

2020

Issue. 5

TRICOR INSIGHTS

Budget Edition

2021 BUDGET INSIGHTS

Opening

The Malaysian 2021 Budget was announced on 6 November 2020 by the Minister of Finance. The 2021 Budget has an allocation of RM322.5 billion, higher than the previous allocation of RM314.7 billion. The increase in allocation is intended to stir economic recovery by contributing to the well-being of the people, enabling business continuity and developing economic resilience. Using a targeted approach, the 2021 Budget allocation is aimed at striving to achieve a balance between the Government's financial sustainability, reducing the urban and rural development gap and upholding the enablers required to shape the economy.

The 2021 Budget is anchored on Three Integral Goals:


- (1) Well Being of the People;
- (2) Business Continuity; and
- (3) Economic Resilience.




The Three Integral Goals are a continuation of the *Prihatin, Prihatin SME+, Penjana and Kita Prihatin* economic stimulus packages announced throughout this year following the COVID-19 pandemic outbreak.






We summarise below the key tax proposals announced in the 2021 Budget. These are based only on the Budget Speech by the Finance Minister as the legislative amendments have not yet been tabled in Parliament. The legislative amendments would provide more details on the specific changes to the tax legislation. The 2021 Budget is also premised on the nation achieving a growth rate of 6.5% to 7.5% in 2021 and the economy rebounding from the impact of the pandemic.




Key Budget Proposals

1. Tax incentives




	<p><i>Green Sustainable and Responsible Investments (SRI) Sukuk Grant</i></p> <ul style="list-style-type: none"> • To encourage the issuance of SRI sukuk and bonds which meet the ASEAN Green, Social and Sustainability Bonds Standard in Malaysia, the existing income tax exemption for Green SRI Sukuk Grant will be expanded to all types of SRI sukuk and bonds approved by the Securities Commission of Malaysia and the income tax exemption period is extended for another 5 years <p>[For applications received by the Securities Commission Malaysia from 1 January 2021 to 31 December 2025]</p>
	<p><i>Companies Manufacturing Pharmaceutical Products including Vaccines</i></p> <ul style="list-style-type: none"> • Preferential income tax rates for manufacturers of pharmaceutical products including vaccines as follows: <ul style="list-style-type: none"> ▪ 0% to 10% for the first 10 years; and ▪ 10% for the subsequent period of 10 years <p>[For applications received by Malaysian Investment Development Authority (MIDA) from 7 November 2020 to 31 December 2022]</p>







	<p><i>Companies Relocating Their Operations to Malaysia and Undertaking New Investments</i></p> <ul style="list-style-type: none"> • Application period is extended for another 1 year; • Scope of tax incentives is expanded to include companies in selected services sector (including companies adapting Industrial Revolution 4.0 and digitalisation technology) <p>Tax incentives:</p> <ul style="list-style-type: none"> • New company – Income tax rate of 0% to 10% for a period up to 10 years • Existing company with new services segment – Income tax rate of 10% for a period up to 10 years <p>[Effective date:</p> <ul style="list-style-type: none"> • Manufacturing sector – Applications received by MIDA until 31 December 2022 • Selected services sector – Applications received by MIDA from 7 November 2020 to 31 December 2022]
	<p><i>Non-Resident Individuals Holding Key Positions in Companies Investing in New Strategic Investments</i></p> <ul style="list-style-type: none"> • Flat income tax rate of 15% for non-citizens holding key positions/ C-suite positions for a period of 5 consecutive years earning a monthly salary of at least RM25,000 (limited to 5 non-resident individuals per company that has been granted relocation tax incentive under PENJANA initiative) • Foreign individual is required to be a tax resident for each YA throughout the flat rate treatment <p>[For new applications received by MIDA from 7 November 2020 to 31 December 2021]</p>
	<p><i>Commercialisation of Research and Development (R&D) Findings</i></p> <ul style="list-style-type: none"> • Tax incentive for commercialisation of non-resource-based R&D findings is introduced • Tax incentives for commercialisation of R&D findings by public research institutions (including public higher learning institutions) is expanded to include private higher learning institutions • Tax incentives: <ul style="list-style-type: none"> Investor company – Tax deduction equivalent to the amount of investment made in a subsidiary company that commercialises the R&D findings ▪ Subsidiary companies - Income tax exemption of 100% of statutory income for 10 YAs for companies that commercialise R&D findings <p>[For applications received by MIDA from 7 November 2020 to 31 December 2025]</p>


