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→ Malaysia's Budget 2021

The Malaysian Government presented the 2021 Budget in Parliament on 6 November 2021, themed "Resilient as One, Together we Triumph" which focuses on 3 main goals (the Rakyat's well-being, Business Continuity and Economic Resilience).

GOALS	STRATEGIES
RAKYAT'S WELL-BEING	Overcoming the Covid-19 pandemic and protecting public health
	Safeguarding the welfare of vulnerable groups
	Generating and retaining jobs
	Prioritizing the inclusiveness agenda
	Ensuring the well-being of the rakyat
BUSINESS CONTINUITY	Driving investments
	Strengthening key sectors
	Prioritizing automation and digitalization
	Enhancing access to financing
ECONOMIC RESILIENCE	Expansionary Budget
	Development agenda under the 12 th Malaysia Plan
	Enhancing the role of Government Linked Companies ("GLCs") and civil society
	Ensuring resource sustainability
	Improving the civil service

Economic Outlook 2021

In spite of the covid-19 pandemic, the Malaysian economy is expected to recover and expand at a rate of between 6.5 per cent - 7.5 per cent, driven by proactive measures undertaken by the Government through economic stimulus packages and Budget 2021 initiatives.

All economic sectors are expected to recover in 2021, propelled by the recovery of global demand as well as by the resumption of domestic economic activities. Gross exports is expected to rebound in 2021 following the recovery in global trade and supply chains. The unemployment rate is expected to rise to 4.2 per cent in 2020 due to the weak labor market. However, it is anticipated to decrease to 3.5 per cent in 2021.

KEY FOCUS AREAS

This year's Budget is focused on investing in the public healthcare system, helping vulnerable individuals, enterprises and industries adversely affected by the pandemic, and stimulating economic

activities to provide jobs and business activities to drive growth and recovery in 2021.

Rakyat's well-being

Overcoming the covid-19 pandemic

- covid-19 Fund ceiling raised to RM 65 billion to fund the KITA PRIHATIN package, additional assistance for the people's wellbeing, needs of frontliners' and expected procurement of vaccine;
- RM 3 billion to acquire covid-19 vaccines through participation in the COVID-19 Vaccine Global Access ("COVAX") Program;
- RM 1 billion aid allocated to curb the third wave of Covid-19

Generating and retaining jobs

- RM 3.7 billion to implement Skim Jaminan Penajaan Pekerjaan (JanaKerja);

- RM 1 billion to reskilling and upskilling programs;
- RM 1.5 billion to extend the Wage Subsidy Program with more targeted approach;
- RM 700 million allocation for MySTEP (Short-term Employment Program) which seeks to offer 50 thousand job opportunities on a contract basis in the public sector and GLCs;
- RM 2 billion for enhancing hiring incentive program PenjanaKerjaya under SOCSO
- RM 1 billion for the Industrial Digitalization Transformation Scheme with the availability of these funds extended until 31 December 2023;
- RM 500 million High Technology Fund provided by Bank Negara Malaysia to support high technology and innovative companies;
- Additional RM 150 million for the SME Digitalization Grant Scheme and Automation Grant, with relaxed conditions for micro SMEs and start-ups

Social Welfare

- RM 2.2 billion for financial assistance to enhance the welfare of vulnerable groups;
- Enhance Targeted Loan Repayment Assistance to B40 and micro enterprises up to RM 150,000;
- Reduction of employees' minimum EPF contribution to 9 per cent;
- RM 500 EPF withdrawal from Account 1 monthly and withdrawal from Account 2 for purchase of life insurance for critical illnesses;
- RM 6 million for procurement of biologic medicine for various rheumatology illnesses such as Rheumatoid Arthritis

Business Continuity

SUPPORTING SMES FINANCIALLY

- RM 2 billion of Targeted Assistance and Rehabilitation facility under the Malaysian Central Bank;
- RM 300 million by EXIM Bank to drive the National Supply Chain Finance Platform;
- RM 230 million allocation to SMEs for working capital, upgrading of automation systems and equipment and expenditure related to the implementation of covid-19 SOP compliance.

