

## Highlights of the 2020 Malaysian Budget

The 2020 Malaysian Budget ('2020 Budget') was tabled by the Minister of Finance before the Malaysian Parliament on 11 October 2019.

As much coverage has already been given to the 2020 Budget in the media and commentaries by various professional services firms, our Alert will only highlight those measures from the 2020 Budget that may be of particular interest to companies and business owners.

The theme for the 2020 Budget is *Driving Growth and Equitable Outcomes towards Shared Prosperity*. The four thrusts anchoring the 2020 Budget are:

1. Driving Economic Growth in the New Economy and Digital Era
  2. Investing in Malaysians: Levelling Up Human Capital
  3. Creating a United, Inclusive and Equitable Society
  4. Revitalisation of Public Institutions and Finances.<sup>1</sup>
1. **Expediting approval of investments:** To overcome delays in approving domestic and foreign investments, the Government has established the National Committee on Investments (NCI).<sup>2</sup>
  2. **Review and revamp of incentive framework:** The Government has embarked on a comprehensive review and revamp of the existing investment framework, comprising the Promotion of Investments Act 1986, Special Incentive Package and incentives under the Income Tax Act 1967. The new framework is expected to be ready by January 2021.<sup>3</sup>
  3. **Attracting Fortune 500 Companies and Global Unicorns:** To attract targeted Fortune 500 companies and global unicorns in high technology, manufacturing, creative and new economic sectors, the Government will make available up to RM1 billion worth of customised packaged investment incentives annually over five years. To qualify, these companies must invest at least RM5 billion each in Malaysia which will generate additional economic activities that support Malaysia's Small Medium Enterprises ('SMEs'), create 150,000 high quality jobs over the next five years and strengthen the country's manufacturing and service ecosystems.<sup>4</sup>
  4. **Transforming Malaysia's best and most promising businesses:** The Government will make available up to RM1 billion in customised packaged investments annually over five years to transform Malaysia's best and most promising businesses into the most competitive enterprises in global export markets. These incentives are strictly conditional upon these companies proving their ability to grow and export their products and services globally. This measure is expected to significantly strengthen the local supply chain ecosystem and create an additional 100,000 high quality jobs for Malaysians over the next five years.<sup>5</sup>
  5. **Promoting high-value added activities in the E&E industry:** Tax incentives will be made available to further promote high-value added activities in the electrical and electronics ('E&E') industry to transition into 5G digital economy and Industry 4.0. These incentives include:
    - (a) Income tax exemption of up to 10 years to E&E companies investing in selected knowledge-based services; and

<sup>1</sup> Paragraph 13, 2020 Budget Speech.

<sup>2</sup> Paragraph 18, 2020 Budget Speech.

<sup>3</sup> Paragraph 19, 2020 Budget Speech.

<sup>4</sup> Paragraph 20, 2020 Budget Speech.

<sup>5</sup> Paragraph 21, 2020 Budget Speech.

- (b) Special Investment Tax Allowance to encourage companies in the E&E sector that have exhausted their Reinvestment Allowance to further invest in Malaysia.<sup>6</sup>
6. **Encouraging automation and increasing productivity:** To encourage automation and increase productivity, it is proposed that:
- (a) Accelerated Capital Allowance and automation equipment capital allowance for the manufacturing sector on the first RM2 million and RM4 million incurred on qualifying expenditure be extended to YA2023; and
- (b) The above incentive be expanded to include the services sector on the first RM2 million incurred on qualifying expenditure from YA2020 to YA2023.<sup>7</sup>
7. **Attracting more investments from China:** A 'Special Channel' will be established under InvestKL to attract more investments from China, our country's largest trading partner.<sup>8</sup>
8. **Accelerating the Digital Economy:** Amongst the measures proposed to accelerate the growth of the digital economy are the following:
- (a) A 5G Ecosystem Development Grant of RM50 million will be introduced to seed technological developments by Malaysian companies to ride the global 5G wave;
- (b) RM25 million will be allocated to set up a contestable matching grant fund to spur pilot projects on digital applications, such as drone delivery, autonomous vehicle, blockchain technology and other products and services that leverage on Malaysia's investments in fibre optics and 5G infrastructure;
- (c) A 50% matching grant of up to RM5,000 per company will be provided to encourage companies to adopt digitisation measures for their business operations, including electronic point of sale systems, enterprise resource planning and electronic payroll systems. The total amount of the grant will be worth RM500 million over five years and is limited to the first 100,000 SMEs that apply to upgrade their systems; and
- (d) RM550 million will be allocated to provide Smart Automation matching grants to 1,000 manufacturing and 1,000 services companies to automate their business processes. The grant will be on a matching basis up to RM2 million per company.<sup>9</sup>
9. **Promoting Exports:** Measures to encourage exports include the following:
- (a) The maximum amount per company under the Market Development Grant by Malaysia External Trade Development Corporation (MATRADE) will be increased from RM200,000 to RM300,000 per year;
- (b) The ceiling for participation in each export fair will be increased from RM15,000 to RM20,000; and
- (c) RM50 million will be allocated to encourage SMEs to engage in export promotion activities.<sup>10</sup>
10. **Digital Banking Framework:** Bank Negara Malaysia will issue the framework for digital banks for public consultation by end-2019. The framework is to be finalised by the first half of 2020 to invite applications.<sup>11</sup>

