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Highlights of Budget 2021 - Part I

Tax Espresso (Special Edition)

7 November 2020

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"Unexpectedly, COVID-19 pandemic has brought the global economy to its sharpest fall since the Great Depression of the 1930s! As the road to recovery will be long and winding, decisive government interventions with bold fiscal measures are imperative to help accelerate our nation's economic recovery. Under Budget 2021, RM322.54 billion or 20.6% of the gross domestic product would be allocated, the largest allocation ever in the Malaysian history. Out of this, RM17 billion is for the COVID-19 Fund. I am optimistic that the expansionary budget is a right move to ensure people's prosperity, business continuity and economic resilience amid the COVID-19 pandemic. The new measures proposed together with the previous 2020 Economic Stimulus Package (RM20 billion), PRIHATIN (RM250 billion), PRIHATIN for SMEs (RM10 billion) and PENJANA (RM35 billion) would be the panacea for speedier economic recovery."

Yee Wing Peng
Chief Executive Officer

Foreword

With much anticipation, Budget 2021 was unveiled on 6 November 2020 by the Finance Minister, Tengku Datuk Seri Zafrul Tengku Abdul Aziz. As expected, Budget 2021 is an expansionary one with an allocation of RM322.5 billion, the highest in Malaysia's history and representing an increase of 8.6% compared to the initial Budget 2020 allocation of RM297 billion.

Themed "Resilient As One, Together We Triumph" and formulated based on 3 integral goals (Rakyat's well-being, Business Continuity and Economic Resilience). Budget 2021 strives to achieve a balance between managing the government's financial sustainability, ensuring social well-being, and reviving the economy.

Some of the key allocations are:

- RM6.5 billion for Bantuan Prihatin Rakyat
- RM2 billion for PenjanaKerjaya initiatives which is expected to increase employment opportunities for 200,000 job seekers.
- RM1.5 billion for targeted wage subsidy
- RM50.4 billion for education
- RM780 million to fund development projects in the 5 regional corridors
- RM1 billion special incentive package for high value added technology
- RM500 million High Technology Fund to support high technology and innovative companies.

Armed with an expansionary budget, the government hopes to achieve economic recovery at a growth rate between 6.5% to 7.5%.

Although the government's revenue has been affected by COVID-19 as seen from its revised projection for 2020 revenue to RM227.3 billion and an increase of 4.2% projected for 2021 to RM236.9 billion, the government did not introduce any form of new taxes, as taxpayers are still grappling with the impact of COVID-19.

It is also heartening to note that Budget 2021 places focus on sustainability and is aligned with the 17 Sustainable Development Goals ("SDGs"). The proposal for the issuance of Malaysia's first Sustainability Bond and the establishment of the Malaysia-SDG Trust Fund should put Malaysia in the right direction towards achieving the SDGs by 2030.

Overall, Budget 2021 demonstrates the Government's commitment to protect the livelihoods and welfare of the people. It is also primed to steer the economy towards the next phases of the 6R approach under the economic recovery plan – Recovery, Revitalise and Reform.

Let us all look forward to a strong recovery in 2021. In the spirit of #kitajagakita, this needs to begin with each of us working in unity to fight COVID-19. Together, we shall emerge stronger!

Against the above background, we bring you some of the salient tax-centric proposals of Budget 2021.

Happy reading!

Sim Kwang Gek
Country Tax Leader

Budget 2021 – 3 Integral Goals

Business continuity

Strategy 1: Driving investments
- Investment in key sectors
- Improving the business environment
- Science, technology and innovation
- Promoting locally manufactured products

Strategy 2: Strengthening key sectors
- Empowering the agriculture sector
- Development of the commodity sector
- Sustainability of the tourism industry

Strategy 3: Prioritising automation and digitalisation

Strategy 4: Enhancing access to financing
- Micro credit financing
- Loan guarantees
- Alternative financing

Rakyat's well-being

Strategy 1: COVID-19 pandemic and public health

Strategy 2: Safeguarding the welfare of vulnerable groups
- Improving financial assistance
- Alleviating the rakyat's cost of living
- Assistance to farmers and fishermen

Strategy 3: Generating and retaining jobs
- PenjanaKerjaya incentive (Hiring incentive)
- Reskilling and upskilling
- Short-term Employment Programme (MySTEP)
- Targeted wage subsidy
- Social protection

Strategy 4: Prioritising the inclusiveness agenda
- Empowering the bumiputera
- Upholding Islam tenets
- Enhancing the role of women
- Community-based initiatives
- Enhancing rural infrastructure
- Youth and sports development

Strategy 5: Ensuring the well-being of the rakyat
- Digital connectivity
- Access to quality education
- Increasing home ownership
- Public transport
- Defending the nation's sovereignty and security

Economic resilience

Strategy 1: Expansionary budget
- Expenditure with high multiplier effect
- Sustainability of government's revenue

Strategy 2: Development agenda under the 12th Malaysia Plan
- Transport infrastructure development
- Balanced regional development

