

Highlights of the 2023 Malaysian Budget

03 MARCH 2023

The [2023 Malaysian Budget](#) ('**2023 Budget**') was tabled by the Minister of Finance before the Dewan Rakyat (House of Representatives) of the Malaysian Parliament on 24 February 2023.

The 2023 Budget is a revised budget. The original budget for 2023 had been tabled before the Dewan Rakyat on 7 October 2022 but was not debated due to the dissolution of Parliament on 10 October 2022.

The 2023 Budget is the largest in the country's history. Its allocation of RM388.1 billion surpasses the previous record of RM332.1 billion for the 2022 Malaysian Budget. The fiscal deficit estimated at 5.0% of the country's Gross Domestic Product is 0.6% less than the 5.6% deficit in 2022. To boost economic growth, development expenditure is increased from RM71.6 billion in 2022 to RM99 billion (including contingency reserves of RM2 billion) in 2023.

The 2023 Budget encompasses numerous initiatives, including subsidies and cash payments, to assist the lower and middle income segments of Malaysian society as the country continues its path towards recovery from the Covid-19 pandemic and to mitigate the effects of global inflation. The bulk of these initiatives will not be covered in this Alert unless they fall within the parameters outlined in the preceding paragraph.

The theme for the 2023 Budget is '**Membangun Malaysia Madini**' (*Developing Malaysia Madini*). The 2023 Budget is founded on three pillars, namely:

- First Pillar : Inclusive and Sustainable Economic Growth;
- Second Pillar : Institutional Reforms and Good Governance to Restore Confidence; and
- Third Pillar : Combating Inequality through Social Justice.

The three pillars are comprised of the following 12 measures:

First Pillar : Inclusive and Sustainable Economic Growth

- Measure 1 : Fiscal Sustainability
- Measure 2 : Fulfilling the Rakyat's Economic Needs
- Measure 3 : Facing Disasters
- Measure 4 : Achieving High Impact Investments

Second Pillar : Institutions Reforms and Good Governance to Restore Confidence

- Measure 5 : Public Sector Reform
- Measure 6 : Empowering Public-Private Partnership
- Measure 7 : Prioritising the Digital Agenda
- Measure 8 : Strengthening the Role of Government Linked Companies and Agencies

Third Pillar : Combating Inequality Through Social Justice

- Measure 9 : Eradicating Hardcore Poor
- Measure 10 : Minimising Cost of Living
- Measure 11 : Ensuring Harmony and Unity
- Measure 12 : Providing Quality Basic Amenities.

As much coverage has already been given to the 2023 Budget in the media and commentaries by various professional services firms, our Alert will only highlight the measures in the 2023 Budget that may be of particular interest to companies, business owners and investors.

References in this article to paragraphs and Appendices within parenthesis are references to paragraphs and Appendices to Appendix II respectively of the 2023 Budget Speech.

