

# Rödl & Partner

NEWSFLASH MALAYSIA

GROWING STRATEGICALLY

Issue:  
November  
2021

Latest News on Law, Tax and Business in Malaysia

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## → Malaysia Budget 2022

The Malaysian Government presented the 2022 Budget in Parliament on 29 October, themed “A Prosperous Malaysian Family”, as Malaysia prepares to enter the recovery phase of Covid-19.

The Budget 2022 focusses on 3 main goals:

- Rakyat’s (People’s) well being
- Resilient Businesses
- A Prosperous and Sustainable Economy

GOALS	STRATEGIES
RAKYAT’S WELL BEING	Restoring lives and livelihoods
	Cultivating Malaysia Family
	Building a conducive living environment
Resilient Businesses	Revive business capabilities
	Driving strategic investments
	Recovery for targeted sectors
A Prosperous and Sustainable Economy	Sustainability agenda
	Bridging the economic gap
	Fiscal consolidation and revenue sustainability
	Supporting public service delivery

## → Economic Outlook 2022

As Malaysia journeys into a post-pandemic economic recovery phase, the Malaysian economy is expected to strengthen its GDP between 5.5 per cent to 6.5 per cent (from 3 per cent – 4 per cent in 2021) through significant improvement in global trade, sturdy commodity prices, an efficient management of the pandemic and gradual improvement in consumer and business sentiments.

Gross exports are expected to grow by 1.5 per cent in 2022, after rising to 17.1 per cent in 2021, while the inflation rate is expected to moderate at 2.1 per cent next year (2.4 per cent end of 2021). It is heartening to note that the unemployment rate is expected to drop to 4 per cent in 2022 from 4.6 per cent - 4.8 per cent in 2021 with a job guarantee initiative to ensure 600,000 job openings with a budget allocation of RM4.8 billion ringgit.

Domestic demand is expected to more than double to up to 6.6 per cent (3.1 per cent in 2021). As more sectors are operating normally, the economy is expected to improve along with a national mass vaccination program. The economic growth (anchored by public investment and private consumption) is expected to be led by construction and services industry.

### Key focus areas

The Budget 2022 announces the highest budget allocation in Malaysian history of RM332.1 billion, covering various areas from job security, capital spending, Environmental Social and Governance (ESG) to digital policy. The budget’s focus on education, healthcare,

sustainability, diversity, SMEs and the B40 group is welcomed.

## Rakyat's Well being

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### *Expand supply of technical, professional and skilled workforce*

- RM6 billion for the implementation of various initiatives to strengthen the Technical and Vocational Education and Training (TVET). RM200 million allocated for collaboration with industries;
- RM11.4 billion allocation to produce more Bumiputera professionals. Out of this allocation, RM6.6 billion is allocated for educational purposes and RM4.8 billion is set aside for capacity building and funding programs.

### *Reduction of cost and risk of new employment*

- RM4.8 billion allocation to implement Jamin Kerja Keluarga Malaysia, which will guarantee 600,000 employment opportunities;
- The existing initiative of providing enhanced Job Search Allowance under SOCSO to both, contributors and non-contributors, will continue with a RM300 million allocation.

### *Improve board and vendor diversity*

- Mandatory for all public listed companies (PLC) to have one female director in their composition of board of directors;
- Opportunity to collaborate with the government as part of corporate social responsibility programs to develop underserved vendor groups (such as women entrepreneurs and Bumiputera youth contractors).

### *Sustain consumer consumption*

- RM8.2 billion cash assistance to estimated 9.6 million recipients who are single parent, senior citizens, and eligible singles under Bantuan Keluarga Malaysia initiative;
- Extension of sales tax exemption on Completely Knocked Down (CKD) and Completely Built Up (CBU) passenger vehicles including MPVs and SUVs to reduce the cost of vehicle ownership.

### *Home ownership support*

- RM1.5 billion allocation to continue the government's efforts to build quality housing for low income groups which includes the following initiative:
  - To build 11,800 apartments units under the Perumahan Rakyat Program;

- To construct and repair 14,000 houses under Bantuan Rumah Program;
- To build 3,000 house units under the Rumah Mesra Rakyat Program;

- RM2 billion allocated for Skim Jaminan Kredit Perumahan to improve access on housing loans for qualifying individuals without fixed incomes.