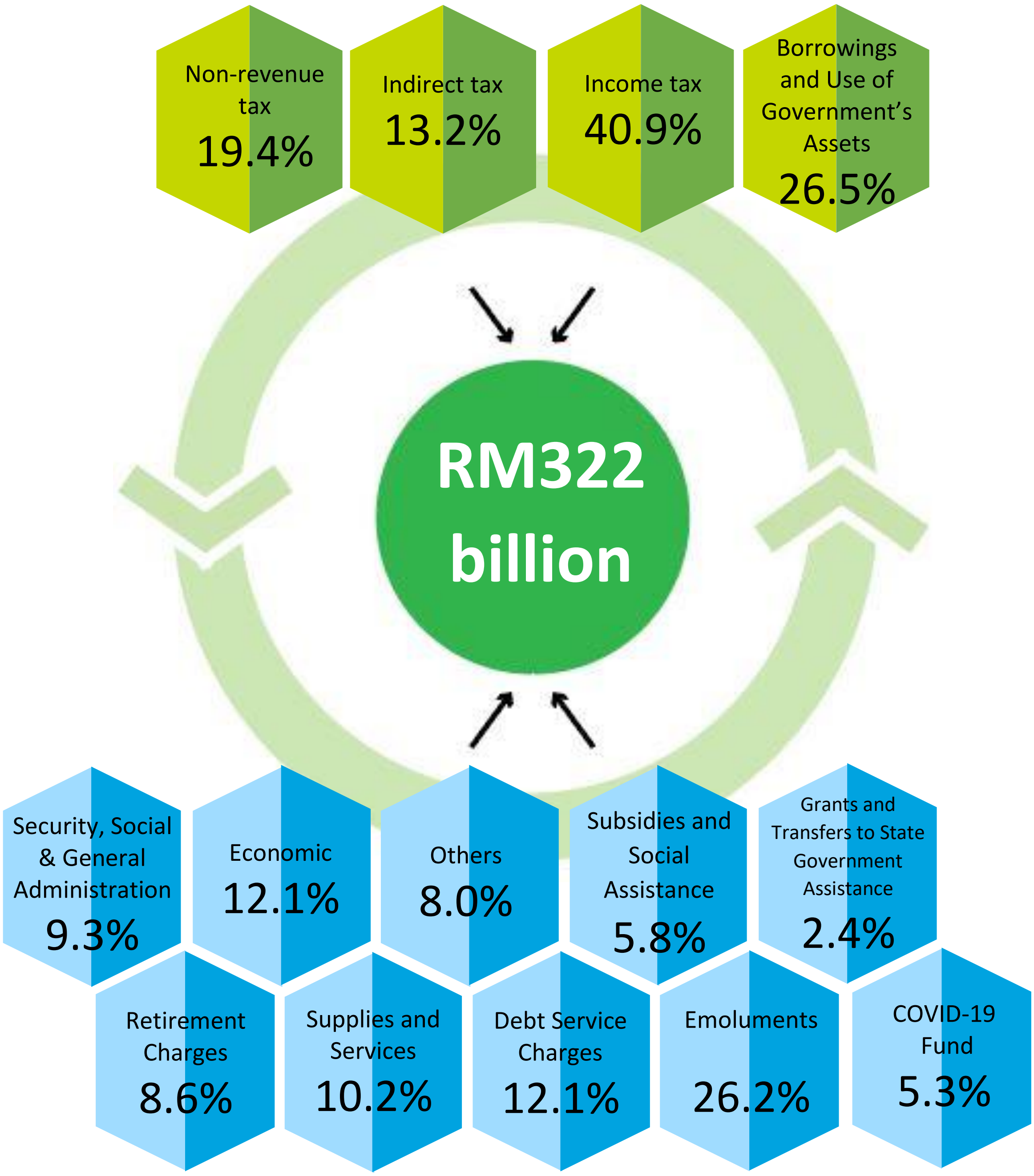
Strategy 3: Enhancing the role of GLC and civil society
- Alternative service delivery

Strategy 4: Ensuring resource sustainability
- Sustainable development agenda
- Sustainable finance
- Environmental conservation

Strategy 5: Civil service
- Strengthening of the public service delivery
- Strengthening governance and integrity in Malaysia
- Welfare of the civil servants

Resilient as One, Together we Triumph

Allocation



	2020	2021
Fiscal Deficit	6.0% of GDP	5.4% of GDP
Federal Government Revenue (RM)	227 bil	236.9 bil
Operating Expenditure (RM)	226.7 bil	236.4 bil
Development Expenditure (RM)	50 bil	69 bil
Allocation for COVID-19 Fund (RM)	38 bil	17 bil

Tax Incentives

Tax incentive for investment in Equity Crowd Funding

Equity Crowd Funding ("ECF") allows start-up companies to raise funding using online platforms registered with the Securities Commission of Malaysia ("SC").

To encourage individual investors to invest in the ECF, it is proposed that income tax exemption be given on 50% of the investment amount, subject to the following:

(i) The exemption is limited to RM50,000 for each year of assessment;
(ii) The deduction is limited to 10% of the aggregate income for that year of assessment;
(iii) The investor, investee company and amount of investment must be verified by SC;
(iv) The investor must not have any family relationship with the investee company;
(v) The investment must be made through ECF platform approved by SC; and
(vi) The investment must not be disposed of, in full or in part, within 2 years from the date of investment.

Effective: For investment made from 1 January 2021 to 31 December 2023

Budget commentary

"Budget 2021 has taken bold measures to place Malaysia as the forefront destination for regional and high value-added services, with the introduction of 10 years' tax exemption incentive for technology transformation related services, extension of the Principal Hub incentive application period, and the introduction of the Global Trading Centre incentive. These are commendable moves to elevate the country into a knowledge-based industry nation"

Tham Lih Jiun
Government Grants & Incentives Leader

Review of tax incentive for companies relocating their operations to Malaysia and undertaking new investments

To attract foreign companies in the manufacturing sector to relocate their business to Malaysia, the Government has introduced the following incentives through "Pelan Jana Semula Ekonomi Negara" or "PENJANA":

i. 0% tax rate for 10 years for a new company in the manufacturing sector with new investment in fixed assets between RM300million and RM500million.
ii. 0% tax rate for 15 years for a new company in the manufacturing sector with new investment in fixed assets exceeding RM500million.
iii. 100% investment tax allowance for 5 years for an existing company in Malaysia relocating its overseas manufacturing facilities into Malaysia with investment in fixed assets exceeding RM300million.