Measure I : Fiscal Sustainability

1. **Fiscal Responsibility Act:** The Bill which seeks to ensure greater transparency and accountable management of the economy to prevent continued transgressions in the future will be presented to Parliament this year (para. 24).
2. **Goods and Services Tax:** The Government has no present plans to re-introduce this consumption tax (para. 31).
3. **Expansion of tax base:** The following measures will be introduced:
 - a luxury tax will be introduced in 2023 on certain luxury goods, such as luxury watches and luxury fashion items (para. 32);
 - a low-rate capital gains tax will be imposed on the disposal of unlisted shares commencing 2024, after consultation sessions with the relevant parties (para. 32); and
 - an excise duty will be imposed on liquid or gel products containing nicotine used for electronic cigarettes and vapes (para. 33).
4. **Voluntary Disclosure Programme:** The Inland Revenue Board (LHDN) and Royal Malaysian Customs Department (RMCD) will reintroduce a voluntary disclosure programme whereby a 100% penalty waiver will be granted for voluntary disclosures from 1 June 2023 to 31 May 2024 (para. 36).
5. **Tax Rate Reduction for Micro, Small and Medium Enterprises:** From YA 2023, the tax rate on the first RM150,000 of taxable income for micro, small and medium enterprises (MSMEs) will be reduced from 17% to 15% (para. 39 and Appendix 5).
6. **RM40 Billion Financing and Guarantee Facilities:** Various government agencies, such as Bank Negara Malaysia (BNM), Bank Simpanan Nasional and TEKUN, and development financial institutions such as Agrobank, SME Bank and EXIM Bank will provide various financing facilities and guarantees with a total value of up to RM40 billion for the benefit of MSMEs, entrepreneurs (paras. 44 to 46). For further details, see pages 69 to 74 of Appendix I to the 2023 Budget.
7. **Encouraging Green Practices in Business Operations:** The following measures will be introduced to encourage green practices in business operations:
 - BNM will provide up to RM2 billion financing facility to support sustainable technology startups and help SMEs implement low carbon practices;
 - Khazanah Nasional Berhad (Khazanah) will provide RM150 million to spur the development of environmentally friendly projects including supporting the carbon market and reforestation; and
 - the Green Technology Financing Scheme (GTFS) will be enhanced with the guarantee value increased to RM3 billion until 2025(para. 55).

8. **Stimulate investment in high-impact and high-technology sectors:** To stimulate investments in line with the New Investment Policy:

- the Invest Malaysia Council and National Committee on Investment (NCI) will oversee the efforts to expedite approvals for high potential investment projects. PEMUDAH's role will be empowered as a national unit to facilitate the investment climate and business landscape; and
- the Government will improve the ease of doing business by reducing bureaucracy including incentivising local councils that facilitate the implementation of approved investments to ensure investment processes can be accelerated

(para. 57).

9. **New Industrial Master Plan 2030 and Restructuring of Investment Incentives:** The New Industrial Master Plan 2030 (NIMP) will be announced in the third quarter of 2023 to outline the future development of the industrial sector, with focus on high quality activities and employment of local talents. In line with the NIMP, investment incentives will be restructured towards tiered tax rates based on outcomes such as creating high-value jobs, embedding local firms into the supply chains, and creating new industrial clusters (para 59).

10. **Investment in Key Sectors:** The following are among the initiatives announced:

- to attract companies that were affected by the Covid-19 pandemic to operate in Malaysia, the tax incentives given to manufacturing companies that relocate to Malaysia and the tax rate of 15% for C-Suite will be extended until 2024;
- to encourage the expansion of existing companies and attract new investments, tax incentives and tax allowances for the aerospace sector will be extended until 31 December 2025 (see Appendix 22);
- to encourage the sustainable agenda and automation, Bank Pembangunan Malaysia Berhad will allocate up to RM6 billion for strategic financing specifically, aside from equity support and revolving working capital, for high-potential companies that are still affected by the Covid-19 pandemic;
- the Tun Razak Exchange (TRX) will be mandated as Malaysia's global financial hub to attract the global financial industry to become the main destination for high-value FDI to strengthen Malaysia's business ecosystem;
- to boost the growth of Iskandar Malaysia in Johor, the Government will introduce a special financial zone with a competitive incentive package to attract international investors and knowledge workers to be based in Malaysia; and
- to support the growth of international trade, the Government will support a private sector proposal to develop a new mega-port in Carey Island. This project is expected to bolster Klang Port as a major shipping hub for the Asia Pacific region

(paras. 61 to 67).

Measure II : Institutional Reforms and Good Governance to Restore Confidence

11. **Government Procurement Act:** The Government intends to expedite the tabling of the Government Procurement Act, which has been postponed since 2019, to promote transparency and good governance practices in government procurement (para. 84).

