Malaysia Budget 2020

This Budget Adviser provides details on the various tax measures that were announced in the 2020 Budget.

11 October 2019

Contents

Individual tax

1. Review of income tax rate for resident individual

Currently, the income tax structure for resident individual is based on progressive rates ranging from 0% to 28% on chargeable income.

To ensure a more progressive individual income tax structure, it is proposed that chargeable income band exceeding RM2,000,000 be introduced and income tax rate for resident individual with chargeable income of more than RM2,000,000 be increased by 2 percentage points as follows:

Chargeable Income (RM)	Current Tax Rate (%)	Proposed Tax Rate (%)
0 – 5,000	0	0
5,001 – 20,000	1	1
20,001 – 35,000	3	3
35,001 – 50,000	8	8
50,001 – 70,000	14	14
70,001 – 100,000	21	21
100,001 – 250,000	24	24
250,001 – 400,000	24.5	24.5
400,001 – 600,000	25	25
600,001 – 1,000,000	26	26
1,000,001 – 2,000,000	28	28
Exceeding 2,000,000	**28**	**30**

Individual tax

1. Review of income tax rate for resident individual (cont'd)

As for a non-resident individual, it is proposed that the current fixed income tax rate of 28% be increased by 2 percentage points to 30%.

Effective date : From year of assessment 2020

2. Expansion of the scope of income tax relief for medical expenses

Currently, income tax relief of up to RM6,000 is given to taxpayers on medical expenses for serious diseases for self, spouse and child. This tax relief shall to be claimed with proof of receipts and certification issued by medical practitioners registered with the Malaysian Medical Council. This tax relief includes expenses of up to RM500 for full medical check-up.

To reduce the financial burden of married couples in seeking fertility treatment, it is proposed that the scope of income tax relief on medical expenses be expanded to cover the cost of fertility treatment.

Effective date : From year of assessment 2020

3. Increase in the limit of tax relief for fees paid to childcare centres and kindergartens

Currently, income tax relief of up to RM1,000 is given to individual taxpayers who enrol their children aged up to 6 years in childcare centres or kindergartens registered with the Department of Social Welfare or the Ministry of Education. This relief can only be claimed by either parent of the child.

To reduce the financial burden of parents in providing childcare and early childhood education, it is proposed that the above tax relief be increased from RM1,000 to RM2,000.

Effective date : From year of assessment 2020

Individual tax

4. **Income tax rebate for departure levy imposed on outbound air passenger performing *Umrah* and Pilgrimage to holy places**

Currently, departure levy is imposed on outbound air passengers beginning 1 September 2019 as follows:

Flight Class	Destination / Rate	
	ASEAN (RM)	Other than ASEAN (RM)
Economy	8	20
Other than Economy	50	150

Departure levy for outbound air passengers performing Hajj is borne by Lembaga Tabung Haji. However, departure levy for outbound air passengers performing *umrah* and pilgrimage to holy places is borne by themselves.

Taking into consideration that *umrah* and pilgrimage to holy places are performed for religious purposes, it is proposed that the individual income tax rebate equivalent to the amount of levy paid be given and can be claimed twice in a lifetime. The rebate is to be claimed with proof of boarding pass and subject to either one of the following:

i. *umrah* visa; or

ii. confirmation letter on pilgrimage to holy place from religious body recognised by the Committee for the Promotion of Inter Religious Understanding and Harmony Among Adherents, Department of National Unity and Integration, Prime Minister's Department.

Effective date : From year of assessment 2019

5. **Extension of period of tax incentive for women returning to work after career break**

Currently, income tax exemption is given on employment income for a maximum of 12 consecutive months to women who return to work after a career break. This income tax exemption is to be claimed in the year of assessment 2018 to the year of assessment 2020.

This incentive is applicable for applications received by Talent Corporation Malaysia Berhad (TalentCorp) from 1 January 2018 to 31 December 2019.

To encourage more women who are on a career break to return to work, it is proposed that the existing tax incentive be extended for a period of 4 years.

Effective date : For applications received by TalentCorp from 1 January 2020 until 31 December 2023

Corporate tax

1. Review of income tax treatment for Small and Medium Enterprises

Currently, a company with paid-up capital of up to RM2.5 million or a limited liability partnership (LLP) with total contribution of capital of up to RM2.5 million is categorised as Small Medium Enterprises (SMEs) and subjected to income tax rate of 17% on chargeable income up to RM500,000. The remaining chargeable income is taxed at 24%.

To further support the growth of SME and to ensure the lower income tax rate benefits only to eligible SME, it is proposed that:

i. the chargeable income limit which is subject to 17% tax rate be increased from up to RM500,000 to up to RM600,000; and

ii. only companies with paid-up capital or LLP with capital contribution of up to RM2.5 million and having an annual sales of not more than RM50 million are eligible for this tax treatment.

Effective date : From year of assessment 2020

2. Review of capital allowance for Small Value Assets

Currently, capital allowance on Small Value Assets (SVAs) not exceeding RM1,300 each is eligible for 100% capital allowance claim with a limit of up to RM13,000 for each year of assessment. Small and Medium Enterprises (SMEs) are eligible to claim 100% capital allowance on SVA without any limit.

