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Malaysia

Highlights of the Malaysian Budget 2020

16 October 2019

Table of contents

Budget 2020

On 11 October 2019, the Minister of Finance YB Lim Guan Eng unveiled the Malaysian Budget 2020 ("**Budget**"). With the theme "*Driving Growth and Equitable Outcomes Towards Shared Prosperity",* the Budget has four main thrusts: (i) driving economic growth in the new economy and digital era; (ii) investing in Malaysians: levelling-up human capital; (iii) creating a united, inclusive and economic society; and (iv) revitalising public institutions and finances.

To leverage opportunities arising from the US-China trade war, a central aim of the Budget is to encourage economic growth through foreign direct investments into Malaysia. An emphasis is also placed on measures to develop the nation's digital economy, in line with global digitalisation trends.

We set out below some of the key tax highlights of the Budget.

1. Digital Economy Updates and Incentives

1.1. Customised Packaged Investment Incentives

In a bid to attract foreign direct investment, the Government is making available up to RM 1 billion worth of customised packaged investment incentives annually over a period of 5 years. These incentives are targeted at "*Fortune 500 companies and global unicorns in high technology, manufacturing, creative and new economic sectors*".

These companies must each invest at least RM 5 billion in Malaysia to spur additional economic activities. It is the Government's intention that these additional economic activities support small and medium enterprises ("**SMEs**"), generate 150,000 high-quality jobs over the next 5 years and strengthen the nation's manufacturing and service ecosystems.

> *Our thoughts:*
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> *Customised packaged investment incentive schemes are not new in Malaysia. The Government had previously implemented a Pre-Packaged Incentive Scheme to attract high-quality investments in projects of national importance, such as those which are high technology and knowledge-intensive.*
>
> *However, the specific mention of Fortune 500 companies and global unicorns (typically understood as start-up companies valued at over USD 1 billion) in the Budget shows the Government's clear intention to put Malaysia on the map as an ideal destination for high value-added foreign direct investments. Malaysia is open for business and eager for partners to grow its digital economy.*

1.2. Incentives for the Electrical and Electronics ("**E&E**") Industry

The local E&E industry plays a pivotal role in Malaysia's economy and remains a key driver of the nation's industrial development. It is proposed that more tax incentives be granted in the E&E space to further promote high-value added activities to transition into the 5G digital economy and Industry 4.0. These incentives include:

(a) an income tax exemption of up to 10 years for E&E companies investing in selected knowledge-based services; and

(b) a special income tax exemption equivalent to investment tax allowance of 50% on qualifying capital expenditure incurred within a period of 5 years for E&E companies that have exhausted the 15-year eligibility period to claim reinvestment allowance. This special allowance can be set-off against 50% of the statutory income for each year of assessment. Applications for this special allowance should be submitted to the Malaysian Investment Development Authority ("**MIDA**") during the period between 1 January 2020 until 31 December 2021.

1.3. Review of Incentives to Encourage Automation in Labour-Intensive Industries

The Government has proposed to extend the incentive period and scope of incentives currently available to labour-intensive industries:

Industries	Incentives	Budget proposals
Category 1: Labour-intensive industry involving rubber, plastic, wood and textile products	• Accelerated capital allowance ("**ACA**") for automation equipment of 100% on the first RM 4 million for qualifying capital expenditure incurred • Income tax exemption equivalent to 100% of the ACA on automation equipment	• The incentive period will be extended for 3 years until the year of assessment 2023 for applications received by MIDA until 31 December 2023
Category 2: Industries other than Category 1	• ACA for automation equipment of 100% on the first RM 2 million for qualifying capital expenditure incurred • Income tax exemption equivalent to 100% of the ACA on automation equipment	• The incentive period will be extended for 3 years until the year of assessment 2023 for applications received by MIDA until 31 December 2023 • The scope of incentive will be extended to the services sector for applications received by MIDA from 1 January 2020 until 31 December 2023

1.4. Incentive for the Development of Intellectual Property ("**IP**")

To boost the development of IP activities in Malaysia, the Budget proposes that income tax exemption of 100% up to 10 years be given on qualifying IP income derived from patent and copyright software of qualifying activities. This is in tandem with proposals to enhance the research and development ("**R&D**") framework in Malaysia by allocating funds to intensify R&D projects in Malaysia.

