Center Stage: Budget 2020 Overview

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Budget 2020 snapshot

Theme

"Driving Growth And Equitable Outcomes Towards Shared Prosperity"

Key takeaways

Growth oriented Budget, targeting multinationals, electrical and electronics, transportation, telecommunication, islamic finance, green energy and palm oil

Step-up digitalisation drive and adoption of new technology by small medium enterprises and in digital content, manufacturing, services and financial services

Improve people’s well being covering job opportunities, minimum wages, education, housing, cost of living and social welfare
15 Budget strategies

**Driving economic growth in the new economy and digital era:**
1. Making Malaysia the preferred destination for investment
2. Accelerating the digital economy
3. Strengthening access to financing for businesses
4. Strengthening economic diversity

**Investing in Malaysians: levelling up human capital:**
5. Enhancing job opportunities for Malaysians
6. Modernising the labour market
7. Investing in education and talent

**Creating a united, inclusive and equitable society:**
8. Inclusive development
9. Towards better health services
10. Enhancing the transportation ecosystem
11. Promoting access to housing
12. Unity through sports
13. Promoting environmental sustainability

**Revitalisation of public institutions and finances:**
14. Commitment to Fiscal Consolidation
15. Strengthening Institutions, Governance & Integrity

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**Continued support from public capital spending**

Federal Government expenditure

<table>
<thead>
<tr>
<th>Year</th>
<th>Operating Expenditure</th>
<th>Gross Development Expenditure</th>
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<tbody>
<tr>
<td>2018</td>
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<tr>
<td>2019</td>
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<tr>
<td>2020</td>
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Source: Ministry of Finance

**Lower deficit-to-GDP ratio**

<table>
<thead>
<tr>
<th>Year</th>
<th>Fiscal deficit (RM bn)</th>
<th>Fiscal deficit to GDP (%)</th>
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<tr>
<td>2018</td>
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<td>2020be</td>
<td>2.5</td>
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Source: Ministry of Finance

**Debt level stays elevated**

<table>
<thead>
<tr>
<th>Year</th>
<th>Government debt (RM Billion)</th>
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</thead>
<tbody>
<tr>
<td>2017</td>
<td>50</td>
</tr>
<tr>
<td>2018</td>
<td>55</td>
</tr>
<tr>
<td>2019 (end-Jun)</td>
<td>60</td>
</tr>
</tbody>
</table>

Source: Ministry of Finance

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**Abbreviations:**
re: revised estimate
be: budget estimate, excluding 2020 Budget measures
Economic growth to increase by 4.8% in 2020

The Malaysian economy is projected to improve marginally, in spite of the moderation in global growth and trade activity.

Private expenditure growth is expected to be higher. This is mainly due to sustained household consumption spending and continued improvement in private capital spending.

The Government is expected to maintain expenditure optimisation exercises in 2020. Overall, public expenditure will continue to support economic growth.

Across the board growth in all economic sectors

Value-added growth in all economic sectors, except mining and agriculture are expected to increase further in 2020. In particular, construction sector expansion will be driven by the revival of several major infrastructure projects as well as planned implementation of new projects to support the economy.

We are marginally lower than ASEAN-5 economies overall

Malaysia’s 2020 growth forecast is relatively lower compared to the ASEAN-5 economies (5.1%). However, the Malaysian economy will continue to outpace the global growth.

Abbreviations:
ASEAN-5 - Indonesia, Malaysia, Philippines, Thailand, Vietnam
e - estimate, f - forecast, p - preliminary
Cautious underlying sentiments going forward

Domestic capital market have been affected by heightened risk aversion, related to both domestic and external factors. The external headwinds from rising trade tension and the expected global economic slowdown are posing downside risks to Malaysia’s real economy and corporate earnings growth. The Malaysian composite leading indicators also point to moderation in economic growth.

Shift in export fortune

Exports is expected to moderate in 2019 amid softening external demand for manufactured exports. In particular, semiconductor goods were affected by negative spillovers from global semiconductor value chain.
Non-E&E exports is projected to decline in 2019, largely due to weakening demand for chemical and metal products. Weaker oil and gas production also contributed to the decline as operations were hit by unplanned capacity disruption.

Debt level remains manageable with adequate financial buffer

Household debt-to-GDP ratio was slightly higher in first-half 2019. But, household debt servicing capacity remained intact, supported by stable income and employment conditions.
Growth in non-financial corporate debt was largely due to business activity in the construction, manufacturing and wholesale and retail trade sectors. In addition, debt servicing and liquidity positions of overall businesses are still well above prudent thresholds.