To improve the tax treatment on SVA, it is proposed that:

i. the value of each asset be increased from RM1,300 to RM2,000 for the purpose of claiming 100% capital allowance by SME and non-SME; and

ii. the limit of qualifying capital expenditure to be claimed by non-SME be increased from RM13,000 to RM20,000 for each year of assessment.

Effective date : From year of assessment 2020

Corporate tax

3. Extension of tax treatment for Real Estate Investment Trusts

Currently, investors in Real Estate Investment Trusts (REITs) are subject to the following tax treatment:

i. resident corporate investors receiving profit distribution from REITs listed on Bursa Malaysia are subject to prevailing corporate tax rate;

ii. non-resident corporate investors receiving profit distribution from REITs listed on Bursa Malaysia are subject to a final withholding tax at the prevailing corporate tax rate;

iii. foreign institutional investors, particularly pension funds and collective investment funds receiving profit distribution from REITs listed on Bursa Malaysia are subject to a final withholding tax of 10% from the year of assessment 2009 until year of assessment 2019; and

iv. non-corporate investors including resident and non-resident individuals and other local entities receiving profit distribution from REITs listed on Bursa Malaysia are subject to a final withholding tax of 10% from the year of assessment 2009 until year of assessment 2019.

To further promote the development of REITs listed on Bursa Malaysia, it is proposed that the existing tax treatment be extended for a period of 6 years.

Effective date : From year of assessment 2020 until year of assessment 2025

4. Extension of period of tax incentive for issuance of retail *Sukuk Wakalah*

Currently, expenses incurred in issuing *Sukuk* under the principles of *Ijarah* and *Wakalah* are eligible for income tax deduction. A tax deduction is also extended to the following additional costs incurred on the issuance of retail *Sukuk* under the principles of *Ijarah* and *Wakalah*:

i. professional fees relating to due diligence, drafting and preparation of prospectus;

ii. Securities Commission of Malaysia prospectus registration fee;

iii. Bursa Malaysia processing fee and initial listing fee;

iv. Bursa Malaysia new issue crediting fee;

v. primary distribution fee;

vi. printing costs of prospectus; and

vii. advertisement cost of prospectus.

The above tax incentive is effective from the year of assessment 2019 until year of assessment 2020.

To further promote the issuance of *Sukuk* under the principle of *Wakalah*, it is proposed that the existing tax incentives be extended for a period of 5 years.

Tax deduction for issuance cost of *Sukuk* and additional cost of retail *Sukuk* under the principle of *Ijarah* are eligible to be claimed until year of assessment 2020.

Effective date : From year of assessment 2021 until year of assessment 2025

Corporate tax

5. Extension of period of tax incentive on issuance of sustainable and responsible investments *Sukuk*

Currently, tax deduction is given on the issuance cost of Sustainable and Responsible Investments (SRI) *Sukuk* either approved by, authorised by or lodged with the Securities Commission of Malaysia. SRI *Sukuk* refers to the financing of projects with the following objectives:

i. preserve and protect the environment and natural resources;

ii. conserve the use of energy;

iii. promote the use of renewable energy;

iv. reduce greenhouse gas emission; or

v. improve the quality of life of society.

This tax incentive is given from the year of assessment 2016 until year of assessment 2020.

To further encourage the issuance of SRI *Sukuk*, it is proposed that the existing tax incentive be extended for a period of 3 years.

Effective date : From year of assessment 2021 until year of assessment 2023

6. Review of tax treatment for expenses incurred on secretarial fee and tax filing fee

Currently, expenses incurred on secretarial and tax filing fees by taxpayers are allowed tax deduction as follows:

i. secretarial fee up to RM5,000; and

ii. tax filing fee up to RM10,000.

To enhance tax compliance and to ensure good governance while providing flexibility to taxpayers, it is proposed that tax deduction limit on expenses incurred on secretarial fee and tax filing fee be combined and allowed up to RM15,000 for each year of assessment.

Effective date : From year of assessment 2020

Corporate tax

7. Tax deduction on cost of listing in Bursa Malaysia

Currently, expenses incurred for listing of a company in Primary Market (Main Board), Access, Certainty, Efficiency (ACE) Market and Leading Entrepreneur Accelerator Platform (LEAP) Market in Bursa Malaysia is not eligible for tax deduction.

In assisting technology-based companies and Small and Medium Enterprises to grow their businesses by raising additional capital through listing in ACE Market or LEAP Market, it is proposed that tax deduction of up to RM1.5 million be given on the following listing costs:

i. fees to authorities;

ii. professional fees; and

iii. underwriting, placement and brokerage fees

Effective date : From year of assessment 2020 until year of assessment 2022

8. Income tax exemption to religious institution or organisation registered as a company limited by guarantee

Currently, income tax exemption is given on all income received by religious institution or organisation established for the purpose of religious worship and advancement of religion and registered under the Registrar of Societies Malaysia or under any written law governing the institution or organisation. The exemption does not apply to institution or organisation registered under the Companies Commission of Malaysia [Suruhanjaya Syarikat Malaysia (SSM)].