12. **Accelerating the Rakyat's Infrastructure Projects:** The following allocations are set aside for projects to be implemented for the benefit of the Rakyat:
- RM1.2 billion for urgent repairs of 400 dilapidated clinics and 380 dilapidated schools;
 - RM2.7 billion to maintain and upgrade Federal roads;
 - RM1.5 billion to upgrade and construct inter-village roads and rural roads;
 - RM50 million for immediate installation of streetlights, particularly in accident-prone areas; and
 - RM200 million increase in the Malaysian Road Records Information System (MARRIS) grant from RM5 billion for the maintenance of state roads and repair and replacement of roads, bridges, and drains damaged by disasters
- (paras. 86 and 87).
13. **Discharge of Bankrupts:** The following measures will be implemented to alleviate the plight of individuals who have been adjudicated bankrupt:
- the Insolvency Act 1967 will be amended to enable bankruptcy cases to be automatically discharged quickly; and
 - while waiting for the amendment of the Insolvency Act 1967, minor cases involving debts of less than RM50,000 that fulfil the prescribed criteria will be immediately discharged beginning 1 March 2023
- (para. 92).
14. **Regulating Consumer Credit:** To ensure fair treatment and protect the rights of the Rakyat and businesses, the Government aims to table the Consumer Credit Act this year and to establish a Consumer Credit Monitoring Board to regulate consumer credit businesses including Buy Now Pay Later services (para. 95).
15. **Incentive to hire TVET graduates and persons from vulnerable groups:** To encourage the private sector to pay higher wages, the Social Security Organisation (SOCSO) will provide an incentive of RM600 monthly for three months as an addition to the salary offered to employers who hire Technical and Vocational Education and Training (TVET) graduates, and persons from vulnerable groups such as persons with disabilities, ex-convicts, the homeless and the chronically unemployed (para. 105).
16. **Matching Grants for Automation in Plantation Sector:** The Government will provide RM50 million in matching grants to encourage automation in the plantation sector through the use of robotics and Artificial Intelligence (AI) that can employ skilled local workers (para. 111).
17. **Incentive for Women Returning to Work after Childbirth:** The Employees' Social Security Act 1969 will be amended to support women returning to work after childbirth by allowing a grant equal to 80% of the insured employee's salary (para. 113).
18. **Matching Grants to Promote Tourism:** To promote tourism, the Government will provide a RM115 million matching grant fund to, among others, encourage tourism promotional activities and organisation of major events such as international sports and cultural events and to promote chartered flights to Malaysia (para. 115).

19. **Digitalisation of Businesses:** The measures to support business automation and digitalisation include the following:
 - RM100 million will be allocated under the SME Digitalisation Grant Scheme, which includes small hawkers. A matching grant of up to RM5,000 will be paid to SMEs that subscribe to business digitalisation applications such as POS sales systems, accounting, or inventory management; and
 - a financing fund of RM1 billion will be allocated under BNM to support MSMEs in automating their business processes and digitalising their operations. This is one of the funds referred to in paragraph 6 above (para. 120).
20. **Innovative and High Growth Start-ups:** Government-Linked Companies (GLCs) such as Khazanah and the Employees' Provident Fund (EPF) will invest up to RM1.5 billion in innovative and high-growth local startup companies (para. 122).
21. **Alternative funding methods:** The total funding under the Malaysia Co-Investment Fund (MyCIF) matching fund to support alternative funding methods will be increased by RM30 million to bring the total accumulated funds available under MyCIF to RM300 million (para. 123).
22. **Capital Market Initiatives:** The following initiatives are proposed to boost the local capital market:
 - the tax deduction of up to RM1.5 million on expenses incurred for listings on the ACE and LEAP Markets of Bursa Malaysia will be extended until YA 2025. The tax deduction will also be expanded to include the cost of listing technology-based companies on the Main Market of Bursa Malaysia (para. 122 and Appendix 6);
 - the Securities Commission Malaysia (SC) will facilitate the creation of more secondary markets for private market instruments to increase liquidity and enable better price discovery (para. 123); and
 - the Government will allow the issuance of dual-class shares to encourage the listing of local high-growth technology companies (para. 123).