For the purpose of computing the proposed income tax exemption, the "modified nexus approach" will be adopted to ensure that only income derived from IP developed in Malaysia is eligible for this tax incentive.

Applications for this incentive should be submitted to MIDA during the period from 1 January 2020 to 31 December 2022.

Our thoughts:

*Malaysia is an associate member of the OECD Inclusive Framework on Base Erosion & Profit Shifting ("**BEPS**"), and has affirmed its commitment to implement and adhere to BEPS minimum standards. One of these minimum standards, Action 5, deals with the identification of preferential regimes with harmful tax practices.*

The Budget proposal above is in line with Action 5 requirements. The underlying principle of the OECD's modified nexus approach is that the proportion of income that can benefit from an IP tax regime is the same proportion that qualifying expenditure bears to overall expenditure (in limited circumstances, an "up-lift" may be allowed for qualifying expenditure). It remains to be seen how the modified nexus approach will be applied in Malaysia in the context of this incentive. Amongst others, businesses will need to take into account the costs of introducing appropriate systems to trace and track R&D expenditure.

1.5. Digital Services Tax

The Budget alluded to the "Digital Services Tax" which is to be implemented with effect from 1 January 2020. Foreign suppliers of digital services can commence registration under the service tax regime as of 1 October 2019.

The imposition of 6% service tax on imported digital services was first proposed in the 2019 Malaysian Budget and is intended to level the playing field between local and foreign suppliers of digital services. Please click here for our latest client alert regarding service tax on imported digital services.

Our thoughts:

International discussions are underway to achieve a consensus-based, long term solution to the tax challenges of the digital economy. On 9 October 2019, the OECD/Inclusive Framework on BEPS released a discussion draft on a proposed "unified approach" for Pillar One revisions to the nexus and profit allocation rules. This proposal is intended to facilitate negotiations, so that a political agreement on Pillar One may be reached in the first half of 2020. Potentially, the Malaysian Government may revisit its framework for taxing the digital economy in the event that the international community reaches a consensus.

2. Trade-specific Updates

2.1. Customised Incentives for Malaysian Exporters

The Budget revealed the Government's plan to make available up to RM 1 billion in customised packaged investment incentives annually over 5 years for Malaysia's most promising businesses. This is premised on the condition that these companies prove their ability to grow and export their products and services globally.

> *Our thoughts:*
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> *It remains to be seen what sort of incentives will be made available to Malaysian exporters and how they can sufficiently demonstrate their "ability to grow". However, this proposal shows the Government's intention to support Malaysia's businesses to help maximise the potentials in the export market, boost the country's exports and create employment opportunities for Malaysians.*

2.2. 'Special Channel' for Investments from China

The Budget also unveiled plans to establish a 'Special Channel' to attract foreign direct investments from China, Malaysia's largest trading partner at present. This initiative will be spearheaded by InvestKL to enable Chinese businesses to undertake high-value investments and activities in Malaysia.

3. Green Technology Incentives

3.1. Extension of Green Investment Tax Allowance ("**GITA**") and Green Income Tax Exemption ("**GITE**") Incentives

Presently, the GITA incentive provides for an investment tax allowance of 100% of the capital expenditure incurred on qualifying green technology assets until the year of assessment 2020. The MyHijau Directory sets out a list of green technology assets that qualify for this incentive. The allowance can be set-off against 70% of statutory income.

On the other hand, the GITE incentive currently provides for an income tax exemption of 100% of the statutory income derived from qualifying green service activities for a period until the year of assessment 2020.

It is proposed that both the GITA and GITE incentives be extended for a period of 3 years of assessment (applications are to be submitted to MIDA by 31 December 2023). However, the income tax exemption under GITE will only be applicable on 70% of the statutory income derived from qualifying green service activities.