## Resilient businesses

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### *Advancement in technology and digitalization*

- Government Linked Companies (GLCs) to invest RM30 billion in targeted areas such as renewable energy, supply chain modernization and 5G infrastructure;
- RM 700 million allocation for the continuation of the JENDELA project for broadband coverage (including full deployment of 5G which will follow upon the robust platform for 4G coverage as soon as it is achieved);
- RM423 million allocation to intensify R&D activities under MOSTI and KPT (the allocation includes RM295 million to public universities for research, innovation and industry collaborations);
- RM100 million worth of matching grant for Bumiputera SMEs to explore aerospace business opportunities;
- RM100 million worth of matching grants for 200 companies in the manufacturing and services sector to increase productivity via automation of business processes through Smart Automation;
- Launching of National Digital Identity and Digital First Program as part of the MyDIGITAL Initiative to enhance connectivity between transaction systems, to encourage safe digital transactions, and to encourage the usage of cloud computing in the public sector.

### *Expand access to finance*

- New forms of funding will be introduced such as
  - RM3 billion allocation for injection of additional funds through equity instruments by Khazanah Nasional Berhad to assist Covid-19 affected companies which are listed on the Bursa Exchange;
  - RM1 billion worth in Bank Negara Malaysia's Business Recapitalization Fund;
  - RM500 million allocation for the Rehabilitation and Support through Equity scheme by Malaysia Development Bank (BPMB);

- Improvement of guarantee scheme through
  - Increase in business financing guarantee limit by up to RM10 billion;
  - Mandating 80 per cent financing guarantee for
    - Up to RM20 million on existing financial facilities to be restructured and rescheduled (R&R).
    - New financing facilities.

### *Supporting MSMEs*

- RM 14.2 billion worth of funds to be available for SMEs;
- RM5 billion to empower Micro, Small and Medium Entities (MSMEs) through GLC Network via initiatives such as advisory and financial support services.

### *Reinvigorate sectors*

- RM6 billion allocation to serve as a catalyst towards the growth of new high value industries through Impact fund under Khazanah Nasional Berhad;
- Up to RM2 billion special fund to attract strategic foreign investments by multinational companies that complement industry value chain, drive knowledge based jobs creation and develop opportunities for local SMEs;
- Specific sector support
  - Tourism – RM1.6 billion worth of initiatives to support the tourism sector;
  - Retail – RM250 million allocation to help local enterprises switch to digital services via Shop Malaysia Online and Go e-commerce Onboarding Program;
  - Creative – RM188 million allocation to revive creative industry's activities by intensifying various initiatives such as Digital Content Fund, Digital Multimedia Content project, Film Incentive.

## A Prosperous and sustainable Economy

### *Encourage low carbon transition*

- Voluntary Carbon Market (VCM) initiative will be launched;
- RM1 billion fund value for Low Carbon Transition Facility will be provided by BNM;
- Import duty, excise duty, sales tax and road tax exemption for Electronic Vehicles.

### *Protect environment and empower community*

- Sustainability sukuk of up to RM10 billion will be issued;
- RM450 million to various ministries to implement several environmental initiatives;
- RM100 million matching grant for NGOs.

### *Developing and maintaining infrastructure*

- RM3.53 billion for various infrastructure projects including Sabah Pan Borneo Highway, Jenang Transfer, Central Spine Road and Rantau Panjang Floodwall;
- RM200 million allocation to set up the Infrastructure Facilitation Fund 3.0 to further boost high impact infrastructure development activities through Public-Private Partnerships.

### *Pursuing regional developments*

- RM690 million for the five regional economic development corridors, comprising six new projects and 66 extension projects such as the Smart Agriculture project in Igan, Sarawak;
- RM5.2 billion and RM4.6 billion for development expenditure allocation for Sabah and Sarawak respectively among others for implementation of water, electricity, and road infrastructure projects as well as for education and health facilities.

### *Improving efficiency in public spending*

- Fiscal Responsibility Act will be introduced with the aim to improve governance, accountability and transparency in the country's fiscal management;
- Public expenditure review will be conducted in collaboration with the World Bank in order to ensure efficiency and effectiveness of public spending.