Measure III : Combating Inequality Through Social Justice

23. **Reduction of Income Tax for Middle Income Group:** From YA 2023, the income tax rates for resident individuals will be reduced by 2% for income ranges from RM35,000 to RM100,000. This initiative will increase the disposable income of the middle-income group (M40) by up to RM1,300 per year (para. 145 and Appendix 1).
24. **Increase in Income Tax for High Income Group:** The tax rates for individuals with higher incomes (T20) ranging from RM100,000 to RM1.0 million will be increased between 0.5% and 2% (para. 146 and Appendix 1).
25. **Food Security:** The following are among the measures that will be taken to enhance food security in the country:
 - BNM will provide up to RM1 billion funding under the Agrofood Financing Scheme to help agro-food entrepreneurs increase production productivity. This is one of the funds referred to in paragraph 6 above;
 - to increase efficiency with the use of technology in the agricultural sector, the Government proposed to provide Accelerated Capital Allowance (ACA) to exempt 100% income tax on capital expenditure (see Appendix 20); and

- the Government will provide incentives, land, financing, and technology grants to encourage large-scale private sector investment in agriculture

(para. 148).

26. **Development Allocation for Sabah and Sarawak:** The Government will allocate RM 6.5 billion and RM5.6 billion to Sabah and Sarawak respectively for development expenditure (para. 157).
27. **Matching Grant to Promote Sports Sponsorship:** The Government will provide a matching grant of RM50 million to encourage the private sector's sponsorship of sports, particularly sports that promote unity, national-level sport tournaments, and sports reality programmes (para. 171).
28. **Tax Deduction for Contributions to Grassroot Sports Development Programmes:** The Government will grant tax deduction of up to 10% of aggregate income for individuals or companies that contribute to non-profit organisations that implement sports development programme at the grassroots level (para. 173).
29. **Other tax related measures:** The following are other tax related measures contained in the Appendices to Appendix II to the 2023 Budget Speech:
 - a) **Tax Deduction on Issuance Cost of Sustainable and Responsible Investment Linked Sukuk:** Tax deduction on the cost of issuing Sustainable and Responsible Investment Linked Sukuk that is approved or permitted or deposited with the SC will be given for five years from YA 2023 to YA 2027 (Appendix 7);
 - b) **Stamp Duty for Transfer of Property for Love and Affection:** Presently, stamp duty remission of 50% is given on instruments of transfer of property between parents and children of Malaysian citizenship. The stamp duty treatment will be amended as follows:
 - i. the remission will be expanded to include transfers by way of love and affection between grandparents and grandchildren, provided the recipients are Malaysian citizens; and
 - ii. the instrument of transfer will be fully exempted from stamp duty for the first RM1.0 million of the property value and the remaining balance will be given a 50% remission from the *ad valorem* rate under item 32(a) of the First Schedule of the Stamp Act 1949.

The changes will apply to instruments of transfer executed from 1 April 2023 (Appendix 8);

- c) **Stamp Duty on Educational Loan/ Scholarship Agreement:** Presently, stamp duty on educational loan/ scholarship agreement to pursue tertiary education level (diploma and above) at higher learning institutions is subject to stamp duty of RM10 under item 22(4) of the First Schedule of the Stamp Act 1949, whilst stamp duty on similar agreements for other levels of education are subject to *ad valorem* duty.