3.2. Incentive for Solar Leasing Activities

In line with Malaysia's goal to move towards renewable energy sources, it is proposed that an income tax exemption of 70% of statutory income for a period of up to 10 years of assessment be given to companies undertaking solar leasing activities certified by the Sustainable Energy

Development Authority. Applications for this incentive can be made to MIDA from 1 January 2020 to 31 December 2023.

Our thoughts:

The Malaysian Government's proposal to continue to incentivise 'green technology' is laudable. The solar leasing activities incentives are also expected to encourage greater adoption of renewable energy in Malaysia, in line with the Government's intention to generate 20% of Malaysia's energy consumption from renewable sources by 2025.

4. Incentives for the Tourism and Art Industry

4.1. Incentive for Purchase of Tourism Vehicles

It is proposed that licensed tour operators be given the following tax incentives:

Incentive	Exemption / Allowance
Accelerated capital allowance ("**ACA**")	ACA on expenses incurred in purchasing new locally assembled buses with an initial allowance of 20% and an annual allowance of 40% to be fully claimed within 2 years (effective for the years of assessment 2020 and 2021)
Excise duty exemption	An exemption of 50% on the excise duty on the purchase of new locally assembled vehicles used as tourism vehicles (effective for applications received by the Ministry of Finance ("**MOF**") during the period from 1 January 2020 to 31 December 2021)

4.2. Incentives for Tourism Projects

Presently, a company undertaking a new investment or reinvestment on the expansion and modernisation of a tourism project (including a theme park, holiday camp, recreational project and convention centre) is eligible for either (i) a pioneer status incentive (with a tax exemption of 70% of statutory income for a period of 5 years); or (ii) an investment tax allowance of 60% on the qualifying capital expenditure incurred within 5 years, to be set-off against up to 70% of the statutory income for each year of assessment.

To promote the growth of the tourism sector in conjunction with Visit Malaysia 2020, it is proposed that the current tax incentives be extended to integrated tourism and sports tourism projects.

Additionally, it is proposed that new investments in international theme park projects be granted either of the following income tax incentives:

Incentive	Exemption / Allowance
Pioneer status incentive	An exemption of 100% of the statutory income for a period of 5 years

Investment tax allowance	An allowance of 100% on the qualifying capital expenditure incurred within a period of 5 years, to be set off against up to 70% of the statutory income

This is applicable to submissions received by MIDA from 1 January 2020.

4.3. Incentive for Arts, Cultural, Sports and Recreational Activities

It is proposed that an income tax exemption of 50% on statutory income be given to companies that organise arts and cultural activities approved by the Ministry of Tourism, Arts and Culture ("**MOTAC**") or international sports and recreational competitions approved by the Ministry of Youth and Sports. This is to take effect from the year of assessment 2020 until the year of assessment 2022.

Additionally, it is proposed that the tax deduction limit for companies sponsoring local arts, cultural and heritage activities approved by MOTAC be increased from RM 300,000 to RM 1 million per year, with effect from the year of assessment 2020.

5. Islamic Finance Incentives

5.1. Extension of Incentive for Issuance of *Sukuk Wakalah* and Sustainable and Responsible Investments ("**SRI**") *Sukuk*

Presently, expenses incurred in issuing *Sukuk* under the principles of *Ijarah* or *Wakalah* are eligible for tax deduction. A further tax deduction is also eligible to be claimed on certain additional issuance costs incurred. These tax incentives are effective from the year of assessment 2019 until the year of assessment 2020. It is proposed that the existing tax incentives in respect of the issuance of *Sukuk* under the principle of *Wakalah* be extended for a period of 5 years, so that they are available from the year of assessment 2021 until the year of assessment 2025.

Additionally, to further encourage the issuance of SRI *Sukuk*[1] approved by or lodged with the Securities Commission of Malaysia, it is proposed that the existing tax incentive in respect of SRI *Sukuk* issuance be extended for a period of 3 years, so that it is available from the year of assessment 2021 until the year of assessment 2023.

5.2. Extension of Incentive for SRI Fund Management Services and *Shariah*-Compliant Fund Management Services

To further promote SRI fund management services, it is proposed that the existing income tax exemption for management fees derived from managing conventional and *Shariah*-compliant SRI funds be extended for a period of 3 years, so that it is available from the year of assessment 2021 until the year of assessment 2023.