The incentives are available for eligible companies in the manufacturing sector (except for selected industries) and subject to the following conditions:

i. The company incurs the first capital expenditure within 1 year from the date of approval of the incentive; and
ii. The company meets the investment in fixed asset within 3 years from the first date of the capital expenditure incurred.

The application for the above incentive is to be made to the Malaysian Investment Development Authority ("MIDA") from 1 July 2020 until 31 December 2021.

Effective: Year of assessment 2020

Proposal

To spur the economic recovery and to create multiplier effect to the economy, the tax incentives are reviewed as follows:

Expansion of incentives	The incentives are to be expanded to companies in selected service sectors, including companies adapting Industrial Revolution 4.0 and digitalisation technology with investment that contributes to significant multiplier effect in (i) provision of technology solution or technology company that develops technology and provide technology solutions based on substantial scientific or engineering challenges (ii) provision of infrastructure and technology for cloud computing (iii) research and development / design and development activities (iv) medical devices testing laboratory and clinical trials and (v) any services or manufacturing related services as determined by the Minister of Finance.
Tax incentives	a) 0% to 10% tax rate for a period up to 10 years for new company. b) 10% tax rate for a period up to 10 years for existing company with new services segment.

Effective: For applications received by MIDA by (i) 31 December 2022 for manufacturing sector (ii) from 7 November 2020 until 31 December 2022 for selected services sector.

Tax incentives for companies manufacturing pharmaceutical products including vaccines

Currently, tax incentives granted for companies manufacturing pharmaceutical products are as follows:

	Tax incentives
Manufacturers of pharmaceutical products in high technology products category	i. Pioneer status – 100% income tax exemption on statutory income for a period of 5 years; or ii. Investment Tax Allowance - 60% on qualifying capital expenditure incurred within a period of 5 years, to be set off against 100% of statutory income.
BioNexus Co – New companies / existing companies undertaking expansion projects	i. Income tax exemption of 70% on statutory income for 10 and 5 consecutive years from the first statutory income for new companies and existing companies respectively; or ii. Income tax exemption equivalent to 100% Investment Tax Allowance on qualifying capital expenditure incurred within a period of 5 years. This allowance can be set off against 70% of the statutory income. Concessionary income tax rate of 20% on the statutory income received from qualifying activities for a period of 10 years upon the expiry of tax exemption period mentioned above.
BioNexus Co (cont'd)	i. Import duty exemption for equipment and raw materials; ii. Double tax deduction on expenditure incurred on research and development activities; and iii. Industrial Building Allowance on the building constructed or purchased for research operations;
Investor in BioNexus Company	Tax deduction of the amount of investment made in the BioNexus status company.

The above incentives are for BioNexus status company and investor for applications received by the Malaysian Bioeconomy Development Corporation Sdn Bhd from 1 January 2019 until 31 December 2020.

Proposal
To encourage manufacturers of pharmaceutical products including vaccines especially COVID-19 vaccine to invest in Malaysia, it is proposed that the following tax incentives be given:

i. Income tax rate of 0% up to 10% for the first 10 years; and
ii. Income tax rate of 10% for the subsequent period of 10 years.

Apart from the above tax incentives, strategic investments by such companies may be considered for other facilities including grants, import duty/sales tax exemption for machineries and equipment as well as raw materials.

Effective: For applications received by MIDA from 7 November 2020 to 31 December 2022.

Review and expansion of scope of tax incentive for commercialisation of research and development findings

Currently, tax incentives granted for commercialisation of research and development ("R&D") findings of public research institutions including public higher learning institutions in Malaysia are as follows:

<table>
<tr><th>R&D findings</th><th>Incentive</th></tr>
<tr><td>1) Resource based

The incentive is available for applications received by the MIDA from 11 September 2004.</td><td rowspan="2"><u>For investor company</u>
Tax deduction of the amount of investment made in the subsidiary company that undertakes commercialisation of R&D findings of public research institutions.

<u>For subsidiary companies that commercialise R&D findings of public research institutions</u>
100% income tax exemption on statutory income for 10 years.</td></tr>
<tr><td>2) Non-resource based

Non-resource based activities or products are subject to the list of activities or products under the Promotion of Investments Act 1986. This incentive was available for applications received by the MIDA from 29 September 2012 to 31 December 2017.</td></tr>
</table>

Proposal

To create a competitive R&D ecosystem and to encourage new R&D activities by public research institutions including public higher education institutions, as well as to enhance the role of private higher education institutions in producing high quality researchers and quality R&D, it is proposed that:

i. tax incentive for the commercialisation of non-resource based R&D findings be reintroduced; and

ii. tax incentives for the commercialisation of R&D findings by public research institutions including public higher learning institutions be expanded to private higher learning institutions.

The tax incentives for (i) and (ii) are as follows:

a) <u>For investor company</u>
Tax deduction of the amount of investment made in a subsidiary company that commercialises the R&D findings of public research institutions including public higher learning institutions and private higher learning institutions.

b) <u>For subsidiary companies that commercialise R&D findings of public research institutions including public higher learning institutions and private higher learning institutions</u>
100% income tax exemption on statutory income for 10 years.