To streamline stamp duty treatment for educational loan/ scholarship agreements, it is proposed that stamp duty of RM10 be imposed on educational loan/ scholarship agreement to pursue education at all levels including certificate (education/ skills/ professionals) in any educational and training institutions. The new rate will apply to educational loan/ scholarship agreements executed from 1 June 2023 (Appendix 9);

- d) **Extension of Stamp Duty Exemption on Restructuring or Rescheduling of Loan/ Financing Agreement:** Full stamp duty exemption given for restructuring or rescheduling of loan/ financing agreement between borrowers and financial institutions executed from 1 January 2022 until 31 December 2022 will be extended for two years and apply to restructuring or

rescheduling of loan/financing agreements executed from 1 January 2023 until 31 December 2024 (Appendix 10);

- e) Special Tax Deduction for Expenditure on Malaysian-Made Handicraft: Hoteliers who use qualified Malaysian-made handicraft products purchased from local handicraft entrepreneurs registered with Perbadanan Kemajuan Kraftangan Malaysia in their hotel premises will be given a special tax deduction of up to RM150,000 (except where the expenditure has been claimed under Section 33 or Schedule 3 of the Income Tax Act 1967). This deduction apply to expenditure incurred from 1 January 2023 until 31 December 2025 (Appendix 11);
- f) Tax Deduction for Sponsorship of Smart Artificial Intelligence (AI) - Driven Reverse Vending Machine: To support the recycling of plastic waste ecosystem and to increase the collected-for-recycling rate, tax deduction under Section 34(6)(h) of the Income Tax Act 1967 will be given to companies and individuals, partnerships, trusts and cooperatives that have business income that make donations or sponsorships of Artificial Intelligence (AI) - Driven Reverse Vending Machine. This will apply to contributions/ sponsorships and applications received by Ministry of Finance from 1 April 2023 until 31 December 2024 (Appendix 13);
- g) Tax Incentive for Company Renting Non-Commercial Electric Vehicle: To encourage the use of low-carbon vehicles, a company that rents a non-commercial electric vehicle will be given tax deduction on the rental amount up to RM300,000. Applicable from YA 2023 until YA 2025 (Appendix 14);
- h) Tax Incentives for Manufacturer of Electric Vehicle Charging Equipment: Manufacturers of electric vehicle charging equipment will be given the following tax incentives:
 - i. income tax exemption of 100% on statutory income from YA 2023 to YA 2032. Companies that make early investments are eligible for tax exemption for a period up to 10 years whereas companies that make investments after YA 2023 will only be eligible for exemption for the remainder of the exemption period; or
 - ii. investment tax allowance (ITA) of 100% for a period of five years that can be set-off against up to 100% of the statutory income for each YA.

These incentives apply to applications received by the Malaysian Investment Development Authority (MIDA) from 25 February 2023 until 31 December 2025 (Appendix 15);

- i) Tax Incentives for Carbon Capture and Storage: To recognise carbon capture and storage (CCS) activities as a new source of economic growth, the following tax incentives will be given:
 - i. companies undertaking in-house CCS activity:
 - ITA of 100% of qualifying capital expenditure for 10 years. The allowance can be set-off against up to 100% of business statutory income;
 - full import duty and sales tax exemption on equipment used for CCS technology commencing on 1 January 2023 until 31 December 2027; and
 - tax deduction for allowable pre-commencement expenses within five years from the date of commencement of operation.
 - ii. companies undertaking CCS services:
 - ITA of 100% of qualifying capital expenditure for 10 years. This allowance can be set-off against up to 100% of statutory income; or

- tax exemption of 70% on statutory income for 10 years; and
 - full import duty and sales tax exemption on equipment used for CCS technology starting 1 January 2023 until 31 December 2027.
- iii. companies using CCS services will be given tax deduction on fees incurred for use of such services.

The incentives apply to applications received by Ministry of Finance from 25 February 2023 until 31 December 2027 (Appendix 16);

- j) Tax Incentives for Chicken Rearing in Closed House System: To encourage more chicken rearers to adopt environmental-friendly closed house system and to increase productivity, tax incentives will be given as follows:

- ACA of 100% on the qualifying capital expenditure; and
- income tax exemption of 100% equivalent to the qualifying capital expenditure.