Abbreviation:
E&E - Electrical and electronics
e - estimate, f - forecast, p - preliminary
FBM KLCI - FTSE Bursa Malaysia KLCI Index
With Vision 2020 coming to an end, the Government has set its sights on a new vision based on the principle of Shared Prosperity. It is centered on equitable outcome for all income groups, ethnicities, regions and supply chains. The premise of this vision is incorporated in Budget 2020 to set the tone and policies for the country going forward.

Here is a quick overview of the Shared Prosperity Vision 2030 (SPV2030) to help get a better understanding of Budget 2020 underlying theme.

**Objectives**

1. **Development for all**
   - Restructuring the economy to be more progressive, knowledge-based and high-valued with full of community participation at all levels.
   - Diversifying the economy to reduce dependency on commodities such as petroleum and gas products. This includes focusing on 15 Key Economic Growth Activities, see details below.
   - Increase high technology adoption in:
     - Manufacturing sector to 50% by 2030 (2018: 37%)
     - Services sector to 30% by 2030 (2018: 20%)

**15 Key Economic Growth Activities:**

1. Islamic Finance Hub 2.0
2. Digital Economy
3. Industrial Revolution
4. Content Industry
5. ASEAN Hub
6. Halal & Food Hub
7. Commodity Malaysia 2.0
8. Logistic, Transportation & Sustainable Mobility
9. Coastal & Maritime Economy
10. Centres of Excellence
11. Renewable Energy
12. Green Economy
13. Smart & High Value Agriculture
14. Advanced & Modern Services
15. Malaysia Truly Asia
Shared Prosperity (cont’d)

Objectives

2. Addressing wealth and income disparities

Addressing economic disparities across income groups, ethnicities, regions and supply chains to protect and empower the rakyat in ensuring that no one is left behind.

The main target groups are the B40 (lower income group), the hardcore poor, the economically poor, those in economic transition, Orang Asli, Sabah and Sarawak bumiputras, the disabled, youths, women, children and senior citizens.

What it aims to achieve

- Reduce income disparity between employees and capital owners through a number of measures. For example:
  - Increase compensation of employees to 48% of GDP by 2030 (2018: 35.7%)
  - Provide a decent living income for B40 of no less than RM5,800/month by 2030
  - Increase in skilled and highly educated workforce e.g. through university, TVET and HRDF training.
- Narrow income disparity between:
  - Regions/States
  - Ethnic groups
- Increase the contribution of SMEs and micro businesses to 50% of GDP by 2030.
- Increase contribution of Bumiputera enterprises to 20% of national income by 2030.

3. United, prosperous and dignified nation

Building Malaysia as a united, prosperous, and dignified nation and subsequently becoming an economic centre of Asia

- Realise average GDP growth of 4.7% per annum within the period of 2021-2030.
- Strengthen governance through transparency and accountability to foster trust of the rakyat.
- Focus on eco-friendly national development which gives emphasis to conserving and preserving natural resources.
Overview of economic and fiscal policies to sustain economic growth

Budget 2020 has been put together to implement the government’s Shared Prosperity Vision 2030; within the context of global uncertainty due to the US-China trade dispute; and concerns over rising economic disparity.

The growth oriented economic and fiscal initiatives are aimed at:
- spurring high value-add investments;
- countering slowing global growth environment; and
- developing a wider social safety net for the vulnerable.

Here’s a quick overview of the economic and fiscal policies in Budget 2020 that would have an impact on businesses:

Driving economic growth in the New Economy
- Making Malaysia the preferred destination for investment
- Accelerating the digital economy
- Strengthening access to financing for businesses
- Strengthening economic diversity

Creating a united, inclusive and equitable society
- Inclusive development
- Towards better health services
- Enhancing the transportation ecosystem
- Promoting access to housing
- Unity through sports
- Promoting environmental sustainability

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- Promoting environmental sustainability
Driving economic growth in the new economy