To streamline the tax treatment, it is proposed that this income tax exemption be extended to religious institution or organisation registered as Company Limited By Guarantee (CLBG) with SSM. This exemption is subject to the income and profit received, and real property acquired is used solely in achieving the objective of the establishment for the purpose of religious worship and advancement of religion and not being operated primarily for the purpose of profit.

For the purpose of this exemption, the CLBG is required to submit tax return annually to the Inland Revenue Board of Malaysia (IRBM) and comply with other requirements set by IRBM.

Effective date : For CLBG approved by IRBM from year of assessment 2020

Corporate tax

9. Tax incentive for organising conferences in Malaysia

Currently, companies, associations or organisations in Malaysia whose main activities are promoting and organising conferences are eligible for income tax exemption of 100% of statutory income subject to the organiser bringing in at least 500 foreign participants annually.

To promote Malaysia as the preferred destination for hosting international conferences and in conjunction with Visit Malaysia Year 2020, it is proposed that the income tax exemption of 100% of statutory income be expanded to any entities whose main activities are other than promoting and organising conferences provided that the organiser brings in at least 500 foreign participants annually.

Effective date : From year of assessment 2020 until year of assessment 2025

10. Expansion of tax incentive for structured internship programme

Double deduction is given on qualifying expenditure incurred by companies that implement Structured Internship Programme (SIP) approved by Talent Corporation Malaysia Berhad as follows:

Exemption Period (Year of Assesment)	Academic level
2012 - 2016	Bachelor's Degree or equivalent
2015 – 2016	Expanded to include: • Diploma • Vocational – Diploma Kemahiran Malaysia (DKM) Level 4 and 5
2017 – 2019	Extended and expanded to include: • Vocational – Sijil Kemahiran Malaysia (SKM) Level 3
2019 – 2021	Extended and eligible for Bachelor's Degree, Diploma, and Vocational (minimum SKM Level 3) students in engineering and technology field only

Students' eligibility and companies that are eligible to claim for this tax incentive are as follows:

i. students are Malaysian citizen;

ii. students must complete the approved internship programme before the end of the final semester;

iii. minimum internship period of at least 10 weeks; and

iv. monthly allowance of at least RM500 for each student.

To increase the employability of local graduates through an early exposure to the working environment, it is proposed that the existing tax incentive be expanded to include Bachelor's Degree, Diploma, Vocational (DKM Level 4 and 5) and SKM Level 3 students in all academic fields and be extended for a period of 2 years.

Effective date : From year of assessment 2020 until year of assessment 2021

Corporate tax

11. Extension of period of tax incentive for company participating in national dual training scheme

Currently, double deduction is given on expenses incurred by companies participating in National Dual Training Scheme for Industry4WRD programmes approved by Ministry of Human Resources (MOHR). This incentive is for programmes approved from 1 January 2019 until 31 December 2019.

To further increase Industry4WRD-ready workforce in line with industry needs, it is proposed that the existing tax incentive be extended for a period of 2 years.

Effective date : For programmes approved by MOHR from 1 January 2020 until 31 December 2021

12. Extension of period of income tax deduction on Perbadanan Tabung Pendidikan Tinggi Nasional loan amount paid by employers on behalf of employees

Currently, repayment of Perbadanan Tabung Pendidikan Tinggi Nasional (PTPTN) loan made by employers from 1 January 2019 until 31 December 2019 on behalf of their employees who are employed on full time basis are eligible for tax deduction. The loan repayment amount made by the employer is considered as part of the employee income (perquisite) and is exempted from personal income tax.

To encourage more employers to make PTPTN loan repayment on behalf of their employees, it is proposed that the existing tax incentive be extended for a period of 2 years.

Effective date : For repayment made from 1 January 2020 until 31 December 2021

13. Extension of period of tax exemption on management fee income for sustainable and responsible investment funds

Currently, a company that provides conventional Sustainable and Responsible Investment (SRI) and *Shariah*-compliant SRI fund management services to local investors, foreign investors and business trust investors or Real Estate Investment Trusts (REITs) in Malaysia, approved by Securities Commission of Malaysia is given tax exemption on management fee income in managing conventional SRI and *Shariah*-compliant SRI funds.

This tax incentive is effective from the year of assessment 2018 until the year of assessment 2020.

To further promote SRI fund management services, it is proposed that the existing income tax exemption be extended for a period of 3 years.

Effective date : From year of assessment 2021 until year of assessment 2023

Corporate tax

14. Extension of period of tax exemption on management fee income for *Shariah*-compliant fund

Currently, a company that provides *Shariah*-compliant fund management services approved by Securities Commission of Malaysia, is given tax exemption on the following income:

i. statutory income derived from business of providing fund management services to foreign investors in Malaysia. This exemption is effective from the year of assessment 2007 until year of assessment 2020;

ii. statutory income derived from business of providing fund management services to local investors in Malaysia. This exemption is effective from the year of assessment 2008 until year of assessment 2020; and

iii. statutory income derived from business of providing fund management services to business trusts or real estate investment trusts in Malaysia. This exemption is effective from the year of assessment 2014 until year of assessment 2020.