These tax incentives are given on the qualifying capital expenditure incurred from YA 2023 until YA 2025. Thus, the qualifying capital expenditure that can be claimed amounts to 200% within a year. Effective from YA 2023 until YA 2025 (Appendix 17);

- k) Tax Incentives for Food Production Project: To further promote participation in the agriculture sector and ensure security of domestic food supply, it is proposed tax incentives for food production projects be reviewed as follows:

- the scope of the qualifying activities be expanded to include agricultural projects based on Controlled Environment Agriculture (CEA); and
- the application period be extended for three years from 1 January 2023.

Applications must be received by the Ministry of Agriculture and Food Security (MAFS) from 1 January 2023 until 31 December 2025 (Appendix 18);

- l) Tax Incentives for BioNexus Status Company: To attract more biotechnology industry companies, it is proposed that:

- the income tax exemption rate on statutory income of a BioNexus status company be increased from 70% to 100%; and
- the application period for tax incentives be extended for two years from 1 January 2023.

Applications must be received by the Malaysian Bioeconomy Development Corporation from 1 January 2023 until 31 December 2024 (Appendix 19);

- m) Accelerated Capital Allowance in Manufacturing, Services and Agriculture Sectors: It is proposed that the ACA for automation equipment in the manufacturing and services sectors be enhanced as follows:

- the scope of automation be expanded to include the adaptation of Industry 4.0 elements;
- the scope of tax incentive be expanded to include the agriculture sector; and

- the capital threshold for categories 1, 2 and agriculture be aligned and increased to RM10 million.

Applications must be received by MIDA and MAFS from 1 January 2023 until 31 December 2027 (Appendix 20);

- n) Extension of Tax Incentive for Ship Building and Ship Repairing Industry: The tax incentives for companies undertaking ship building and ship repairing (SBSR) is to be extended by five years. Applications must be received by MIDA from 1 January 2023 until 31 December 2027 (Appendix 21);
- o) Extension of Tax Incentive for Aerospace Industry: The income tax exemption and ITA for aerospace companies undertaking high-value activities such as manufacturing or assemble of systems, devices, parts or components and maintenance, repair and overhaul of aircraft (MRO), systems, devices, parts or components and engineering and design/ services is to be extended by three years. Applications must be received by MIDA from 1 January 2023 until 31 December 2025 (Appendix 22); and
- p) Extension of Tax Incentives to Support the Development of Electric Vehicle Industry: The tax exemptions announced during the Malaysian Budget 2022 in relation to electric vehicles (EV) be extended as follows:
- fully import duty exemption on components for locally assembled EV expiring on 31 December 2025 be extended to 31 December 2027;
 - full excise duty and sales tax exemption on locally assembled CKD EV expiring on 31 December 2025 be extended to 31 December 2027; and
 - full import duty and excise duty exemption on imported CBU EV expiring on 31 December 2023 be extended to 31 December 2025

(Appendix 25).

Comments

The measures announced under the 2023 Budget do not significantly extend the tax base to ramp up revenue for the Government. Apart from the slew of measures to assist the lower income segment (B40) of Malaysian society¹, the most significant aspect of the 2023 Budget is the significant increase in development expenditure from RM71.6 billion in 2022 to RM99 billion (including contingency reserves of RM2 billion) in 2023. It is hoped that development projects will be implemented expeditiously to boost the level of economic activity in the country and bring about an increase in domestic consumption.

Other interesting aspects of the 2023 Budget are the proposal to allow the issuance of dual-class shares to encourage the listing of local high-growth technology companies on the local bourse, the introduction of tax incentives for carbon capture and storage activities and the various measures to enhance food security by encouraging the increase in food production within the country.

As the proposal to introduce a low-rate capital gains tax on the disposal of unlisted shares will only take effect in 2024, the extent to which the new tax will enlarge the Government's coffers remains to be seen.

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¹ As mentioned above, the measures to assist the B40 income segment fall outside the scope of this article.