## → Key Tax Proposals

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### Corporate tax

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- Removal of the current foreign sourced income tax exemption (not applicable to resident companies on a business of banking, insurance or sea/air transport). With this, effective 1 January 2022, Malaysia income tax will be applicable on income sourced outside Malaysia (foreign sourced income) when it is received in Malaysia;
- A one off additional 9 per cent corporate income tax on chargeable income of all companies in excess of RM100million only in Year of Assessment (YA) 2022;
- It is proposed that a Tax Identification Number (TIN) will be implemented commencing from year 2022 in line with Malaysia's efforts to improve tax administration and to expand the income tax base effective year 2022;
- A Tax Compliance Certificate issued by the Inland Revenue Board of Malaysia will be made a prerequisite for companies intending to participate in Government procurement, effective 1 January 2023;
- Extension of carry forward tax losses by companies to a maximum of 10 consecutive years, compared to the existing limit of 7 years, effective YA 2019.

### Incentive

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- Extension of existing Additional Special Reinvestment Allowance (ASRA) (currently up to YA 2022) for another 2 years for any Malaysian company having exhausted their existing 15 year Reinvestment Allowance (RA) and special RA. The extension provides ASRA for a total period of 5 years effective from YA 2023 to YA 2024;
- Green technology incentives is expanded to include Rainwater Harvesting System (RHS), applicable for applications submitted to MIDA from 1 January 2022 until 31 December 2023, as follows:
  - Green investment tax allowance of 100 per cent on capital expenditure for qualifying RHS activities which can be set off against 70 per cent of statutory income; or
  - Green Investment Tax Exemption of 70 per cent of statutory income for qualifying RHS services.
- Income tax exemption on all income received by an accredited Social Enterprise for up to 3 YAs

based on the validity period of the Social Enterprise Accreditation (applicable for applications submitted to the Ministry of Finance from 1 January 2022 to 31 December 2023);

- It is proposed that new tax incentives for activities under the Digital Ecosystem Acceleration Scheme (DESAC), applicable for applications submitted to MIDA between 30 October 2021 to 31 December 2025, as follows:
  - Digital Technology Provider
    - New company - Income tax rate of 0 per cent to 10 per cent for up to 10 years;
    - Existing company that diversifies in new service activities or new service agreements - income tax rate of 10% per cent for up to 10 years.
  - Digital infrastructure provider
    - Investment tax allowance (ITA) of 100% on capital expenditure for qualifying activities for up to 10 years. This allowance can be set off against up to 100 per cent statutory income.

- Double tax deduction granted on eligible expenses to companies implementing a Structured Internship Program (SIP) approved by Talent Corporation Malaysia Berhad has now been extended to students at the academic levels of Master's Degree, Professional Certificate and Malaysian Skills Certificate Levels 1 and 2, effective from YA 2022 to YA 2025;
- Double tax deduction on qualifying expenses relating to scholarships have now been expanded to cover all fields of study at the Technical and Vocational level, Diploma, Bachelor's Degree, Bachelor and Doctorate levels, effective from YA 2022 to YA 2025.

### Indirect tax

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- The Royal Malaysian Customs Department is introducing a Special Voluntary Disclosure Program (SVDP) in phases with the following penalty remission incentives:
  - First phase - remission on penalties of up to 100 per cent; and
  - Second phase - Remission of penalties of up to 50 per cent.