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<sup>6</sup> Paragraph 23 and Appendix 15 of 2020 Budget Speech.

<sup>7</sup> Paragraph 24 and Appendix 25 of 2020 Budget Speech.

<sup>8</sup> Paragraph 17, 2020 Budget Speech.

<sup>9</sup> Paragraphs 37, 38, 40 and 41, 2020 Budget Speech.

<sup>10</sup> Paragraph 52, 2020 Budget Speech.

<sup>11</sup> Paragraph 53, 2020 Budget Speech.

11. **Fintechs and Start-Ups:** Measures to promote the growth of fintech and start-ups include the following:
  - (a) The Government will allocate an additional RM50 million to the My Co-Investment Fund (MyCIF) under the Securities Commission Malaysia to leverage equity crowdfunding and peer-to-peer (P2P) lending platforms to help finance underserved SMEs; and
  - (b) The current tax incentives for venture capital and angel investors will be extended to 2023.<sup>12</sup>
12. **Private equity funding of overseas projects and concessions:** To catalyse and promote financing to construction consortiums bidding for projects and concessions overseas, the Government will provide a RM1 billion 1:5 matching guarantee for dedicated private equity funds to invest in Malaysian consortiums.<sup>13</sup>
13. **Restructuring Development Financial Institutions:** Four development financial institutions, namely Bank Pembangunan Malaysia, Danajamin Nasional, SME Bank and Export-Import Bank of Malaysia will be merged to strengthen the development finance ecosystem.<sup>14</sup>
14. **Liberalising the supply of electricity:** The current power purchase system will be migrated to a wholesale market in future. Renewable energy suppliers will be able to compete directly in the retail market and reduce the cost of electricity for consumers.<sup>15</sup>
15. **Extension of GITA And GITE:** To achieve the Government's goal of generating 20% of the country's electricity consumption from renewable sources by 2025, the incentive under the Green Investment Tax Allowance ('GITA') and Green Income Tax Exemption ('GITE') will be extended until 31 December 2023. The incentive under GITA remains the same whereas the tax exemption for qualifying green services under GITE has been reduced from 100% to 70% of statutory income.<sup>16</sup>
16. **Solar leasing activities:** Under a new incentive, solar leasing activities by solar leasing companies certified by the Sustainable Energy Development Authority (SEDA) will be given tax exemption of 70% of statutory income for up to 10 years of assessment. To obtain this incentive, an application must be received by the Malaysian Investment Development Authority (MIDA) by 31 December 2023.<sup>17</sup>
17. **Malaysians@Work:** This initiative seeks to create better employment opportunities for youth and women and to reduce the country's overdependence on low-skilled foreign workers. It comprises four components, namely:
  - (a) *Graduates@Work* whereby graduates who have been unemployed for more than 12 months will receive a wage incentive of RM500 per month and their employers will receive a hiring incentive of up to RM300 per month from the Government for two years;
  - (b) *Women@Work* whereby women between 30-50 years of age who return to work after having stopped for a year or more will receive a wage incentive of RM500 per month and their employers will receive a hiring incentive of up to RM300 per month from the Government for two years; The current income tax exemption for women who return to work after a career break will be extended until 2023<sup>18</sup>;

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<sup>12</sup> Paragraphs 54, 55 and Appendices 26 and 27 of 2020 Budget Speech.