	<p>Global Trading Centres</p> <ul style="list-style-type: none"> • New tax incentive introduced for the establishment of Global Trading Centres • Concessionary income tax rate of 10% for a period of 5 years and renewable for another 5 years <p>[For applications received by MIDA from 1 January 2021 to 31 December 2022]</p>
	<p>Principal Hub</p> <ul style="list-style-type: none"> • Application period is extended for another 2 years; and • Relaxation of conditions relating to the number of high value workers, number of key posts and annual operating expenditure for the second 5-year period <p>[For new applications received by MIDA from 1 January 2021 to 31 December 2022]</p>
	<p>Equity Crowd Funding</p> <ul style="list-style-type: none"> • Income tax exemption on aggregate income equivalent to 50% of the amount of investment made in equity crowd funding (limited to RM50,000 per YA and deduction is restricted to 10% of aggregate income for the YA) verified by the Securities Commission Malaysia) • Investment must not be disposed (in full or in part) within 2 years from the date the investment is made <p>[For investments made from 1 January 2021 to 31 December 2023]</p>
	<p>Returning Expert Programme</p> <ul style="list-style-type: none"> • Flat tax rate of 15% is extended for 5 consecutive YAs • Exemption on import duty and excise duty for the purchase of a CBU vehicle or exemption on excise duty for the purchase of a CKD vehicle subject to the total duty exemption limit of RM100,000 <p>[For applications received by Talent Corporation Malaysia Berhad from 1 January 2021 to 31 December 2023]</p>
	<p>Manufacturers of Industrialised Building System (IBS) Components</p> <ul style="list-style-type: none"> • To encourage technology adaptation in the construction sector, companies are only required to produce at least 3 basic components of IBS, or IBS system that uses at least 3 basic IBS components. • Companies are eligible for investment tax allowance of 60% on qualifying capital expenditure incurred within 5 years for set off against 70% of statutory income <p>[For applications received by MIDA from 1 January 2021 to 31 December 2025]</p>

	<p>Extension of existing tax incentives</p> <ul style="list-style-type: none"> Existing tax incentives available for the East Coast Economic Region Development Corridor, Iskandar Malaysia and Sabah Development Corridor are extended until 31 December 2022 Incentives relating to Maintenance, Repair and Overhaul (MRO) activities for aerospace, building and repair of ships, Bionexus status are extended until 31 December 2022
	<p>Extension of Tax Exemption for Export of Private Healthcare Services</p> <ul style="list-style-type: none"> Tax exemption equivalent to 100% of the value of the increase in the export of healthcare services to foreign patients either in Malaysia or from Malaysia for set-off against 70% of the statutory income derived from the export of healthcare services is extended for another 2 years (subject to meeting certain conditions) <p>[Effective for YAs 2021 and 2022]</p>
	<p>Further deduction on remuneration to employers</p> <ul style="list-style-type: none"> Further tax deduction on remuneration paid to ex-convicts, parolees, supervised persons, ex-drug dependants and senior citizens is extended for another 5 years <p>[Effective for the years of assessment (YA) 2021 to 2025]</p>