To further promote Shariah-compliant fund management services, it is proposed that the existing income tax exemption be extended for a period of 3 years.

Effective date : From year of assessment 2021 until year of assessment 2023

15. Tax incentive for development of intellectual property

Currently, tax incentives provided for research and development (R&D) activities among others are as follows:

i. double deduction on in-house R&D expenditure approved by Inland Revenue Board of Malaysia;

ii. double deduction on R&D contributions to approved research institutions or expenditures for R&D services obtained from approved institutions or research companies;

iii. tax deduction for cost of acquisition of proprietary rights;

iv. income tax exemption for companies that commercialise resource based and non-resource based R&D findings; and

v. income tax exemption for R&D contract companies that provide R&D services.

To encourage intellectual property development activities in Malaysia, it is proposed that income tax exemption of 100% up to 10 years be given on qualifying intellectual property income derived from patent and copyright software of qualifying activities.

For the purpose of computation of the income tax exemption, the Modified Nexus Approach will be adopted to ensure that only income derived from intellectual property developed in Malaysia is eligible for this tax incentive.

Effective date : For applications received by Malaysian Investment Development Authority from 1 January 2020 until 31 December 2022

Corporate tax

16. Review of green technology incentive

Currently, tax incentives for green technology are provided as follows :

i. Green Investment Tax Allowance (GITA)

Investment Tax Allowance (ITA) of 100% on capital expenditure for qualifying green activity for the period until 31 December 2020. This allowance can be set-off against up to 70% of statutory income.

ii. Green Income Tax Exemption (GITE)

Income tax exemption of 100% of statutory income for qualifying green services activity for a period until year of assessment 2020.

To further increase investment in renewable energy, it is proposed that:

i. GITA

ITA of 100% on capital expenditure be extended for a period of 3 years for qualifying green activities. This allowance can be set-off against up to 70% of statutory income.

ii. GITE

a. Income tax exemption of 70% of statutory income for qualifying green services activities be extended for a period of 3 years of assessment; and

b. New tax incentive for solar leasing activities be introduced with income tax exemption of 70% of statutory income for a period of up to 10 years of assessment for solar leasing companies certified by Sustainable Energy Development Authority (SEDA).

Effective date : For item (i) : Applications received by Malaysian Investment Development Authority until 31 December 2023

For item (ii) : Applications received by Malaysian Investment Development Authority from 1 January 2020 until 31 December 2023.

17. Tax incentive for the purchase of tourism vehicles

Currently, capital expenditure incurred on the purchase of new buses is eligible for Accelerated Capital Allowance (ACA) under the Income Tax (Accelerated Capital Allowance) (Bus) Rules 2008. ACA can be claimed within one year with initial allowance of 20% and annual allowance of 80% from the year of assessment 2009 until the year of assessment 2011.

Excise duty exemption of 50% is given to tour operators on the purchase of locally assembled four wheels drive (4WD) vehicle effective from 2 September 2006.

To support Visit Malaysia Year 2020, it is proposed that licensed tour operators be given:

i. ACA on expenses incurred on the purchase of new locally assembled excursion bus with initial allowance of 20% and annual allowance of 40% to be fully claimed within 2 years; and

ii. excise duty exemption of 50% on the purchase of new locally assembled vehicles used as tourism vehicles.

Effective date : For item (i) : From year of assessment 2020 until year of assessment 2021.

For item (ii) : For applications received by Ministry of Finance from 1 January 2020 until 31 December 2021.

Corporate tax

18. Review of Tax Incentives for Automation

Currently, manufacturing company which incurs qualifying capital expenditure on automation equipment is given tax incentive as follows:

i. Category 1: Labour-intensive Industry (rubber, plastic, wood and textile products)

Accelerated Capital Allowance (ACA) of 100% and Automation Equipment Allowance (AEA) of 100% on automation expenditure on the first RM4 million for qualifying capital expenditure incurred from year of assessment 2015 to year of assessment 2020 and can be utilised within 1 year.

ii. Category 2: Industries other than Category 1

ACA of 100% and AEA of 100% on automation expenditure on the first RM2 million for qualifying capital expenditure incurred from year of assessment 2015 to year of assessment 2020 and can be utilised within 1 year.

The AEA can be set-off against up to 70% of statutory income.

Applications must be submitted to Malaysian Investment Development Authority (MIDA) from 1 January 2015 until 31 December 2020.

To further promote automation and enhance productivity and efficiency in the labour-intensive industry, it is proposed that:

i. the incentive period for Category 1 and Category 2 be extended for 3 years until year of assessment 2023; and

ii. the scope of incentive for Category 2 be expanded to services sector.