Resource-based and non-resource based activities or products are subject to the list under the Promotion of Investments Act 1986.

Effective: For applications received by MIDA from 7 November 2020 until 31 December 2025.

Tax incentive for Global Trading Centre

As a measure to enhance and simplify tax incentive for trading activities previously covered under the Principal Hub incentive (which will expire on 31 December 2020) which was subjected to higher eligibility criteria, it is proposed that a new incentive scheme be introduced as Global Trading Centre for companies and be given 10% income tax rate for a period of 5 years and renewable for another 5 years.

Effective: For applications received by MIDA from 1 January 2021 to 31 December 2022

Our commentary:
We expect MIDA to issue the guidelines for the above proposals in due course, with a view to encouraging more companies to set up regional and global operations in Malaysia and create more job opportunities.

Review of tax incentive for Principal Hub

Companies incorporated in Malaysia that make Malaysia as a centre to conduct business and regional or global operations for the purpose of management, control and support function including risk management, decision making, strategic business activities, commerce, finance, management and human resource management would qualify for Principal Hub incentive with concessionary income tax rate as follows:

<u>New company</u>
a. Tier 1 : 0% income tax rate for a period of 5 years and eligible for renewal for another 5 years subject to the following criteria:

- i. employment of at least 50 high valued workers;
- ii. employment of at least 5 key posts personnel; and
- iii. annual operational expenditure of at least RM10million.

Review of tax incentive for Principal Hub (cont'd)

b. Tier 2 : 5% income tax rate for a period of 5 years and eligible for renewal for another 5 years subject to the following criteria:

- i. employment of at least 30 high valued workers;
- ii. employment of at least 4 key posts personnel: and
- iii. annual operational expenditure of at least RM5 million.

<u>Existing company</u>
10% income tax rate for a period of 5 years subject to the following criteria:

- i. employment of at least 30 high valued workers;
- ii. employment of at least 5 key posts personnel; and
- iii. annual operational expenditure of at least RM10 million.

This tax incentive is effective for applications received by Malaysia Investment Development Authority from 1 January 2019 to 31 December 2020.

Proposal
To further encourage more companies to establish their Principal Hub in Malaysia, it is proposed that:

- i. the application period for Principal Hub incentive for companies undertaking qualifying service activities be extended for another 2 years; and

- ii. minimum condition of the number of high value job, annual operating expenditure, and the number of key post for renewal of the tax incentive for the second 5 years be relaxed.

Effective: For applications received by MIDA from 1 January 2021 to 31 December 2022

Review of existing tax incentive structure

A comprehensive study of the existing tax incentive structure is underway to provide a competitive, transparent, and more attractive tax incentive framework. To provide space for the study to be completed, the existing tax incentives, due to end this year, will be extended until 2022.

The extension includes tax incentives for Maintenance, Repair and Overhaul ("MRO") activities for aerospace, building and repair of ships, BioNexus status and economic corridor developments.

Our commentary:
It was announced during the 2020 Budget that the Government had embarked on a comprehensive review and revamp of the existing incentive framework, comprising the Promotion of Investments Act 1986, special incentive package, and incentives under the Income Tax Act 1967. The new framework was expected to be ready by 1 January 2021. Given local and global developments over the past year, it is likely that the Government will need more time to complete the review.

At this juncture, it is not clear if the existing tax incentives to be extended are limited to the above, as announced in the Budget Speech, or will be extended to cover all other tax incentives which may be expiring at the end of this year as well.

Review of income tax exemption on the Green Sustainable and Responsible Investments ("SRI") sukuk grant

The SC currently administers the Capital Markets Development Fund which provides sukuk issuers a financial grant to support the issuance of Green SRI sukuks. This grant is intended to finance up to RM300,000 of external review expenses incurred by the sukuk issuer. The grant received by Green SRI sukuk issuers will be exempted from income tax where the applications for the grant is received by the SC from 1 January 2018 to 31 December 2020.

It is proposed that:
a) The scope of the grant and tax exemption be extended to also include all SRI sukuk and bonds which meet the ASEAN Green, Social and Sustainability Bond Standards approved by the SC; and
b) The income tax exemption is extended for 5 years.

Effective: Applications received by the SC from 1 January 2021 to 31 December 2025

Incentive for employment of new graduate and conducting apprentice training program

In last year's Budget 2020 under the Malaysian@Work measure, it was announced that an unemployed graduate for more than a year would receive RM500 per month (over two years) from the government upon securing a job. On the other hand, employers will receive a hiring incentive of RM300 per month for each new hire of graduate over two years.

This year, to create job opportunities and at the same time provide employment exposure to our new graduates, it is proposed that the Government will provide the following:

- An incentive of RM1,000 per month for up to 3 months be given to private sector employers for each new graduate participating in an apprenticeship program; and
- A grant of up to RM4,000 be given to private sector employers for conducting training programs for the apprentices.

The program is expected to benefit up to 50,000 new graduates with an allocation of RM250 million.

Extension of East Coast Economic Region ("ECER") tax incentive period

ECER covers the states of Kelantan, Terengganu, Pahang, and the district of Mersing, Johor. The key objective of ECER plan is to boost the economic development in the following sectors:

- Manufacturing
- Oil, gas and petrochemicals
- Tourism
- Agribusiness; and
- Human capital development.