<sup>13</sup> Paragraph 56, 2020 Budget Speech.

<sup>14</sup> Paragraph 61, 2020 Budget Speech.

<sup>15</sup> Paragraph 66, 2020 Budget Speech.

<sup>16</sup> Paragraph 67 and Appendix 17 of 2020 Budget Speech.

<sup>17</sup> Paragraph 67 and Appendix 17 of 2020 Budget Speech.

<sup>18</sup> Appendix 31 of 2020 Budget Speech.

- (c) *Locals@Work* whereby Malaysians who are hired to replace foreign workers will receive a wage incentive of either RM350 or RM500 per month (depending on the sectors) while their employers will receive a hiring incentive of up to RM250 per month from the Government for two years; and
  - (d) *Apperentice@Work* whereby double deductions of tax will be given to the employer for expenses incurred in participating in various approved training programmes.<sup>19</sup>
18. **Employment related matters:** Among the initiatives announced are:
- (a) Maternity leave in the private sector will be increased from 60 days to 90 days from 2021; and
  - (b) Minimum wage rate in **major cities** will be increased to RM1,200 per month commencing 2020.<sup>20</sup>
19. **Reducing tolls:** The three measures announced to reduce tolls are as follows:
- (a) PLUS Highways: There will be an average reduction in toll charges of 18% for all highways operated by PLUS Malaysia Berhad;
  - (b) Acquisition of four expressways: The Government has offered to acquire the Shah Alam Expressway (KESAS), Damansara-Puchong Expressway (LDP), Sprint Expressway (SPRINT) and SMART Tunnel (SMART) from the concession holder. If the acquisition is completed, adjustments to toll charges will translate to savings for users of these expressways; and
  - (c) Second Penang Bridge: The toll rate for the Second Penang Bridge will be reduced from RM8.50 to RM7.00 to align the charges with the First Penang Bridge.<sup>21</sup>
20. **Increase in personal income tax:** The tax rate for taxable personal income of resident individuals in excess of RM2.0 million will be increased from 28% to 30% commencing YA2020. This is expected to affect approximately 2,000 tax payers.<sup>22</sup>
21. **Increase in threshold for preferential tax rate for SMEs:** Presently the tax rate for the first RM500,000 of chargeable income of SMEs is 17%. The chargeable income that subjected to the 17% tax rate will be increased to RM600,000 commencing YA2020.<sup>23</sup>
22. **Merger of tax appeal tribunals:** The Special Commissioner of Income Tax and the Customs Appeal Tribunal will be merged into the Tax Appeal Tribunal. A taxpayer who is dissatisfied with the decision of the Director General of Inland Revenue or the Director General of the Royal Malaysian Customs may submit a tax-related appeal to the new tribunal, which is expected to be operational in 2021.<sup>24</sup>
23. **Digital Services Tax:** The Government confirmed its announcement at the 2019 Budget that digital service tax of 6% will be imposed on foreign service providers commencing 1 January 2020.<sup>25</sup>

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<sup>19</sup> Paragraphs 91 to 93, 2020 Budget Speech.

<sup>20</sup> Paragraphs 96 and 97, 2020 Budget Speech.

<sup>21</sup> Paragraphs 153 to 156, 2020 Budget Speech.

<sup>22</sup> Paragraph 193 and Appendix 6 of 2020 Budget Speech. Although this was not mentioned in the 2020 Budget Speech, Appendix 6 suggests that the fixed income tax rate for **non-resident individuals** will be increased from 28% to 30% from YA2020.

<sup>23</sup> Paragraph 194 and Appendix 1 of 2020 Budget Speech.

<sup>24</sup> Paragraph 196, 2020 Budget Speech.

<sup>25</sup> Paragraph 197, 2020 Budget Speech.