2. Personal tax

	<p>Tax relief on medical expenses</p> <ul style="list-style-type: none"> Scope of tax relief of up to RM1,000 for medical treatment expenses is expanded to include vaccination expenses for self, spouse and child. Tax relief on medical expenses for serious diseases for self, spouse and child and fertility treatment for self and spouse is increased from RM6,000 to RM8,000 Tax relief on full medical check-up is increased from RM500 to RM1,000 <p>[Effective from YA 2021]</p>
	<p>Tax relief on medical expenses for parents</p> <ul style="list-style-type: none"> Tax relief for medical treatment, special needs and carer expenses for parents is increased from RM5,000 to RM8,000 <p>[Effective from YA 2021]</p>
	<p>Tax relief for disabled spouse</p> <ul style="list-style-type: none"> Tax relief for an individual taxpayer with a disabled spouse is increased from RM3,500 to RM5,000 <p>[Effective from YA 2021]</p>

	<p><i>Reduction in personal income tax rate for resident individuals</i></p> <ul style="list-style-type: none"> Reduction in tax rate for the RM50,001 – RM70,000 chargeable income bracket from 14% to 13% <p>[Effective from YA 2021]</p>
	<p><i>Income tax exemption on compensation for loss of employment</i></p> <ul style="list-style-type: none"> Income tax exemption on compensation for loss of employment with the same employer or companies within the same group is increased from RM10,000 to RM20,000 for each full year of service <p>[Effective for YAs 2020 and 2021]</p>
	<p><i>Tax Relief on Study Fees for Self</i></p> <ul style="list-style-type: none"> Scope of relief for study fees of RM7,000 is expanded to include fees for attending up-skilling and self-enhancement courses recognised by Department of Skills Development, Ministry of Human Resources, limited to RM1,000 <p>[Effective for YA 2021 and 2022]</p>
	<p><i>Tax Relief on Contribution to Private Retirement Scheme (PRS)</i></p> <ul style="list-style-type: none"> Income tax relief of up to RM3,000 on PRS contributions is extended for another 4 years <p>[Effective for YA 2022 to 2025]</p>
	<p><i>Lifestyle Relief</i></p> <ul style="list-style-type: none"> Lifestyle relief includes purchase of reading materials, personal computer, smartphone or tablet, sports equipment, gym membership and internet subscription Lifestyle relief is increased from RM2,500 to RM3,000. Additional RM500 is for purchasing sports equipment, entry/rental fees for sports facilities and participation fees in sports competitions Scope of relief for printed daily newspapers is expanded to include subscription for electronic newspapers <p>[Effective from YA 2021]</p>
	<p><i>Tax Relief on amounts deposited in Skim Simpanan Pendidikan Nasional (SSPN)</i></p> <ul style="list-style-type: none"> Tax relief of up to RM8,000 on net annual savings in the SSPN is extended for another 2 years <p>[Effective for YAs 2021 and 2022]</p>


	<p>Wakaf services</p> <ul style="list-style-type: none"> Amanah Saham Nasional Berhad (“ASNB”) will introduce <i>wakaf</i> services to all ASNB unit trust holders. Unit holders will be eligible for tax deduction for the ASNB units endowed to the ASNB <i>wakaf</i> fund. <p>[Effective: To be confirmed]</p>
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3. Indirect tax

	<p>Extension of sales tax exemption</p> <p>Sales tax exemption on the purchase of locally assembled buses by bus operators including air conditioners is extended</p> <p>[Effective from 1 January 2021 to 31 December 2022.]</p>
	<p>Value-added activities in Free Industrial Zones (FIZs) and Licensed Manufacturing Warehouses (LMWs)</p> <p>Threshold for value added activities in FIZs and LMWs is increased from 10% to 40% of total annual sales value</p> <p>[For new applications and applications to increase the sales value limit received by the Royal Malaysian Customs Department from 7 November 2020]</p>
	<p>Excise duty on electronic and non-electronic cigarettes</p> <ul style="list-style-type: none"> Excise duty at the rate of 10% ad valorem for all types of electronic and non-electronic cigarette devices including vape Excise duty at the rate of RM0.40 per milliliter for liquid or gel used for electronic cigarette including vape <p>[Effective from 1 January 2021]</p>
	<p>Tightening of conditions pertaining to trading of cigarettes</p> <p>To address the smuggling of cigarettes, the following measures will be introduced:</p> <ol style="list-style-type: none"> Issuance of new licenses for importation of cigarettes frozen Tightening of conditions for the renewal of import license renewal Transshipment of cigarettes limited to dedicated ports only Imposition of duty on the importation of cigarettes with drawback facilities for re-export; Any transshipment activities and the re-exportation of cigarettes using local crafts disallowed; Imposition of excise duty on cigarettes and tobacco products in all duty-free islands. <p>[Effective from 1 January 2021]</p>