Effective date : For item (i) : Applications received by MIDA until 31 December 2023

For item (ii) : Applications received by MIDA from 1 January 2020 until 31 December 2023

Corporate tax

19. Extension of period of tax incentive for angel investor

Currently, angel investor who invests in investee company in the form of ordinary shares is eligible for tax exemption equivalent to the amount of investment made. The eligibility criteria are as follows:

i. Angel investor:

   a. must be an individual who is a resident in Malaysia and whose source of income is not derived solely from business;

   b. must not have family relationship with investee company;

   c. whose investment shall not be more than 30% of the total paid-up share capital of the investee company; and

   d. whose investment is for the sole purpose of financing the activities of the investee company as approved by Minister of Finance.

ii. Investee company:

   a. incorporated under the Companies Act 2016 and a resident in Malaysia;

   b. at least 51% of the company's ordinary share capital is owned by a Malaysian citizen; and

   c. carry out activities approved by Minister of Finance.

This incentive is eligible for applications received by Ministry of Finance (MOF) from 1 January 2018 until 31 December 2020.

To attract more angel investors to contribute towards economic activities through capital financing in investee companies, it is proposed that the tax incentive application period for angel investors be extended for a period of 3 years.

Effective date : For applications received by MOF until 31 December 2023

Corporate tax

20. Extension of period of tax incentive for venture capital

Currently, the enhanced tax incentives for venture capital (VC) effective from the year 2018 are as follows:

i. **Venture Capital Management Corporation (VCMC)**

Income tax exemption inclusive of management fees, performance fees and income from the portion of profit (profit sharing) received on investment made by Venture Capital Company.

ii. **Venture Capital Company (VCC)**

Income tax exemption is given on statutory income from all sources of income excluding interest income from savings or fixed deposits and profits from *Shariah*-compliant deposits.

Exemption is given for a period of 5 years of assessment from the date of the first confirmation by Securities Commission of Malaysia (SC) for investment in VC. VCC must be registered with the SC and needs to invest at least 50% of its funds in the early stage, seed and start-up. The remaining 50% is allowed to be invested at other stages of investment. VCC and VC are not related companies.

iii. **Investment in VCC**

Companies or individuals with business income investing into VCC funds created by VCMC are given tax deduction equivalent to the amount of investment made in VCC, limited to a maximum of RM20 million a year.

iv. **Investment in VC**

Companies or individuals with business income investing in VC are given tax deduction equivalent to the amount of investment in VC.

This incentive is effective for applications received by SC from 1 January 2019 to 31 December 2019. The qualifying investment period is until year of assessment 2023.

To further encourage alternative financing through VC, it is proposed that the existing tax incentives be extended for a period of 4 years. The qualifying investment period is extended until 31 December 2026.

Effective date : For applications received by SC until 31 December 2023

21. Special investment incentive for electrical and electronic (E&E) sector

Currently, electrical and electronic (E&E) companies engaged in manufacturing activities are eligible for tax incentives under the Promotion of Investment Act 1986 and are entitled for Reinvestment Allowance (RA) for 15 consecutive years of assessment for qualifying capital expenditure incurred on modernisation, automation, expansion and diversification. The special RA is given from the year of assessment 2016 until the year of assessment 2018 to companies that have exhausted the eligibility period of 15 consecutive years to claim RA.

To encourage continuous investment in Malaysia, it is proposed that E&E companies that have exhausted the eligibility period of 15 consecutive years to claim RA be given income tax exemption equivalent to Investment Tax Allowance of 50% on qualifying capital expenditure incurred within a period of 5 years. This allowance can be set-off against 50% of statutory income for each year of assessment.

Effective date : For applications received by Malaysian Investment Development Authority from 1 January 2020 until 31 December 2021

Corporate tax

22. Review of tax treatment on donation for charitable and sports activities and projects of national interest

Currently, tax deduction of up to 7% of aggregate income for taxpayers other than company and up to 10% of aggregate income for company is given on cash donation or cost of contribution in kind, where applicable, made to:

i. institutions or organisations approved under subsection 44(6), Income Tax Act (ITA) 1967;

ii. sports activity approved under subsection 44(11B), ITA 1967; and/or

iii. projects of national interest approved under subsection 44(11C), ITA 1967.

There is no specific tax treatment on cash *wakaf* and endowment contributions under the ITA 1967.

To further inculcate the philanthropic culture among Malaysians, it is proposed that the tax deduction on contribution for charitable and sports activities as well as projects of national interest currently capped at 7% of aggregate income for taxpayers other than company be increased and streamlined to 10%.

The tax deduction is also expanded to include contribution as follows:

i. cash *wakaf* contribution to state religious authority or body established by the state religious authority to administer *wakaf*;

ii. cash *wakaf* contribution to public university approved by the state religious authority to receive *wakaf*; and

iii. cash endowment contribution to public university.

Effective date : From year of assessment 2020

23. Review of tax deduction limit for sponsorship of arts, cultural and heritage activities in malaysia

Currently, tax deduction under subsection 34(6)(k), Income Tax Act 1967 is given to companies that sponsor local and foreign arts, cultural as well as heritage activities held in the country and approved by Ministry of Tourism, Arts and Culture. Tax deduction is given on sponsorship expenses of up to RM700,000 a year for local arts, cultural and heritage activities and for foreign arts, cultural and heritage activities up to RM300,000 a year.