Furthermore, it is proposed that the existing income tax exemption given to companies providing *Shariah*-compliant fund management services approved by the Securities Commission of Malaysia be extended for a period of 3 years until the year of assessment 2023. This will be applicable to the statutory income derived from the business of providing *Shariah*-compliant fund management

[1]SRI *Sukuk* involves the financing of projects that preserve and protect the environment and natural resources, conserve the use of energy, promote the use of renewable energy, reduce greenhouse gas emission, or improve the quality of life of society.

services to foreign investors, local investors, business trusts, or real estate investment trusts in Malaysia.

6. Other Tax Incentives

6.1. Extension of Incentives for Real Estate Investment Trusts ("**REITs**")

Presently, the tax treatment for investors receiving profit distributions from REITs listed on Bursa Malaysia are as follows:

Investors	Tax treatment
Resident corporate investors	Subject to the prevailing corporate tax rate (the standard corporate tax rate is currently 24%)
Non-resident corporate investors	Subject to a final withholding tax at the prevailing corporate tax rate (i.e., currently 24%)
Foreign institutional investors, particularly pension funds and collective investment funds	Subject to a final 10% withholding tax
Non-corporate investors including resident and non-resident individuals and other local entities	Subject to a final 10% withholding tax

To promote and further develop REITS in Malaysia, the Budget proposes to extend the above existing tax treatment of REITs for a period of 6 years, until the year of assessment 2025.

6.2. Extension Of Tax Incentives for Angel Investors and Venture Capital

Under current law, angel investors who invest ordinary shares in investee companies are entitled to tax exemptions equivalent to the amount of investment (i.e., for applications submitted to the MOF by 31 December 2020)[2]. The Budget proposes that the application period for this tax incentive for angel investors be extended for another 3 years such that the incentive is applicable for applications submitted by 31 December 2023.

Similarly, it is proposed that the application period for existing tax incentives on venture capital activities be extended. The tax incentives are to be extended for a period of 4 years (i.e., for

[2] The angel investor must be an individual who is a resident in Malaysia and whose source of income is not derived solely from business, and must not have family relationship with the investee company. Further, the investment must not be more than 30% of the total paid-up share capital of the investee company, and must be for the sole purpose of financing the activities of the investee company as approved by the Minister of Finance. The investee company must be incorporated under the Companies Act 2016, be a resident in Malaysia, and carry out activities approved by the Minister of Finance. At least 51% of the company's ordinary share capital must be owned by a Malaysian citizen.

applications received by the Securities Commission until 31 December 2023), and the qualifying investment period will also be extended until 31 December 2026.

6.3. Income Tax Exemption for Religious Institutions or Organisations Registered as Companies Limited by Guarantee ("**CLBG**")

Religious institutions or organisations registered as a CLBG with the Companies Commission of Malaysia will soon enjoy income tax exemptions currently available to certain religious institutions or organisations registered under the Registrar of Societies.

The Budget suggests that this tax exemption will be available to CLBGs approved by the Inland Revenue Board ("**IRB**") from the year of assessment 2020, and is subject to certain requirements pertaining to, amongst others, the income/profit received and real property acquired (i.e., this must be used solely for the purpose of religious worship and advancement of religion, and not be operated primarily for the purpose of profit). The CLBG will still be required to submit annual tax returns, and comply with other requirements set by the IRB.

6.4. Income Tax Exemption for Hosting International Conferences

The Budget proposes to extend the income tax exemption of 100% on statutory income to any companies, associations or organisations in Malaysia that promotes and organises international conferences, even if the entity's main activities are other than promoting and organising conferences. This is provided that the entity brings in 500 or more foreign conference participants annually. This incentive will take effect for the years of assessment 2020 until 2025.

7. Corporate Income Tax

7.1. Tax Savings for SMEs

It is proposed that from the year of assessment 2020, SMEs (i.e., any company with a paid-up capital of up to RM 2,500,000 or a limited liability partnership ("**LLP**") with total contribution of capital of up to RM 2.5 million) will be taxed at 17% on the first RM 600,000 of chargeable income (instead of on the first RM 500,000). The remaining chargeable income will be taxed at 24%.