Currently, a Malaysian incorporated company undertaking qualifying activity in ECER may submit application for ECER tax incentives to the Minister of Finance ("MOF") through the ECER Development Council from 13 June 2008 to 31 December 2020.

Proposal
As the closing date for the ECER tax incentive application is fast approaching, it is proposed that the application for the ECER incentive period be extended to year 2022.

Extension of Iskandar Malaysia ("IM") tax incentive period

IM is a special economic zone in South Johor. IM is positioned as an "international city", decreasing trade barrier, escalating human mobility and increasing international financing.

Currently, there is a three-tier package incentive available for an approved company in the approved node (Medini). The existing income tax exemption is valid until year of assessment 2020.

Proposal
It is proposed that the above tax incentive be extended to year of assessment 2022.

Extension of Sabah Development Corridor ("SDC") tax incentive period

SDC was launched on 29 January 2008 and is aimed at accelerating the growth of Sabah's economy.

Currently, a Malaysian-incorporated company undertaking a qualifying activity in SDC may submit application for SDC tax incentives to the Sabah Economic Development and Investment Authority from 20 November 2012 to 31 December 2020.

Proposal
As the tax incentive application period is expiring soon, it is proposed that the application period for the SDC incentive be extended to year 2022.

Extension of health/medical tourism tax incentive period

Currently, a company that provides private healthcare facilities services to qualified healthcare travelers is given tax exemption on statutory income equivalent to investment tax allowance of 100% of qualifying capital expenditure incurred within 5 years.

In Budget 2018, the tax incentive application period was extended to 31 December 2020.

Proposal
As the tax incentive application period ends in December 2020, it is proposed that the incentive be further extended until the year of assessment 2022.

Extension of period of tax incentives for export of private healthcare services

Currently, private healthcare companies are eligible for income tax exemption on income derived from providing private healthcare services to foreign patients either in Malaysia or from Malaysia subject to meeting the following conditions:

i. at least 10% of the total number of patients receiving private healthcare services for each year of assessment comprised of qualified healthcare travelers; and

ii. at least 10% of the company's gross income for each year of assessment is derived from qualified healthcare travelers.

The income tax exemption is given at the statutory income level equivalent to 100% of the value of the increase in exports of services but limited to 70% of the statutory income derived from the export of healthcare services. This incentive will expire in the year of assessment 2020.

Proposal
To promote the export of private healthcare services and to attract high value healthcare travelers, it is proposed that the above tax exemption be extended for another 2 years up to year of assessment 2022.

Our commentary:
Although our medical fees are highly competitive and affordable compared to our neighboring countries, companies providing private healthcare services may not be able to enjoy the tax benefits arising from the extended period of tax exemption as our international border is still closed to foreign travelers due to COVID-19. There is also an uncertainty as to when our international borders will reopen. As an alternative, private healthcare companies may look into the possibility of providing private healthcare services via online video consultations to foreign patients.

Review of tax incentive for manufacturers of Industrialised Building System ("IBS") components

Currently, manufacturers producing IBS basic components and IBS systems are provided with 2 categories of incentives.

It is proposed that the current IBS tax incentives be simplified and merged. Companies producing at least 3 basic components of IBS or IBS system that use at least 3 basic IBS components would be given an investment tax allowance of 60% on qualifying capital expenditure incurred within 5 years to be set off against 70% of statutory income.

Effective: Applications received by MIDA from 1 January 2021 to 31 December 2025

Targeted wage subsidy

The wage subsidy program was introduced in the PRIHATIN package announced by the Prime Minister on 27 March 2020. Subsequent stimulus packages extended the wage subsidy of up to RM1,200 per employee for all companies with local workers earning RM4,000 and below. The program ended on 30 September 2020.

Proposal
It is proposed that the Government extends the implementation of the wage subsidy program for another 3 months but with a more targeted approach, i.e. specifically for the tourism sector, which includes the retail sector.

RM1.5 billion shall be allocated to provide RM600 per month subsidy for workers earning RM4,000 and below. The limit of 200 employees per application will be increased to 500 employees. This targeted wage subsidy program is expected to benefit 70,000 employers and 900,000 employees.

Further tax deduction on remuneration given to employers who employ senior citizens, ex-convicts, and former drug addicts

For the years of assessment 2019 and 2020, employers are eligible to claim further deduction on remuneration paid to the following categories of employees:

- senior citizens who are 60 years and above;
- an ex-convict who is a person who had been convicted for any offence by a court and had served his sentence of imprisonment;
- a parolee as defined in the Prison Act 1995;

Further tax deduction on remuneration given to employers who employ senior citizens, ex-convicts and former drug addicts (cont'd)

- a supervised person who is a prisoner directed by an Officer in Charge to work at such labour under subparagraph 47(1)(b)(iii) of the Prison Act 1995; or
- an ex-drug dependant who:
    - had undergone treatment and rehabilitation pursuant to the Drug Dependants (Treatment and Rehabilitation) Act 1983;
    - had undergone supervision pursuant to paragraph 6(1)(b) of the Drug Dependents (Treatment and Rehabilitation) Act 1983 or subsection 38B(1) of the Dangerous Drugs Act 1952; or
    - had been placed under supervision paragraph 8(3)(b) of the Drug Dependants (Treatment and Rehabilitation) Act 1983;
    - and is registered with the National Anti-Drugs Agency (MyAADK system).

The deduction is allowed if:

- the employee is employed on a full-time basis;
- monthly remuneration does not exceed RM4,000;
- the employer and the employee are not the same person;
- the employer is not a relative of the employee, i.e. a spouse, a parent, including step parent or parent-in-law, a child, including step child or a child adopted in accordance with any law, a brother or sister, including step brother or step sister, a grandparent or grandchild, including step grandparent or step grandchild.