STRENGTHENING SUPPLY CHAIN AND KEY SECTORS

- RM 1.4 billion National Development Scheme ("NDS") by Bank Pembangunan Malaysia;
- Extension of RM 3.7 billion fund covering Maritime Development and Logistics Scheme, Sustainable Development Financing Scheme, Tourism Infrastructure Scheme and Public Transport Fund

PRIORITISING DIGITALIZATION AND AUTOMATION

- RM 7.4 billion for Malaysian Communications and Multimedia Commission ("MCMC") to build and upgrade broadband services in 2021 and 2022;

FINANCING

- RM 3 billion guarantee for corporations in highly skilled industries under the Danajamin Prihatin Guarantee Scheme;
- RM 30 million in matching grants and income tax exemption towards Equity Crowd Funding ("ECF") platforms under supervision of the Securities Commission

INVESTMENTS IN KEY SECTORS

- RM 37 billion under the Maritime Development and Logistics Scheme, Sustainable Development Financing Scheme, Tourism Infrastructure Scheme and Public Transport Fund extended until December 2023;
- RM 1.4 billion National Development Scheme introduced to support the implementation and development of domestic supply chains and increase the production of local products

Economic Resilience

INFRASTRUCTURE DEVELOPMENT

- RM 15 billion to fund Borneo Highway, Gemas-Johor Bahru Electrified Double-Tracking Project and Klang Valley Double Tracking Project;
- RM 5.1 billion and RM 4.5 billion to Sabah and Sarawak respectively for Development Expenditure;
- RM 3.8 billion allocated to fund several large infrastructure projects
- RM 2.7 billion for rural infrastructure improvement programs;
- RM 780 million for developments in the five regional corridors of economic development i.e. IRDA, ECER, NCER, SCORE and SDC

DRIVING SUSTAINABILITY

- RM 2 billion Green Technology Financing Scheme 3.0 for two years up to 2022;
- Issuance of first Sustainability Bond for environmental and social initiatives in 2021

KEY TAX PROPOSALS

Corporate Income Tax

- Further tax deduction for employment of SENIOR CITIZENS, EX-CONVICTS, PAROLEES, SUPERVISED PERSONS and EX-DRUG DEPENDENTS is to be extended to YA2025 for monthly remuneration not exceeding RM4,000

Incentives

- A reduced income tax rate of 0 per cent to 10 per cent for the first 10 years and 10 per cent for the next 10 years is proposed for manufacturers of PHARMACEUTICAL products including VACCINES;
- 10 per cent income tax rate for a period of 5 + 5 years for GLOBAL TRADING CENTRE for applications received by MIDA from 1 January 2021 to 31 December 2022;
- PRINCIPAL HUB INCENTIVE to be extended for another 2 years and conditions relating to the number of high value workers, key posts and annual operational expenditure for the extended 5 year period be relaxed;
- Tax incentives for companies RELOCATING their operations in Malaysia is expanded from manufacturing sectors to selected SERVICES sector including companies adapting IR4.0 and digitalization technology with investment that contributes to significant multiplier effect. For new companies this will be 0 per cent - 10 per cent income tax rate for up to 10 years; and 10 per cent income tax rate up to 10 years for existing companies with new services segment;
- Existing RELOCATION INCENTIVES for MANUFACTURING sector is to be extended for 1 year for applications made until 31 December 2022;
- Tax incentives for MRO activities for AEROSPACE, building and repair of SHIPS, BIONEXUS status company, and ECONOMIC CORRIDOR developments is to be extended until year 2022;
- 100 per cent tax exemption for EXPORT OF PRIVATE HEALTHCARE SERVICES is extended until YA2022;
- Tax incentive for COMMERCIALISATION of research & development ("R&D") findings is to be reintroduced for non-resource based R&D; and expanded to include private higher education institutions effective from 7 November 2020 until 31 December 2025;
- Tax exemption on GRANTS for GREEN SUSTAINABLE and RESPONSIBLE INVESTMENT ("SRI") is expanded to all SRI sukuk and bonds for applications received from 1 January 2021 to 31 December 2025;