However, with effect from the year of assessment 2020, only companies with a paid-up capital (or capital contribution, for LLPs) of up to RM 2.5 million and annual sales not exceeding RM 50 million will be eligible for this tax treatment.

7.2. Increase in Capital Allowance on Small Value Assets ("**SVAs**")

It is proposed that SMEs and non-SMEs be able to claim capital allowance on SVAs valued up to RM 2,000 each instead of RM 1,300 each.

Furthermore, it is proposed that with effect from the year of assessment 2020, the maximum amount of capital allowance eligible to be fully claimed by non-SMEs for each year of assessment be increased from RM 13,000 to RM 20,000 (no limitation applies to SMEs).

7.3. Tax Deductions for Expenses Incurred on Corporate Secretarial Fees

Currently, a taxpayer may claim a maximum amount of RM 5,000 and RM 10,000 on secretarial fees and tax filing fees respectively for each year of assessment. Under the Budget proposal, a taxpayer may claim a combined maximum amount of RM 15,000 on secretarial fees and tax filing fees (with no segregation) for each year of assessment. This is to take effect from the year of assessment 2020.

7.4. Tax Deductions on Cost of Listing in Bursa Malaysia

To assist technology-based companies and SMEs raise additional capital through listing on the Access, Certainty, Efficiency ("**ACE**") Market and Leading Entrepreneur Accelerator Platform ("**LEAP**") Market, it is proposed that a tax deduction of up to RM 1.5 million be allowed on the following listing costs:

(a) fees to authorities;

(b) professional fees; and

(c) underwriting, placement and brokerage fees.

This proposal is applicable for the years of assessment 2020 until 2022.

8. Personal Income Tax

8.1. New Income Tax Band for Resident Individuals

To increase Government revenue, the Budget proposes to introduce a new chargeable income band for resident individuals, such that chargeable income exceeding RM 2 million is taxed at 30% instead of the current rate of 28%. This proposal is likely to be effected from the year of assessment 2020. It is estimated that the new chargeable income band will impact approximately 2,000 top income earners in Malaysia.

8.2. Increase in Income Tax Rate for Non-resident Individuals

The Budget has proposed that the fixed income tax rate for non-resident individuals be increased from 28% to 30%, with effect from the year of assessment 2020.

8.3. Women@Work: Tax Incentives for Women to Return to Work

Presently, an exemption from income tax on employment income for a maximum period of 12 consecutive months is given to women who return to work after a career break, on application to Talent Corporation Malaysia Berhad ("**TalentCorp**").

To further increase female participation in the workforce, it is proposed that the existing incentive be extended for a period of 4 years such that applications for this exemption can be made to TalentCorp until 31 December 2023.

Additionally, it is proposed that a wage incentive of RM 500 per month for 2 years be given to women who return to work after a career break, and a corresponding hiring incentive of up to RM 300 per month for 2 years be given to their employers.

8.4. Increase in Tax Relief for Childcare Centre and Kindergarten Fees

The Budget has proposed that the existing tax relief for individual taxpayers who enroll their children aged up to 6 years in childcare centres or registered kindergartens be increased from RM 1,000 to RM 2,000, with effect from the year of assessment 2020.

8.5. Tax Relief for Fertility-related Medical Expenses

It is proposed that the scope of the existing tax relief of up to RM 6,000 for medical expenses for serious diseases for self, spouse and child be expanded to cover the cost of fertility treatments, with effect from the year of assessment 2020.

8.6. Increase in Tax Deduction Cap for Donations

Presently, taxpayers other than companies can deduct certain charitable donations of up to 7% of their aggregate income and that payers that are companies can deduct up to 10% of their aggregate income. The tax deduction is applicable to cash donations or contributions in kind made to certain prescribed institutions, sports activities, or projects of national interest.

It is proposed that the maximum allowable deduction for taxpayers other than companies be increased to 10% of their aggregate income, with effect from the year of assessment 2020.