It is proposed that the further tax deduction on remuneration given to employers who employ senior citizens, ex-convicts, parolees, supervised persons and former drug addicts be extended until year of assessment 2025.

Effective: Years of assessment 2021 to 2025

Individual Tax

Review of income tax rate for resident individuals

It is proposed that the income tax rate for resident individuals be reduced by 1 percentage point for the chargeable income band of RM50,001 to RM70,000 from 14% to 13%.

Chargeable income (RM)	Existing Tax Rates	Proposed Tax Rates
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%**	**13%**
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%
2,000,001 and above	30%	30%

Effective: Year of assessment 2021

Review in the limit of income tax relief on expenditures of medical treatment, special needs and parental care

Income tax relief on medical expenses paid by resident individual to medical practitioner registered with the Malaysian Medical Council ("MMC"), special needs and parental care is proposed to be increased from RM5,000 to RM8,000.

Effective: Year of assessment 2021

Budget commentary

"The proposals in relation to the reduction in personal income tax rate, albeit its minimal quantum, and the increase in the amounts that can be claimed in selected personal income tax reliefs, will help to a certain extent, reduce the tax burden of the working rakyat. The selected tax reliefs were well thought through in ensuring their relevance across all taxpayers in the current challenging times."

Ang Weina
Global Employer Services
National Practice Leader

Review of resident individual income tax relief on self / spouse / children medical expenses

Currently, a resident individual taxpayer is eligible to claim income tax relief on medical expenses incurred on self / spouse / children on serious illness up to RM6,000 per year of assessment. This includes expenses for a complete medical examination for the taxpayer, spouse and children not exceeding RM500 per annum.

It is proposed that:

The relief on medical expenses incurred on self / spouse / children on serious illness will be increased from RM6,000 to RM8,000 of which:

(i) The complete medical examination expenses will be increased from RM500 to RM1,000; and

(ii) The tax relief on medical expenses incurred on self / spouse / children will be expanded to include vaccination expenses up to RM1,000. The vaccines eligible for the tax relief are as follows:

a. *Pneumococcal*;
b. *Human Papillomavirus* (HPV);
c. *Influenza*;
d. *Rotavirus*;
e. *Varicella*;
f. *Meningococcal*;
g. *Combination of tetanus, diphtheria and acellular pertussis* (Tdap); and
h. COVID-19 (subject to availability of vaccine).

Effective: Year of assessment 2021

Review of resident individual income tax relief on disabled spouse

Additional tax relief on disabled spouse is proposed to be increased from RM3,500 to RM5,000.

Effective: Year of assessment 2021

Extension of resident individual income tax relief on Private Retirement Scheme (“PRS”)

It is proposed that the RM3,000 income tax relief on PRS be extended for another 4 years.

Effective: Years of assessment 2022 to 2025

Review of resident individual income tax relief on lifestyle expenses

Currently, a resident individual taxpayer is eligible to claim income tax relief up to RM2,500 on lifestyle expenses incurred on purchase of reading materials; printed daily newspapers; sports equipment; computer, smartphone or tablet; subscription of broadband internet; and gymnasium membership fee.

It is proposed that:

(i) The relief on lifestyle expenses be increased from RM2,500 to RM3,000, where the additional of RM500 be allocated for the cost of purchasing sports equipment, entry / rental fees for sports facilities and participation fees in sports competitions; and

(ii) The scope of relief for printed daily newspapers will be expanded to include subscription of electronic newspapers.

Effective: Year of assessment 2021

Extension of resident individual income tax relief on net annual savings in the National Education Savings Scheme

It is proposed that the tax relief of RM8,000 on net annual savings to the National Education Savings Scheme (*Skim Simpanan Pendidikan Nasional* – SSPN) by an individual taxpayer be extended for another 2 years.

Effective: Years of assessment 2021 and 2022

Expansion of the scope of resident individual income tax relief for expenses on study fees

Presently, an individual taxpayer who pursues any course of study in selected fields, or Master or Doctorate in any field offered by institutions or professional bodies in Malaysia recognised by the Government of Malaysia or approved by the Minister of Finance are eligible to claim a maximum of RM7,000 tax relief on study fees. The eligible fields of study are as follows:

Level of study	Field of study
Certificate / Diploma / Bachelor	Law, accounting, Islamic finance, skills or vocational, technical, industrial, scientific and technological skills
Master / Doctorate	All fields

It is proposed that:

(i) The scope of relief be expanded to cover fees for attending upskilling and self-enhancement courses in any field of skills recognised by the Department of Skills Development, Ministry of Human Resources; and

(ii) The tax relief on this additional scope is limited to RM1,000 for each year of assessment.

Effective: Years of assessment 2021 and 2022

Increase in the limit of income tax exemption on compensation for loss of employment

Section 13(1)(e) of the Income Tax Act 1967 provides that compensation received for loss of employment is taxable on individuals.

However, individuals with loss of employment are eligible to claim for exemptions provided under Paragraph 15(1) of Schedule 6 of the Income Tax Act 1967 under the following circumstances:

(i) 100% tax exemption on the compensation for loss of employment due to ill health; or
(ii) RM10,000 income tax exemption for each full year of service with the same employer or companies within the same group.

It is proposed that the exemption limit in (ii) be increased from RM10,000 to RM20,000 for each full year of service. This is to assist taxpayers who lose their jobs due to the COVID-19 pandemic.