- Income tax exemption on aggregate income equivalent to 50 per cent of the amount of investment made in the ECF subject to conditions;
- Tax incentive for companies undertaking the manufacturing of Industrialized Building System ("IBS") components to be extended for another 5 years until 31 December 2025;
- Category 1 (companies producing at least 3 basic components of IBS or IBS systems) and Category 2 (companies producing at least 4 basic components of IBS or IBS systems) are to be merged whereby companies are only required to produce at least 3 basic components of IBS or IBS system that use at least 3 basic IBS components. Investment Tax Allowance of 60 per cent on the qualifying capital expenditure incurred within 5 years to be set off against 70 per cent of the Statutory Income will be given

Personal Income Tax

- REDUCTION of 1 per cent on individual income tax rate for RESIDENT individuals with chargeable income between RM50,001 and RM70,000 effective from year of assessment ("YA") 2021

Chargeable income bands (RM)	Current tax rate (per cent)	Proposed tax rate (per cent)
50,001 - 70,000	14	13

- 15 per cent individual income tax flat rate for 5 consecutive years (limited to 5 individuals) for NON-MALAYSIAN citizens in companies with RELOCATION INCENTIVES
- Income tax exemption for COMPENSATION FOR LOSS OF EMPLOYMENT will be increased from RM10,000 to RM20,000 for each full year of service for YA 2020 and YA 2021;
- The application period for the tax incentive under RETURNING EXPERT PROGRAM ("REP") is extended for a further 3 years;
- Income tax relief for MEDICAL EXPENSES for serious diseases for self, spouse and children is increased from RM6,000 to RM8,000 from YA2021;
- Income tax relief for MEDICAL TREATMENT, SPECIAL NEEDS AND CARER expenses incurred for PARENTS is increased from RM5,000 to RM8,000 from YA2021;
- Tax relief on LIFESTYLE EXPENSES is increased from RM2,500 to RM3,000 from YA2021;
- Scope of tax relief for technical education fees is expanded to include RM1,000 for up-skilling and enhancement course;
- Tax relief on contribution to Private Retirement Scheme ("PRS") is extended to YA2025

- Tax relief on net annual savings in Skim Simpanan Pendidikan Nasional ("SSPN") is extended to YA2022;
- Tax relief for **DISABLED SPOUSE** is to be increased from RM3,500 to RM5,000 from YA2021

Indirect Tax

- The sales value threshold for the value-added activities carried out in an FIZ and LMW is increased from 10 per cent - 40 per cent of the total annual sales value;
- **SALES TAX EXEMPTION** for the purchase of **LOCALLY-ASSEMBLED BUSES** by bus operators extended to 31 December 2022;
- Imposition of 10 per cent ad-valorem **EXCISE DUTY** for all types or **ELECTRONIC AND NON-ELECTRONIC** smoking devices including vape. Liquid or gel for vape or other smoking devices will be imposed with excise duty at RM 0.40 per milliliter;
- Imposition of **SALES TAX** and **IMPORT DUTY** on cigarettes and tobacco products in all **DUTY FREE ISLANDS AND ANY FREE ZONES**;
- Imposition of **TOURISM TAX** be extended to accommodation premises booked through online platform providers with effect from 1 July 2021;
- Authorized Economic Operator (AEO) facility to be broadened to include approved logistics service providers and warehouse operators.

Stamp Duty

- 100 per cent stamp duty exemption on instrument of transfer and loan agreement for the purchase of first residential property to be extended for another 5 years until 31 December 2025; and value of property increased to RM 500,000;
- Extension of stamp duty exemption for abandoned housing projects to be extended for 5 years until 31 December 2025;
- Extension of stamp duty exemption for Exchange Traded Fund extended for another 5 years until 31 December 2025

OUR VIEW

Overall, Budget 2021 demonstrates the Government's commitment to protect the livelihoods and welfare of the people and whilst reviving the nation's economy amidst challenging times.

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

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