Additionally, it is proposed that the scope of the allowable tax deduction be expanded with effect from the year of assessment 2020 to include the following contributions:

(a) cash *wakaf* contributions to state religious authorities or bodies established by the state religious authority to administer *wakaf*;

(b) cash *wakaf* contribution to public universities approved by the state religious authority to receive *wakaf*; and

(c) cash endowment contributions to public universities.

9. Stamp Duty Updates

9.1. Foreign Currency Loan Agreements

Presently, a conventional or *Shariah*-compliant foreign currency loan agreement is subject to stamp duty at an *ad valorem* rate of RM 5 for every RM 1,000 or part thereof of the loan amount, up to a maximum of RM 500. It is proposed under the Budget that the maximum amount of stamp duty payable be increased from RM 500 to RM 2,000 for foreign currency loan agreements executed on or after 1 January 2020.

9.2. Rent-To-Own Financing Scheme

The Rent-To-Own ("**RTO**") scheme is an alternative financing scheme to assist Malaysians purchase their first homes. Under the RTO scheme, a financial institution buys the residential property identified by the tenant from the housing developer, and the tenants rents the residential property from the financial institution with the option to purchase it at a later point in time.

The Budget proposes that full stamp duty exemption be given on the instrument of transfer for the following transactions (subject to certain conditions):

(a) the transfer of the residential property from the housing developer to the financial institution (for sale and purchase agreements executed during the period from 1 January 2020 and 31 December 2022); and

(b) the transfer of the residential property from the financial institution to the buyer (for rental agreements executed during the period from 1 January 2020 to 31 December 2022).

This stamp duty exemption applies only if the financial institution has obtained approval from Bank Negara Malaysia and the housing developer is registered with the National Housing Department of the Ministry of Housing and Local Government.

9.3. Transfers of Real Property between Parents and Children

Presently, 50% of the stamp duty chargeable on instruments of transfer of real property between parents and children by way of love and affection is remitted, regardless of whether the parents and children are Malaysian citizens or non-citizens. It is proposed that the stamp duty remission be restricted to Malaysian citizens only for instruments of transfer of real property executed on or after 1 January 2020.

10. Real Property Gains Tax ("**RPGT**")

Under the current legislation, the market value of real property as at 1 January 2000 is used as the acquisition price for the purpose of computing the RPGT payable for disposals of real property acquired prior to the year 2000.

It is proposed that for real properties acquired by Malaysian citizens and permanent residents prior to the year 2013, the market value of the property as at 1 January 2013 be used as the acquisition price for the purpose of computing the RPGT payable on disposals. This is in respect of disposals of real properties made on or after 12 October 2019.

11. Indirect Tax

11.1. Sales Tax: Approved Major Exporter Scheme

To improve the competitiveness of export-oriented companies in Malaysia, it is proposed that an Approved Major Exporter Scheme ("**Scheme**") be introduced with effect from 1 July 2020. Under the Scheme, approved traders and manufacturers of exempted goods will be granted a full sales tax exemption on the importation and purchase of goods or raw materials, components and packaging materials. Additionally, there will be no requirement to determine the quantity of goods to be exported at the time of importation of purchase of goods.

To be eligible for the Scheme, the trader or manufacturer must export not less than 80% of their annual sales.

Sales tax shall be paid for the following:

(a) the portion of trading goods or manufactured exempted goods that are not exported, but sold in local market, based on the prescribed formula; and

(b) waste or refuse of raw materials, components and packaging materials used for the manufacturing of exempted goods that are disposed or sold in the local market.

Our thoughts:

Section 40 of the Sales Tax Act 2018 provides a drawback facility whereby the Director General of Customs may refund the amount of sales tax paid by a company on goods imported or purchased, which are subsequently exported out of Malaysia. However, the companies have to pay sales tax upfront on the goods imported or purchased, and wait for the amounts to be refunded after a drawback application is submitted.

In addition, Item 4 of Schedule B of the Sales Tax (Persons Exempted from Payment of Tax) Order 2018 exempts approved manufacturers from paying sales tax if they purchase raw materials, components and packaging materials for the manufacturing of exempted goods for export. However, to enjoy this exemption, the traders or manufacturers of exempted goods must determine in advance the quantity of goods imported or purchased which are to be subsequently exported or sold in the local market.