- The existing sales tax exemption of 100 per cent on CKD passenger motor vehicles and 50 per cent on new and used imported CBU passenger motor vehicles is extended commencing 1 January 2022 to 30 June 2022.
  - Encourage Electric Vehicle (EV) adoption
    - Exemption of 100 per cent import duty on imported components for locally assembled EVs effective from 1 January 2022 to 31 December 2025;
    - Exemption of 100 per cent excise duty and sales tax on locally manufactured EVs effective from 1 January 2022 to 31 December 2025;
    - Exemption of 100 per cent import duty and excise duty on imported CBU EVs effective from 1 January 2022 to 31 December 2023.
  - The stamp duty rate on contract notes (relating to the trading of listed shares) has been increased from the previous rate of 0.1 per cent to a higher rate of 0.15 per cent (i.e. RM1.50 for every RM1,000). In addition, it is proposed that the stamp duty limit of RM200 per contract note now will be abolished effective 1 January 2022;
  - Service tax exemption is granted to both, service providers and recipients of stock trading related brokerage in relation to the trading of shares listed on Bursa Malaysia effective 1 January 2022;
  - In facilitating alternative financing for MSMEs and reducing financing costs, 100 per cent stamp duty exemption will be granted on P2P loan / financing arrangements executed from 1 January 2022 to 31 December 2026 between PMKS and the investors for financing made through P2P platforms (recognized by the Securities Commission of Malaysia);
  - Sales tax will be imposed on low value goods not exceeding RM500 that are sold online and imported using air courier service into Malaysia. The exemption currently available under Item 24, Schedule A, Sales Tax (Persons Exempted from Payment Of Tax) Order 2018 will be cancelled effective from 1 January 2023;
  - Service tax will be charged on the delivery services provided by any service provider including e-commerce platform (excludes food and beverage delivery services as well as logistic services) effective from 1 July 2022;
  - Imposition of excise duty on sweetened beverages to be expanded to pre-mixed preparation products e.g. chocolate or cocoa based, malt, coffee and tea at RM0.47 per 100grams based on a prescribed threshold of sugar content effective 1 April 2022;
  - Imposition of excise duty to be expanded to liquid or gel products containing nicotine which are used in electronic cigarettes and vape at RM1.20 per milliliter, effective 1 January 2022;
  - Excise duty for nicotine free liquid products or gels used in electronic cigarettes and vape will also be increased from RM0.40 per milliliter to RM1.20 per milliliter, effective 1 January 2022.
- ### Individual tax
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- Personal tax relief of up to RM2,500 to be granted to resident individuals in respect of cost of installation, lease and purchase including hire-purchase of equipment and subscription fee for EV charging services effective for YA 2022 and YA 2023;
  - Personal tax relief to the amount of RM1,000 on any course of study undertaken for the purpose of upskilling or self-enhancement recognized by the Director General of Skills Development under the National Skills Development Act 2006 [Act 652] increased to RM2,000 effective for YA 2022 and YA 2023;
  - Expanded scope of relief (in respect of medical examination) to include expenses incurred for cost of examination or consultancy relating to mental health by approved institutions effective YA 2022;
  - Personal tax relief of RM4,000 for an individual's contribution to EPF is proposed to be extended to cover voluntary contributions effective YA 2022;
  - Personal tax relief on domestic tourism expenses incurred extended for YA 2022;
  - Tax relief of up to RM7,000 for course fees with any approved professional body including professional courses in accounting, finance and ESG related.
- ### Others
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- Reversion of the RPGT rate from 5 per cent to 0 per cent on gains on disposal of chargeable assets (i.e. real property and share in RPC) in the 6<sup>th</sup> year onwards by Malaysia resident individuals, permanent residents and non-corporates effective 1 January 2022;
  - Extension of the exemption of tourism tax imposed on foreign tourists staying in accommodation premises under the Tourism Tax Act 2017, commencing 1 January 2022 to 31 December 2022;
  - Extension of the exemption of entertainment duty on admission fees to entertainment premises such as theme parks, performance stages,

sport and competition events and movie theatres in the Federal Territories commencing 1 January 2022 to 31 December 2022.

## → Our view

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As Malaysia transitions to the post pandemic recovery phase, Budget 2022 proposes a balanced set of measures to strengthen recovery, to build resilience and drive reforms.

The proposal which would be concerning certain taxpayers would be the proposed 33 per cent corporate income tax rate on chargeable income over RM100 million for YA2022, and the removal of the tax exemption on foreign sourced income received in Malaysia.

The removal of the tax exemption on foreign sourced income is a landmark change for Malaysia from a territorial tax system to a quasi-territorial tax system.

While the proposal allows for a wider tax base and would increase short term tax collection, however, the long term strategic position and long term measures for Malaysia should be considered and its competitiveness should be carefully reviewed to sustain growth, more so during these turbulent times.

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## Imprint

Malaysia News Flash, Issue November 2021

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