25,000.

Notwithstanding the above, the Government has proposed to increase the minimum wage rate in major cities to RM1,200 per month effective 2020. This will increase the operating cost of SMEs, especially those operating in labour-intensive industries. SMEs should consider automating some of their processes in order to reduce labour cost and enjoy tax incentives for automation.

Key tax proposals

Levelling up Human Capital

The proposals impacting individuals are as follows:

- Increase in personal tax rate from 28% to 30% on chargeable income exceeding RM2m. The 30% rate will also apply to non-resident individuals. These changes are effective from YA 2020.
- For disposals of real property acquired prior to year 2000 by Malaysian citizens and permanent residents, the acquisition price for Real Property Gains Tax (RPGT) purposes will be deemed at market value as at 1 January 2013. This is effective for disposals of real properties made from 12 October 2019.
- Introduction of a tax rebate for departure levies paid by outbound air passengers performing umrah and pilgrimage to holy places. This rebate can be claimed twice in a lifetime.
- Extension of the application period for the income tax exemption for women returning to the workforce. The exemption will now apply for applications received by TalentCorp up to 31 December 2023.
- Increase and expansion of scope for personal tax reliefs and deductions (fees paid for child care centres and kindergarten, medical expenses for fertility treatment, cash donations, cash *wakaf* and cash endowment) with effect from YA 2020
- Introduction of the Malaysians@Work initiative through Graduates@Work, Women@Work, Locals@Work and Apprentice@Work, which provide wage incentives to workers returning to the workforce, and hiring incentives to employers.

Whilst it may seem that the introduction of the new tax bracket for high-income earners was the main focus for increased tax collection, this measure is only estimated to affect 2000 taxpayers. Instead it is likely that higher tax collection will come from the increase in the number of taxpayers returning to the workforce through the Malaysians@Work initiatives.

Overall, these initiatives will also help address issues regarding graduate unemployment, inequality in employment and an over-dependence on low-skilled foreign workers.

Enhancing the tax administration system

Achieving a more efficient tax administration and collection system has been a key aim of the Government in recent years. This year, direct tax collection for individuals and companies increased by 6.1% and 6.7% respectively, surpassing GDP growth. Notwithstanding this, the Minister of Finance has stated that the country still has some way to go, since tax revenue relative to GDP is only at 13.1%. This is lower than countries such as Vietnam, South Korea, Poland and Chile.

Since Malaysia's participation in the Automatic Exchange of Information (AEOI) in 2018, the MIRB has been receiving financial information of Malaysian individuals with offshore bank accounts from other participating jurisdictions, via the Common Reporting Standard (CRS). With the information received, the MIRB has identified approximately 80,000 taxpayers for review. These measures coupled with the Special Voluntary Disclosure Programme that ended on 30 September 2019 have brought about an increase in direct tax revenue collection of approximately RM11b.

In Budget 2020, the Government has proposed to introduce mandatory Tax Identification Number (TIN) registration for all taxpayers. Under this measure, Malaysians above the age of 18 and corporate bodies registered in Malaysia will be assigned a TIN beginning January 2021. As part of the implementation, discussions with all stakeholders will commence in 2020.

Whilst the implementation of TIN will certainly increase the number of registered taxpayers, how the Government integrates this digitalized tax identification system with other Government and private sector databases e.g. bank records, will determine whether this initiative achieves its desired objectives.

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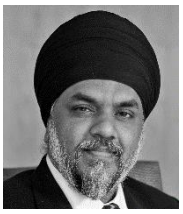

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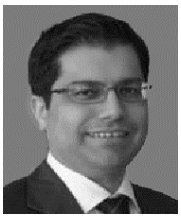

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