To encourage local arts, cultural and heritage activities in the country, it is proposed that the tax deduction limit for companies sponsoring local arts, cultural and heritage activities be increased up to RM1,000,000 a year. The tax deduction limit for sponsoring foreign arts, cultural and heritage activities remains up to RM300,000 a year.

Effective date : From year of assessment 2020

Corporate tax

24. Expansion of scope of tax deduction on contribution to charity and community projects

Currently, to encourage private sector involvement in contributing to charity or community projects, tax deduction under subsection 34(6)(h), Income Tax Act (ITA) 1967 is given on expenditure incurred by the company on the provision of services, public amenities, charity and community project pertaining to education, health, housing, enhancement of income of the poor, infrastructure as well as information and communication technology.

To further encourage the involvement of private sector in the implementation of Corporate Social Responsibility, it is proposed that the tax deduction under subsection 34(6)(h), ITA 1967 be enhanced to include:

i. environmental preservation and conservation projects including forest, island, beach and national park; and

ii. maintenance and conservation projects for heritage buildings designated by National Heritage Department under the National Heritage Act 2005.

Effective date : From year of assessment 2020

25. Deduction for contributions towards Digital Social Responsibility

To ensure gains arising from successful Digital Companies are shared with the Rakyat, the Government will introduce the concept of Digital Social Responsibility (DSR). DSR is the commitment by businesses to contribute to digital economic development while improving the digital skills of the future workforce with initiatives such as technology scholarships, training and upskilling for digital skills for communities in need.

Contributions towards DSR by the company will be tax deductible.

Sales tax & Service tax

1. **Introduction of Approved Major Exporter Scheme under the Sales Tax Act 2018**

   Currently, Section 40, Sales Tax Act 2018 provides drawback facility where the Director General of Customs may refund the amount of sales tax paid on goods imported or purchased, and subsequently exported.

   Item 4, Schedule B, Sales Tax (Persons Exempted from Payment of Tax) Order 2018 exempts manufacturer who purchases raw materials, components and packaging materials for the manufacturing of exempted goods for export.

   To enjoy the above facilities, the traders or manufacturers of exempted goods must determine in advance the quantity of goods imported or purchased which are subsequently exported or sold in the local market, and the goods imported for the purpose of export are not sold locally or brought into the Principal Customs Area.

   To improve the existing drawback and exemption facility and to maintain the competitiveness of export-oriented companies in Malaysia, it is proposed that Approved Major Exporter Scheme be introduced under the Sales Tax Act 2018. Through this scheme, the approved traders and manufacturers of exempted goods are:

   i. eligible for full sales tax exemption on the importation and purchase of goods or raw materials, components and packaging materials; and

   ii. not required to determine the quantity of goods to be exported at the time of importation or purchase of goods.

   Sales tax shall be paid for:

   i. the portion of trading goods or manufactured exempted goods that are not exported or sold in local market, based on the prescribed formula; and

   ii. waste or refuse of raw materials, components and packaging materials used for the manufacturing of exempted goods that are disposed or sold in the local market.

   Traders or manufacturers of exempted goods are eligible to apply for the scheme subject to an export of not less than 80% of their annual sales.

   Effective date : From 1 July 2020

Sales tax & Service tax

2. **Improvement on group relief facility under service tax**

   Currently, group relief facility is provided under the First Schedule, Service Tax Regulations 2018. Based on this facility, the taxable service under professional group (except employment services and security services) that is provided by a company to another company within the same group of company is not subject to service tax. This relief has been extended to the importation of taxable services under professional group from a company within the same group of company outside Malaysia.

   The regulation also stipulates that the relief will be nullified when the company provides the taxable services to a third party who is not within the same group of company.

   It is proposed that, group relief facility be allowed for the taxable services under professional group provided by a company to a third party who is not within the same group of company. This facility is subject to a condition that the value of services provided to the third party does not exceed 5% of the total value of services provided by that company within 12 months.

   Effective date : From 1 January 2020

3. **Service tax exemption on provision of training and coaching services for disabled person**

   Currently, training and coaching services have been categorised as taxable services under Item 7, Group G, First Schedule, Service Tax Regulations 2018 with effect from 1 January 2019. The training and coaching services are subject to a 6% service tax, except for services provided by:

   i. research and development company as well as contract research and development company under Section 2, Promotion of Investment Act 1986;

   ii. approved research institutes under Section 34B, Income Tax Act 1967; or

   iii. Federal or State Government, local authorities or statutory bodies.

   It is proposed that service tax exemption be given on the training and coaching services to disabled persons with hearing, visual, physical, speech, mental, and learning disabilities provided by the service providers as follows:

   i. training and coaching centres registered with Ministry of Health Malaysia or Department of Social Welfare; or

   ii. training and coaching centres endorsed by any national association for disabled persons registered with Registrar of Societies Malaysia.

