

Rödl & Partner

MALAYSIA NEWS FLASH

THINKING GLOBALLY

Issue:
October 2019

Latest News on Law, Tax and Business in Malaysia

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Malaysia's Budget 2020

The Malaysian Government presented the 2020 Budget in parliament on 11 October 2019, headlined "Driving Growth and Equitable Outcomes Towards Shared Prosperity", which is set towards the new "Shared Prosperity Vision 2030".

The Budget focuses on four key objectives with the following strategies.

Objectives	Strategies
DRIVING ECONOMIC GROWTH IN THE NEW ECONOMY AND DIGITAL ERA	Making Malaysia the Preferred Destination for Investment
	Accelerating the digital economy
	Strengthening access to financing for businesses
	Strengthening economic diversity
INVESTING IN MALAYSIANS: LEVELLING UP HUMAN CAPITAL	Enhancing job opportunities for Malaysians
	Modernising the labour market
	Investing in education and talent
CREATING A UNITED, INCLUSIVE AND EQUITABLE SOCIETY	Inclusive development
	Towards better health services
	Enhancing the transportation ecosystem
	Promoting access to housing
	Unity through sports
	Promoting environmental sustainability
REVITALISATION OF PUBLIC INSTITUTIONS AND FINANCES	Commitment to Fiscal Consolidation
	Strengthening Institutions, Governance & Integrity

ECONOMIC OUTLOOK

Despite global uncertainties, Malaysia's economy continues to show resilience, with the GDP growth for the first half of 2019 reaching 4.7 per cent. This is expected to slightly improve further in 2020 to 4.8 per cent. The private sector, namely the construction and services sectors, will continue to be a growth driver for Malaysia.

At the same time, inflation has reduced to its lowest level of only 0.2 per cent in the first half of 2019, following the abolishment of GST in

September 2018. The inflation rate is expected to reach 0.9 per cent and 2 per cent for 2019 and 2020 respectively.

In this newsflash, we will identify the key focus areas of the Budget as well as key tax proposals.

KEY FOCUS AREAS

Malaysia as a Destination for Investment

- Customised packaged incentives of 1 billion MYR to be granted annually over the next five years for:
 - Fortune 500 companies in high technology, manufacturing, creative and new economic sectors, that invest at least 5 billion MYR in Malaysia;
 - Competitive companies that grow and export products and services globally;
- 10 million MYR allocated to the Ministry of International Trade and Industry ("MITI") to expedite the approval of investments as well as focus more on post-approval investment monitoring and realisation;
- 50 million MYR to improve the transportation infrastructure to Port Klang as a regional maritime center and cargo logistics hub.

Digitalisation

- Implementation of NATIONAL FIBERISATION & CONNECTIVITY PLAN ("NFCP") over the next five years with comprehensive coverage of high speed and quality digital connectivity nationwide;
- 500 million RM matching grant for SME's to digitalise the way they operate limited to the first 100,000 SME's;
- 550 million RM SMART AUTOMATION matching grants to encourage business process automation;
- a DIGITAL BANK LICENSING FRAMEWORK will be finalised by the Central Bank and opened for application in the first half of 2020;
- DIGITAL SOCIAL RESPONSIBILITY ("DSR") – tax deduction granted on the contribution of businesses to the development of the digital economy and the improvement of the digital skills of the workforce (e.g. technology scholarships and training);
- 50 million RM 5G ECOSYSTEM DEVELOPMENT GRANT to become 5G ready.

Financing

- 1 billion MYR 1:5 matching guarantee to be provided for private equity funds to invest in Malaysian construction consortiums to bid for projects and concessions overseas;
- Formation of a new financial institution by way of merger between Bank Pembangunan Malaysia, Danajamin Nasional, SME Bank and the Export-Import Bank of Malaysia to strengthen the development of a finance ecosystem;
- Establishment of the Special Committee on Islamic Finance to develop the Islamic Finance ecosystem;
- Tax exemption for fund management companies managing Shariah compliant funds extended until Year of Assessment ("YA") 2023.

Green Energy

- The Malaysian Government will accelerate the implementation of Energy Performance Contracting for Government buildings, prioritising hospitals and education institutions;
- Green Investment Tax Allowance and Green Income Tax incentives will be extended until 2023;
- Implementation of B20 biodiesel for the transport sector to be implemented by the end of 2020.

Intellectual Property

- Intellectual Property generated income derived from patents and copyright software will be granted tax exemption for a period of up to ten years;
- ENHANCING RESEARCH & DEVELOPMENT ("R&D") in the public sector with an allocation of 524 million MYR to Ministries and Public Agencies;
- Promoting the commercialisation of R&D from the public sector and research universities.

Human Capital

- Malaysians@Work initiative to improve the employment opportunities for unemployed graduates, women and Malaysians by providing an up to 500 MYR per month wage incentive, and an up to 300 MYR per month hiring incentive for employers;
- Increasing the minimum wage in major cities to 1,200 MYR per month, effective 2020;
- Maternity leave to be increased from 60 days to 90 days effective 2021;
- Those earning less than 4,000 MYR per month will be eligible for overtime claims.
- EMPLOYEES PROVIDENT FUND ("EPF") will extend coverage to contract workers, for those under Contract for Services and Professionals,

starting with workers in the arts and entertainment industry.

Housing

- RENT TO OWN ("RTO") - Financing of up to 10 billion MYR will be provided by the financial institutions and the Government via a 30 per cent or three billion MYR guarantee for the purchase of first home property with a price of up to 500,000 MYR;
- The threshold on high rise property prices in urban areas for foreign ownership will be reduced from 1 million MYR to 600,000 MYR in 2020.