Effective: Years of assessment 2020 and 2021

Special income tax rate for non-citizen individuals holding key positions in companies investing in new strategic investments

Currently, resident individuals are taxed on progressive rates ranging from 0% to 30%, while non-resident individuals are taxed at a flat rate of 30%.

Individuals who fall under the following categories are taxed at a preferential tax rate of flat 15%:

(i) Malaysian citizens who return to work in Malaysia and are categorised as experts and approved under the Returning Expert Program ("REP");
(ii) Individual knowledge workers in Iskandar Malaysia; and
(iii) Individual knowledge workers in Malaysia-China Kuantan Industrial Park.

Under the PENJANA, the Government announced tax incentive of 0% income tax rate for a period of up to 15 years for manufacturing companies that relocate their operations to Malaysia.

Proposal
In addition to the existing tax incentive offered to companies relocating their operations to Malaysia, it is proposed that non-citizen individuals who hold key positions / C-Suite positions in these companies be taxed at a flat rate of 15%, subject to the following conditions:

(i) Holding the key position for a period of 5 consecutive years;
(ii) Receiving a monthly salary of not less than RM25,000; and
(iii) A Malaysian tax resident for each year of assessment throughout the flat rate tax treatment.

This tax incentive is limited to 5 non-citizen individuals employed in each company that has been granted relocation tax incentive under PENJANA initiative.

Effective: Applications received by MIDA from 7 November 2020 until 31 December 2021

Extension of tax incentive for REP

To further encourage skilled Malaysian citizens working abroad to return and work in Malaysia, it is proposed that application period for REP incentive be extended for another 3 years and the incentive be revised as follow:

(i) flat rate of 15% for a period of 5 consecutive years of assessment; and

(ii) exemption on import duty and excise duty for the purchase of a Complete Built-Up ("CBU") vehicle or excise duty exemption for the purchase of a Complete Knocked-Down ("CKD") vehicle subject to the total duty exemption limited to RM100,000.

Effective: Applications received by Talent Corporation Malaysia from 1 January 2021 until 31 December 2023

Reduction of employee's contributions to the Employees' Provident Fund ("EPF")

The Government will leverage on the EPF to increase the disposable income of individuals.

It is proposed that the rate of employee's contribution to the EPF be reduced from 11% to 9% for a period of 12 months beginning January 2021.

Effective: 1 January 2021 to 31 December 2021

Introduction of *wakaf* services

Permodalan Nasional Berhad ("PNB") through Amanah Saham Nasional Berhad ("ASNB") will introduce wakaf services to all ASNB unit trust holders. Under this service, unit holders can endow some of their units into ASNB wakaf fund and be eligible for an income tax deduction.

Effective: To be confirmed

Stamp Duty

Stamp duty exemption for first residential property

Presently, 100% stamp duty exemption is given on instrument of transfer and loan agreement for the purchase of the first residential property valued up to RM300,000 by a Malaysian citizen.

For purchase of the first residential house valued between RM300,000 to RM500,000, full stamp duty exemption is limited to the first RM300,000 of the value of the property or loan amount while the remaining value of the property is subject to prevailing rate of stamp duty.

Proposal
It is now proposed that full stamp duty exemption on both instrument of transfer and loan agreement for the purchase of the first residential property by a Malaysian citizen be increased from RM300,000 to RM500,000.

Effective: Sale and Purchase Agreement executed from 1 January 2021 until 31 December 2025

Budget commentary

"As part of the Government's effort to increase home ownership especially for first time buyers, full stamp duty exemption on instrument of transfer and loan agreement will certainly help to reduce the cost of owning a house by the rakyat."

Chee Pei Pei
Executive Director

Extension of stamp duty exemption for abandoned housing projects

Tax incentive to revive abandoned housing projects was first announced in 2013. This was aimed at reviving abandoned housing projects.

Currently, rescuing contractor/developer and original house purchaser in the abandoned project are given stamp duty exemption on loan agreements and instruments of transfer of the house.

It is proposed that stamp duty exemption on loan agreements and instruments of transfer given to the rescuing contractor / developer and original buyers be extended for another five years. The abandoned housing projects must be certified by the Ministry of Housing and Local Government.

Effective: Loan agreement and instrument of transfer executed from 1 January 2021 until 31 December 2025

Extension of stamp duty exemption for Perlindungan Tenang Products

Currently, insurance policy and takaful certificate relating to Perlindungan Tenang products with yearly premium / contribution not exceeding RM100 is given stamp duty exemption.

This is targeted for lower income group to enable them to have insurance and takaful protection which includes life insurance, fire and flood insurance at a low premium.

It is proposed that this stamp duty exemption be extended for another five years.

Effective: For policies / certificates issued from 1 January 2021 until 31 December 2025.

Extension of stamp duty exemption for Exchange Traded Fund (“ETF”)

Currently, stamp duty exemption is given on contract notes relating to the trading of ETF.

It is proposed that this stamp duty exemption be extended for another five years.

Effective: For contract notes relating to ETF executed from 1 January 2021 until 31 December 2025.

Indirect Tax

Increase in the permissible limit of value added activities / additional activities for companies operating in Free Industrial Zones ("FIZs") and Licensed Manufacturing Warehouses ("LMWs")

It is proposed that the current limit of 10% of the value added activities / additional activities permitted for companies operating in FIZs or LMWs be increased to 40% of the company's annual sales turnover.