   Effective date : From 1 January 2020

Stamp duty & others

1. **Review of stamp duty on foreign currency loan agreement**

   Currently, conventional and *Shariah*-compliant loan agreements in foreign currency are subject to stamp duty at an *ad valorem* rate of RM5 for every RM1,000 of the loan amount, however the maximum amount of stamp duty imposed on each loan agreement is RM500.

   It is proposed that, the maximum amount of stamp duty on foreign currency loan agreements be increased from RM500 to RM2,000.

   Effective date : For loan agreements executed from 1 January 2020

2. **Stamp duty remission for transfer of property by way of love and affection**

   Currently, stamp duty rate on the instrument of real property transfer effective from 1 January 2019 is as follows:

Price/Market Value of Real Property Bands (whichever is higher)	Stamp Duty Rate
First RM100,000	1%
RM100,001 to RM500,000	2%
RM500,001 to RM1,000,000	3%
RM1,000,001 and above	4%

   For transfer of real property from parents to children and vice versa by way of love and affection, stamp duty is remitted at 50%. This remission is given to Malaysian citizen and non-citizen.

   It is proposed that, stamp duty remission of 50% on the instrument of real property transfer between parents and children and vice versa by way of love and affection is restricted to Malaysian citizen only.

   Effective date : For instrument of real property transfer executed from 1 January 2020

Stamp duty & others

3. **Stamp duty exemption on Rent-to-Own scheme**

   Currently, Rent-to-Own (RTO) is an alternative financing scheme to assist home ownership where financial institution will initially rent out the house and the tenant is given the option to purchase the house based on the *Shariah*-compliant principle of *Ijarah Muntahia Bi Tamlik.*

   RTO scheme is implemented as follows:

   a) Financial institution will buy the house that has been identified by the tenant from the housing developer.

   b) Financial institution will sign the Sales and Purchase Agreement (SPA) with the housing developer and execute instrument of transfer (Form KTN14A).

   c) The tenant will sign a rental agreement with the financial institution for a maximum term of 5 years.

   d) After a one-year rental period, the tenant is given the option to purchase the house based on the price set out in the rental agreement.

   e) The tenant who opts to buy the house will sign the SPA with the financial institution and execute instrument of transfer (Form KTN14A).

   Stamp duty at *ad valorem* rate is imposed on instrument of transfer at two levels:

   i. transfer of residential home from housing developer to financial institution; and

   ii. transfer of residential home from financial institution to buyer.

   To assist Malaysians in obtaining financing facilities from financial institutions for the purpose of first home ownership under the RTO scheme managed by the National Housing Department (NHD), Ministry of Housing and Local Government [Kementerian Perumahan dan Kerajaan Tempatan (KPKT)], it is proposed that full stamp duty exemption be given on the instrument of transfer of first residential home priced up to RM500,000 for the following transactions:

   i. transfer of residential home from housing developer to financial institution; and

   ii. transfer of residential home from financial institution to buyer.

   The above stamp duty exemption is subject to:

   i. financial institutions regulated by Bank Negara Malaysia (BNM) that provide home financing under this RTO scheme must obtain approval from BNM; and

   ii. housing developers collaborating with financial institutions that provide RTO schemes must be registered with NHD, KPKT.

   Effective date :

   i. Transfer of residential home from the housing developer to financial institutions

   For SPA executed from 1 January 2020 to 31 December 2022

   ii. Transfer of residential home from the financial institutions to the buyers

   For rental agreement executed from 1 January 2020 to 31 December 2022

Stamp duty & others

4. Exemption of entertainments duty for stage performance

Currently, full exemption on entertainments duty is given for:

i. stage show and performance for charity purposes;

ii. stage show and performance by foreign artistes of international standing and certified by Ministry of Communications and Multimedia Malaysia [Kementerian Komunikasi dan Multimedia Malaysia (KKMM)];

iii. international performance, exhibition, fair and sports competition held at the National Sports Complex, Istana Budaya, Balai Seni Lukis Negara and Petronas Philharmonic Hall;

iv. performance by local artistes held at the Bukit Jalil National Sports Complex and Bukit Kiara Sports Complex;

v. stage performance by theatre groups held at the Federal Territory of Kuala Lumpur, Labuan and Putrajaya; and

vi. cultural and arts performance by local artistes held at the Federal Territory of Kuala Lumpur, Labuan and Putrajaya.

Entertainments duty at the rate of 5% is imposed on stage performance held by local and international artistes that have not been certified by KKMM. This 5% rate is given through the 20% entertainments duty exemption provided under Entertainments Duty (Exemption) (No. 24) Order 2006.

To encourage more stage performances to be held in conjunction with the Visit Malaysia Year 2020, it is proposed that full entertainments duty exemption be given on admission tickets for stage performances that include concerts, singing, music, dances and theatres including cultural and artistic performance by local and international artists held at any venue in the Federal Territory of Kuala Lumpur, Labuan and Putrajaya subject to approval by the relevant local authorities.