The introduction of the Scheme will help address the issues above and ease the cash flow of businesses that import and export goods substantially.

11.2. Service Tax: Relaxation of Condition for Group Relief

Under the current service tax regime, the taxable professional services under Group G of the First Schedule of the Service Tax Regulations 2018 (save for employment services and security services) provided by a company to another company within the same group of companies is not subject to service tax ("**Intra-group Relief**"). However, Intra-group Relief is not available if the same taxable services are also provided to a third party outside the group of companies.

It is proposed that this condition be relaxed with effect from 1 January 2020, to allow for Intra-group Relief even if the same services are also provided to a third party outside the group of companies. However, the value of services provided to the third party must not exceed 5% of the total value of services provided by the company within 12 months.

Our thoughts:

The relaxation of the condition to obtain Intra-group Relief is a welcomed one. We are hopeful that further guidance from the authorities will be provided on how companies are to monitor and prove that the value of services provided to a third party is 5% or less of the total value of services provided over a span of 12 months.

11.3. Service Tax: Exemption for Disabled Training and Coaching Services

It is proposed that with effect from 1 January 2020, service tax exemption be given on training and coaching services to disabled persons with hearing, visual, physical, speech, mental and learning disabilities provided by:

(a) training and coaching centres registered with the Ministry of Health Malaysia or the Department of Social Welfare; or

(b) training and coaching centres endorsed by any national association for disabled persons registered with the Registrar of Societies Malaysia.

12. Tax Administration

12.1. Introduction of a Tax Identification Number ("**TIN**")

It is proposed that Malaysians above the age of 18 and corporate entities be assigned a TIN, beginning January 2021.

Our thoughts:

*To help the fight against tax evasion, jurisdictions around the globe (including Malaysia) have implemented the OECD's Common Reporting Standard ("**CRS**") for the automatic exchange of information ("**AEOI**"). Malaysia is a participating jurisdiction of the Convention on Mutual Administrative Assistance in Tax Matters, and has signed the CRS Multilateral Competent Authority Agreement to facilitate AEOI. The first round of AEOI was conducted in September 2018.*

Under the CRS, Malaysian financial institutions are required to collect and report financial account information on residents of participating foreign jurisdictions to the IRB. The IRB will then exchange this information with the participating foreign jurisdictions. The IRB will also receive information on bank accounts held by Malaysian tax residents in foreign countries.

In order to help both account holders and financial institutions comply with their obligations under the CRS, the OECD has provided information on TINs required to identify tax residents. Malaysia does not automatically issue specific TINs at present. However, a unique Income Tax Number is assigned upon registration with the IRB.

It remains to be seen how TINs will be implemented in Malaysia. We understand that the Government will be holding engagement sessions with stakeholders next year to receive feedback.

12.2. Merger of Tax Tribunals

To improve efficiency in adjudicating taxpayer appeals, it is proposed that the Special Commissioners of Income Tax ("**SCIT**") and the Customs Appeal Tribunal be merged to form the Tax Appeal Tribunal, to be in operation in 2021.

Our thoughts:

*The SCIT is an independent tribunal appointed to handle tax appeals under the Income Tax Act 1967 against decisions by the Director General of Inland Revenue ("**DGIR**"). This would include decisions relating to direct taxes such as income tax, withholding tax and RPGT.*

On the other hand, the Customs Appeal Tribunal is an independent judicial body established to hear and decide appeals filed against decisions made by the Director General of Customs under the Customs Act 1967, Excise Act 1976, Sales Tax Act 2018, Service Tax Act 2018, and the repealed Goods and Services Tax Act 2014. Generally, all decisions of the Director General of Customs can be appealed to the Customs Appeal Tribunal, save for any matters relating to the compound and seizure of goods.

At this juncture, it is unclear how the Tax Appeal Tribunal will be formed and how the transition from the existing system will be carried out. However, there is undoubtedly a need for tax and customs dispute resolution to be carried out in an efficient and fair manner. It is hoped that the Tax Appeal Tribunal will help achieve this.

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