Effective: New applications or applications for increase in sales value limit that is received by the Royal Malaysian Customs Department ("**RMCD**") **from 7 November 2020**

Our commentary:
This relaxation gives more flexibility to companies wishing to diversify their business and / or restructure their supply chain in response to the challenging and dynamic market environment.

Budget commentary

"The Minister had earlier alluded to an expansion of the Sales and Service Tax ("SST") but this was not reflected in the budget speech. This may come later in the Finance Bill. However, what we did see were some pointed measures introduced to facilitate cross-border trade and also curb black economy."

Tan Eng Yew
Indirect Tax Leader

Authorised Economic Operator ("AEO") facility to be implemented at national level with expansion of scope

Currently, the RMCD grants AEO status to qualifying importers, exporters, manufacturers and traders in Malaysia.

It is proposed for the AEO to be implemented at national level and expanded to cover logistics service providers and approved warehouse operators. RMCD will integrate 43 other permit and trade licence issuing agencies with the AEO platform.

The proposal is intended to increase the use of the AEO facility to enhance efficiency of cross-border trade.

Effective: To be confirmed

Our commentary:
Companies with AEO status are able to enjoy among others, fast clearance of goods from Customs control, simplified documentation and deferred payment of import / export duties / sales tax. This would reduce clearance time for goods with Customs and ease cash flow impact for businesses. This is a positive move towards lowering the cost of doing business in Malaysia.

Further details and guidelines should be issued in the near future.

Increasing indirect tax revenue and enforcement on cigarettes and tobacco products

It is proposed that the Government will implement a number of indirect tax measures as part of its revenue sustainability strategy. These include freezing new import licences for cigarettes, tightening renewal of import licences for cigarettes including imposing quotas, limiting transhipment of cigarettes to dedicated ports, imposing indirect taxes on transhipment with drawback facilities for re-export of cigarettes, restriction on transshipment, and re-export of cigarettes via certain small boats, and imposing indirect taxes on cigarettes and tobacco products in duty free islands. From an excise duty perspective, an excise duty of 10% is proposed on devices for all types of electronic and non-electronic cigarettes including vape. The liquid used in electronic cigarettes is proposed to be levied with an excise duty at the rate of 40 cents/ml.

Effective: 1 January 2021

Our commentary:
With the Government reportedly losing RM5 billion per annum in indirect taxes due to the illicit cigarette market, the proposed measures appear to be geared towards recouping the loss of revenue, even to the extent of removing the current tax-free status for cigarettes and tobacco products in the duty free islands (the English version of the Budget Speech even states this would also be for the free zones selling such products via retail).

These measures should also stem the tide of illicit cigarettes flooding the market.

Expansion of Tourism Tax to accommodation premises booked through online platforms

Tourism Tax is levied on a tourist staying at any accommodation premises, made available by any operator. The rate of tax is RM10 per night and is collected by the operator.

An accommodation premise generally includes all premises offering lodging or sleeping accommodation including hotels, boarding houses, etc., but excludes certain small operators such as homestays and premises having up to 4 rooms.

There is currently an exemption for Tourism Tax from 1 July 2020 to 30 June 2021.

The proposal is to broaden the scope of the tourism tax to premises booked through online platforms.

Effective: 1 July 2021

Our commentary:
Online marketplace accommodation providers enable guests to book a wide array of privately owned accommodation through an online platform. They are often in direct competition with more established hotels, motels and other forms of accommodation providers. At present, accommodation that is booked through online accommodation marketplaces are not within the scope of the Tourism Tax.

The proposal is to broaden the scope of the tax to premises booked through these platforms. This will even the playing field across all accommodation providers.

Although not clear, the mechanism may involve the platform operator being required to collect the tax on behalf the operators.

Extension of sales tax exemption on the acquisition of locally assembled buses by bus operators

It is proposed that the sales tax exemption granted on the acquisition of locally assembled buses by bus operators be extended to 31 December 2022.

Effective: 1 January 2021 to 31 December 2022

Our commentary:
The proposal extends the existing relief to bus operators that is due to expire on 31 December 2020. The exemption is available to bus operators operating express buses, stage buses, school buses, tour buses and workers buses. The extension is a positive move for bus operators and assemblers alike in this challenging period.

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Triple recognition at the International Tax Review Asia Tax Awards 2020

In the recently announced International Tax Review ("ITR") Asia Tax Awards 2020, Deloitte Malaysia clinched three awards - two national and one regional.

For the third time in the last four years, we have been named the coveted **Malaysia Tax Firm of the Year**. We were also recognised as the **Transfer Pricing Firm of the Year**, with our Transfer Pricing Partner, Theresa Goh being awarded the prestigious title of **Asia Transfer Pricing Practice Leader of the Year**.

The ITR Asia Tax Awards identifies tax professionals and firms who have demonstrated exceptional track record in the Asia-Pacific ("APAC") region. Winners undergo a thorough judging process combining input from tax practitioners and their clients, who judge based on the firm's best work. These criteria include the level of innovation demonstrated in solving tax issues, project complexity, as well as the overall impact on clients.

We are humbled and grateful to receive such recognition. Thank you for the trust and confidence you place in us as your advisors and partners. We look forward to continuing this partnership with you, especially during this challenging period.

As part of a series of celebration for our recent triple recognition, we are bringing you a 3-day webinar. For the very first time, you will be able to tune in and participate in our TaxMax from anywhere you are. Our experts will provide you with an in-depth analysis of the 2021 National Budget announcement, as well as many other topics to prepare you and your organisation towards the new future with more confidence!

To register your interest, please click here and we look forward to meeting you all virtually.