Effective date : From 1 January 2020 until 31 December 2020

Stamp duty & others

5. Review of export duty rate on Crude Palm Oil

The current export duty rate on Crude Palm Oil (CPO) after taking into consideration of partial export duty exemption is proposed to be reviewed as follows:

CPO Market Price (FOB RM/tonne)	Current Export Duty Rate (%)	New Export Duty Rate (%)
< 2,250	NIL	NIL
2,250 – 2,400	4.5	3.0
2,401 – 2,550	5.0	4.5
2,551 – 2,700	5.5	5.0
2,701 – 2,850	6.0	5.5
2,851 – 3,000	6.5	6.0
3,001 – 3,150	7.0	6.5
3,151 – 3,300	7.5	7.0
3,301 – 3,450	8.0	7.5
> 3,450	8.5	8.0

Effective date : From 1 January 2020

Real Property Gains Tax

1. **Review of Real Property Gains Tax treatment**

   Effective from 1 January 2019, the Real Property Gains Tax (RPGT) rate has been increased for the disposal of real properties and shares in the real property company in the 6th and subsequent years as follows:

   i. company, non-citizen and non-permanent resident individual, the rate is increased from 5% to 10%; and

   ii. other than company and other than non-citizen and non-permanent resident individual, the rate is increase from 0% to 5%.

   RPGT exemption is given to Malaysian citizens for the disposal of low-cost, medium low and affordable residential homes at the price of RM200,000 and below in the 6th and subsequent years.

   For real properties acquired prior to year 2000, the market price on 1 January 2000 is used as the acquisition price for the disposal of real properties on or after 1 January 2019.

   As a measure to improve the treatment of RPGT on disposal of real properties by Malaysian citizens and permanent residents after 5 years from the date of acquisition, it is proposed that the determination of market value as of 1 January 2000 for real properties acquired before year 2000 be amended to market value as of 1 January 2013 as the acquisition price for the disposal of real properties acquired prior to year 2013 for the purpose of RPGT computation.

   Effective date : For the disposal of real properties made from 12 October 2019

Others

1. **Additional measures proposed in the 2020 Budget speech**

   i. Tax Appeal Tribunal

   To improve efficiency of management of taxpayer appeals, the Government will merge the Special Commissioner of Income Tax and Customs Appeal Tribunal into the Tax Appeal Tribunal. After this merger, taxpayers who are dissatisfied with the decision of the Director General of the IRB or the Director General of RMCD may submit a tax-related appeal under all applicable tax laws to the Tax Appeal Tribunal to be operational in year 2021.

   ii. EPF *i-Suri* contribution scheme

   As announced in Budget 2019, the EPF *i-Suri* contribution scheme is an initiative by the Government to ensure the wellbeing of housewives. The scheme incentivise caring husbands to contribute to their wives' retirement savings. For a minimum of RM5 monthly contribution into their wives' accounts, the Government will contribute RM40 a month.

   It is proposed that this programme will also be expanded whereby husbands may voluntary elect to contribute 2% from his 11% EPF employee contribution to his wife's EPF account to be effective year 2020.

   iii. Incentive review framework

   The Government has embarked on a comprehensive review and revamp of the existing incentive framework, comprising the Promotion of Investment Act 1986, Special Incentive Package and incentives under the Income Tax Act 1967. This new framework is expected to be ready by 1 January 2021.

   iv. Review of approved donation threshold

   With effect from 5 September 2019, the Government has increased the donation reporting threshold from RM5,000 to RM10,000 under subsection 44(6) of the Income Tax Act 1967. This threshold will subsequently be increased to RM20,000 beginning year 2020.

Contact us

Find out how Grant Thornton can help you unlock the potential for growth for your business

KUALA LUMPUR
Mr Alan Chung
Level 11, Sheraton Imperial Court
Jalan Sultan Ismail
50250 Kuala Lumpur
T +603 2692 4022
F +603 2721 5229
E alan.chung@my.gt.com

Other offices:

PENANG
Ms Gwendolyn Lau
51-8-A
Menara BHL Bank
Jalan Sultan Ahmad Shah
10050 Penang
T +604 228 7828
F +604 227 9828
E gwendolyn.lau@my.gt.com

JOHOR BAHRU
Ms Yau Chew Yin
Suite 28.01, 28th Floor
Menara Zurich
No. 15, Jalan Dato' Abdullah Tahir
80000 Johor Bahru, Johor
T +607 332 8335
F +607 332 2268
E chewyin.yau@my.gt.com

KUANTAN
Ms Han Siew Bueh
A-105A, 1st Floor
Sri Dagangan, Jalan Tun Ismail
25000 Kuantan
Pahang
T +609 515 6124
F +609 515 6126
E siewbueh.han@my.gt.com

This publication is published as a service to our clients, associates and other interested parties. Please be advised that the information contained herein is for general guidance only. Any reader intending to base a decision on information contained in this publication is advised to consult us before proceeding.

Grant Thornton

An instinct for growth™

Grant Thornton Malaysia is a Malaysian Partnership and is a member firm of Grant Thornton International (GTIL), a private company limited by guarantee, incorporated in England and Wales. Please visit www.grantthornton.com.my for more details.