	<p>Authorised Economic Operator (“AEO”) facility</p> <ul style="list-style-type: none"> The AEO is an economic operator who is reliable / compliant in the context of customs related operations and therefore is entitled to enjoy benefits under the AEO facility such as fast Customs clearance of goods, deferred duty payments, simplified documentation requirement, etc. The AEO facility will be implemented at the national level with the aim of facilitating the AEO accreditation process and expanding AEO to logistic service providers and approved warehouse operators. The Royal Malaysian Customs Department will bring together 43 permit and trade licences agencies on the AEO platform to improve cross-border business efficiency and to increase productivity in the logistics sector. <p>[Effective: To be confirmed]</p>
	<p>Tourism tax on accommodation booked through online platforms</p> <ul style="list-style-type: none"> Tourism tax is expanded to include accommodation premises reserved through online platforms <p>[Effective 1 July 2021]</p>

4. Others

	<p>Stamp Duty Exemptions</p> <ul style="list-style-type: none"> Stamp duty exemption on instruments of transfer and loan agreements for purchase of the first residential home is now applicable to homes priced up to RM500,000 (compared to the maximum of RM300,000 previously) Period of full stamp duty exemption on the instrument of transfer and loan agreement for the purchase of the first residential home is extended for 5 years Stamp duty exemption is extended for another 5 years for rescuing contractor/ developer and Original House Purchaser for abandoned housing projects Stamp duty exemption is extended for another 5 years for the purchase of insurance policies and takaful certificates for <i>Perlindungan Tenang</i> products covering life, fire and flood insurance with an annual premium or contribution value not exceeding RM100 Stamp duty exemption is extended for another 5 years for contract notes for trading of Exchange Trading Fund <p>[For new loan agreements and instruments of transfer, insurance policies and <i>takaful</i> certificates, and trading of ETF executed from 1 January 2021 to 31 December 2025]</p>
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	<p><i>Employee Provident Fund (EPF) withdrawal</i></p> <ul style="list-style-type: none"> • Reduction of minimum employee EPF contribution rate from 11% to 9% for a period of 12 months beginning from January 2021 • Introduction of facility to withdraw EPF savings of RM500 per month from EPF Account 1 with a total of RM6,000 over 12 months effective from January 2021 • Partial withdrawal from Account 2 for the purchase of insurance and takaful products (approved by EPF relating to life/family and critical illness from approved insurance and takaful operators) effective from January 2021
	<p><i>Exemption from Human Resource Development Fund (HRDF) levies</i></p> <ul style="list-style-type: none"> • Exemption from HRDF levies given for 6 months for the tourism sector and companies affected by COVID-19 <p>[Effective 1 January 2021]</p>

Key comments

- Despite the challenging global and local economic climate, strong emphasis has been given towards ensuring that the welfare of the people is taken care in the 2021 Budget. This is evident in the targeted assistance (both tax and non-tax) provided in the 2021 Budget to cater to the needs of various groups of people. It shows the Government’s determination to ensure that the effects of the COVID-19 pandemic are effectively tackled.
- It is unclear whether the myriad of tax measures will be beneficial to the economy in the long run as the underlying structural tax framework and tax inefficiencies have not been focused on in trying to make Malaysia a more desirable investment destination. A phased corporate tax rate reduction of 1% annually and simplifying investment and tax provisions as well as making the public service delivery system even more efficient by using technology would have been welcomed.
- Besides the tax proposals mentioned above, there were many specific allocations and grants allocated to various agencies/ministries and these must be dealt with efficiently and effectively so that the desired outcome is achieved and there is an impact on the economy.

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