KEY TAX PROPOSALS

Corporate Income Tax

- SMEs and Limited Liability Partnerships (“LLPs”) will be able to enjoy a PREFERENTIAL INCOME TAX RATE OF 17 PER CENT for the FIRST 600,000 MYR OF CHARGEABLE INCOME provided that their ANNUAL SALES DO NOT EXCEED 50 MILLION MYR with effect from YA 2020;
- Companies are eligible to claim special allowances for SMALL VALUE ASSETS with a value of up to 2,000 MYR per asset. For non-SME’s, this option is limited to 20,000 MYR per YA;
- Special tax deduction for SECRETARIAL AND TAX FILING FEES will be limited to a combined 15,000 MYR per YA.

Tax Incentives

- Companies in the ELECTRICAL AND ELECTRONICS SECTOR that have fully utilised the 15 year Reinvestment Allowance, will be granted an Investment Tax Allowance (“ITA”) of 50 per cent on qualifying capital expenditure (“QCE”) incurred within five years, to be set-off against 50 per cent of statutory income for each YA.
- 100 PER CENT ACCELERATED CAPITAL ALLOWANCE (“ACA”) FOR AUTOMATION EQUIPMENT purchased by manufacturing companies will be extended for another three years until 2023;
- 70 PER CENT TAX EXEMPTION for up to ten years to be granted for SOLAR LEASING ACTIVITIES certified by the Sustainable Energy Development Authority (“SEDA”);
- FULL INCOME TAX EXEMPTION is granted to entities which organise CONFERENCES IN MALAYSIA BRINGING AT LEAST 500 FOREIGN PARTICIPANTS (provided that the promoting and organising of conferences is not their main activity);
- Tax deductions granted to companies sponsoring arts, cultural and heritage activities in Malaysia will be increased from 700,000 MYR to 1 million MYR per year;
- Tax deduction of up to 1.5 million MYR to be granted on listing costs for ACE Market or LEAP Malaysia, covering fees to authorities, professional fees, underwriting, placement and brokerage fees.

Whilst the budget proposes the expansion and extension of existing tax incentives, a comprehensive review of the existing tax incentive framework is being carried out by the Malaysian Government. A new tax incentive framework is expected to be ready by January 2021.

Personal Income Tax

- Resident individuals with a taxable income EXCEEDING 2 MILLION MYR, AND NON-RESIDENT INDIVIDUALS will be taxed at 30 per cent with effect from YA 2020;
- Income tax exemption for WOMEN RETURNING TO WORK AFTER A CAREER BREAK is to be extended until 2023;
- Individual tax relief for fees paid by parents to registered nurseries and kindergartens will be increased from 1,000 MYR to 2,000 MYR with effect from YA 2020;
- Income tax relief of up to 6,000 MYR granted on expenses incurred for medical treatment of serious illnesses will be expanded to include expenses incurred on fertility treatments with effect from YA 2020;
- Tax deduction on donations for charitable, sports and national projects will be capped at 10 per cent of the aggregate income with effect from YA 2020 (increase from 7 per cent).

Sales and Services Tax (“SST”)

- APPROVED MAJOR EXPORTER SCHEME - Traders and manufacturers of exempted goods with ANNUAL EXPORT SALES OF AT LEAST 80 PER CENT are qualified to apply for a FULL SALES TAX EXEMPTION on the importation and purchase of goods or raw materials, and are not required to determine the quantity of goods to be exported at the time of importation or purchase of goods effective from 1 July 2020;

GROUP RELIEF for service tax is to be allowed for taxable professional services (except for employment and security services) provided to a third party, subject to the condition that the value of services provided does not exceed 5 per cent of the total value of services provided within 12 months, effective from 1 January 2020;

- TRAINING AND COACHING SERVICES PROVIDED TO DISABLED PERSONS to be exempted from service tax, effective from 1 January 2020.

Other Taxes

- For REAL PROPERTY GAINS TAX (“RPGT”) on disposals of real properties acquired prior to the year 2023, executed from 12 October 2019 onwards, carried out by Malaysian citizens and permanent residents after 5 years from the date of acquisition, the acquisition price used to compute the chargeable gain/loss shall be calculated based on the MARKET VALUE AS AT 1 JANUARY 2013;
- NO 50 PER CENT STAMP DUTY REMISSION for transfer by way of love and affection by NON-

MALAYSIAN CITIZENS effective as of 1 January 2020;

- Stamp duty on foreign currency loan agreement will be increased from 500 MYR to 2,000 MYR effective from 1 January 2020;
- Full stamp duty exemption for the transfer of the first residential home under the Rent to Own Scheme with a price of up to 500,000 MYR; applicable for Sales and Purchase Agreements and rental agreements executed from 1 January 2020 to 31 December 2022.

Tax Administration

- Starting January 2021, Malaysians above the age of 18 and corporate entities will be assigned a TAX IDENTIFICATION NUMBER OR TIN;
- The Special Commissioner of Income Tax and Customs Appeal Tribunal will be merged into

the Tax Appeal Tribunal, which will come into operation in 2021.

OUR VIEW

Budget 2020 aims to promote the economic growth by investing in the digitalisation and the globalisation of businesses, whilst at the same time focusing on improving the well-being of the people.

We hope that this comprehensive review has provided you with a more thorough insight on what is to come, and its implications on you and your business in Malaysia.

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