24. **Bandar Malaysia Project:** It was announced that the Bandar Malaysia Project, a development project involving 486 acres of land in Kuala Lumpur, will proceed.<sup>26</sup>
25. **Johor Bahru-Singapore Rapid Transit System (RTS):** As part of a longer-term solution to the causeway congestion, the Government proposes to proceed with the construction of the Johor Bahru-Singapore Rapid Transit System.<sup>27</sup>
26. **Pan-Borneo Highway:** The Government confirmed its commitment to complete the construction of the Pan-Borneo Highway. A 165km Trans-Borneo Highway connecting Sabah and Sarawak to Eastern Kalimantan will be launched.<sup>28</sup>
27. **Lowering threshold of high-rise properties for foreigners:** To reduce the overhang of unsold condominiums and apartments, the threshold for high-rise properties that may be purchased by foreigners in **urban areas** will be reduced from RM1 million to RM600,000 in 2020.<sup>29</sup>
28. **Base year for RPGT:** To determine the real property gains tax payable on properties disposed after five years or more, the base year will be 1 January 2013 for properties acquired before that date, as compared to the previous base year of 1 January 2000. This applies to disposal of properties made from 12 October 2019.<sup>30</sup>
29. **Increase in stamp duty for foreign currency loan:** The maximum stamp duty payable on foreign currency loans (conventional and Shariah) will be increased from RM500 to RM2,000 for loan agreements executed from 1 January 2020.<sup>31</sup>
30. **Tax deduction for listing expenses for technology companies and SMEs:** From YA2020 to YA2022, technology-based companies and SMEs will be allowed to claim tax deduction of up to RM1.5 million for listing fees to the authorities, professional fees and underwriting, placement and brokerage fees for listing on the ACE Market or the LEAP Market (but not the Main Market) of Bursa Malaysia. Presently, no tax deduction is permitted.<sup>32</sup>
31. **Deductions for secretarial fees and tax filing fees consolidated:** The allowable deductions for secretarial fee and tax filing fee of RM5,000 and RM10,000 respectively per annum will be combined and a total deduction of up to RM15,000 per annum for these expenses will be allowed. This will be effective from YA2020.<sup>33</sup>
32. **Stamp duty remission for transfer between close relatives:** Non-citizens of Malaysia will cease to qualify for the 50% remission of stamp duty for transfer of real property between parents and children and vice versa for natural love and affection. Effective for instruments of transfer executed from 1 January 2020.<sup>34</sup>
33. **Tax exemption for religious institutions which are CLBGs:** Tax exemption given to religious institutions or organisations established for the purposes of religious worship or advancement of religion registered under the Registrar of Societies will be extended to such institutions which are registered as companies limited by guarantee ('CLBG') with the Companies Commission of

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<sup>26</sup> Paragraph 202, 2020 Budget Speech.

<sup>27</sup> Paragraph 151, 2020 Budget Speech.

<sup>28</sup> Paragraph 116, 2020 Budget Speech.

<sup>29</sup> Paragraph 165, 2020 Budget Speech. The Government has clarified that the lower threshold will only apply to completed projects. Various quarters have criticised this proposal and maintained that the threshold should be determined by the respective States.

<sup>30</sup> Paragraph 167 and Appendix 11 of 2020 Budget Speech.

<sup>31</sup> Appendix 14 of 2020 Budget Speech.

<sup>32</sup> Appendix 4 of 2020 Budget Speech.

<sup>33</sup> Appendix 3 of 2020 Budget Speech.

<sup>34</sup> Appendix 13 of 2020 Budget Speech.

Malaysia. This will be effective for CLBG approved by Inland Revenue Board of Malaysia from YA2020.<sup>35</sup>

## COMMENTS

The 2020 Budget, which is diverse and caters to many segments of businesses and society, has received mixed reviews from Malaysians. The success of key initiatives, such as the drive towards a digital economy and boosting foreign investments, will depend on the strategies to be rolled-out to achieve these goals. It remains to be seen whether the key initiatives will be sufficient to enable the country to weather the impact of the slowdown in the global economy, sluggish commodities prices and the on-going U.S.-China trade war.

16 OCTOBER 2019

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<sup>35</sup> Paragraph 129 and Appendix 5 of 2020 Budget Speech.