| Attracting multinationals and penetrating the global supply chain | • **RM1bn worth of customised packaged incentives to attract Fortune 500 companies**  
Available annually over the next 5 years for companies in high technology, manufacturing, creative and new economic sectors, who invest at least RM5bn in Malaysia  
• **Special Channel to attract investments from China set up under InvestKL**  
This initiative is to give focus and priority to efforts to capitalise on shifts in global supply chain investments arising in part out of the trade war  
• **RM1bn worth of customised packaged incentives to transform businesses for global export markets**  
Available annually over the next 5 years for companies proving their ability to grow and compete globally |
| --- | --- |
| Moving into 5G, digital economy & Industry 4.0 | • **Tax incentives to promote Electrical and Electronics (E&E) industry**  
Please refer to page 16  |
| Encouraging automation in manufacturing and services sector | • **Extension of capital allowance incentive to the year of assessment 2023**  
Please refer to page 16  |
| Spearheading infrastructure and corridor development | • **Estimated cost of RM8.3bn to improve transportation infrastructure to Port Klang**  
The Ministry of Transport will conduct feasibility studies on the Serendah-Port Klang Rail Bypass for cargo shipments and the Klang Logistics Corridor, a dedicated privatised highway connecting Northport and Westport for commercial vehicles  
• **Support for construction of primary infrastructure in collaboration with the private sector**  
The private sector will invest in business assets to catalyse potential domestic investment worth RM800m, providing more than 600 job opportunities  
• **Allocation of RM1.1bn to support projects for corridor development**  
Development activities include projects for Chuping Valley Industrial Area in Perlis, Kuantan Port and more |
Driving economic growth in the new economy

<table>
<thead>
<tr>
<th>Investing in telecommunications infrastructure</th>
<th>Encouraging digitisation and automation</th>
<th>Moving towards a cashless society</th>
<th>Others</th>
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<tr>
<td>• <strong>RM21.6bn for the National Fiberisation &amp; Connectivity Plan (NFCP) via public-private partnership</strong>&lt;br&gt;The Malaysian Communications and Multimedia Commission (MCMC) will finance at least half of the investment, with the remaining funded by private sector telecommunications players. Focus will be on Sabah and Sarawak, as well as schools and industrial parks to ensure that they receive new digital infrastructure</td>
<td>• <strong>RM500m matching grant for SMEs to digitalise the way they operate</strong>&lt;br&gt;A 50% matching grant of up to RM5,000 per company, limited to the first 100,000 SMEs</td>
<td>• <strong>One-time RM30 digital stimulus to increase the use of e-wallets</strong>&lt;br&gt;For Malaysians aged 18 and above with annual income less than RM100,000. An allocation of up to RM450m to be given to Khazanah Nasional Berhad to implement this digital stimulus</td>
<td>• <strong>RM50m 5G Ecosystem Development Grant to be 5G ready</strong>&lt;br&gt;14 one-stop Digital Enhancement Centres to finance businesses in line with IR4.0&lt;br&gt;• Digital Social Responsibility as a concept for businesses to contribute to digital economic development&lt;br&gt;• MDEC to train micro-digital entrepreneurs and technologists in e-commerce</td>
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<td>• <strong>RM550m Smart Automation matching grants to encourage business process automation</strong>&lt;br&gt;The grant will be given on a matching basis up to RM2m per company</td>
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### Impact on Business (cont’d)

#### Driving economic growth in the new economy

<table>
<thead>
<tr>
<th>Prioritising women entrepreneurs and SMEs</th>
<th>Strengthening access to financing for businesses</th>
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<tbody>
<tr>
<td>• Providing access to financing</td>
<td>• RM500m in guarantee facility under the Skim Jaminan Pinjaman Perniagaan (SJPP)</td>
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<td>• RM445m grants for access to financing, securing business premises and training</td>
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<td>• New funds by SME Bank with annual interest subsidy of 2% to reduce borrowing costs</td>
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<td>RM200m fund for women entrepreneurs and RM300m fund for Bumiputera SMEs with priority given to local halal products</td>
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<td>• Increase in ceiling per company for the Market Development Grant by Malaysia External Trade Development Corporation</td>
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<td>The ceiling for the grant to be increased to RM300,000 from RM200,000 yearly</td>
</tr>
<tr>
<td>Benefits of construction consortiums</td>
<td>• RM1bn 1:5 matching guarantee for private equity funds to invest in Malaysian consortiums</td>
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<td>To catalyse and promote financing to construction consortiums bidding for projects overseas</td>
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<tr>
<td>Supporting strategic projects</td>
<td>• Financing programmes offering 2% interest subsidy per annum</td>
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<td></td>
<td>Programmes offered by Bank Pembangunan Malaysia Berhad include the Sustainable Development Financing Fund which has increased from RM1bn to RM2bn</td>
</tr>
<tr>
<td>Restructuring Development Financial Institutions</td>
<td>• Formation of a new financial institution to strengthen the development finance ecosystem</td>
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<tr>
<td></td>
<td>Merger of Bank Pembangunan Malaysia, Danajamin Nasional, SME Bank and the Export-Import Bank of Malaysia</td>
</tr>
<tr>
<td>Growing Islamic Finance</td>
<td>• Establishment of the Special Committee on Islamic Finance (JKKI) to develop the Islamic Finance ecosystem</td>
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<td>• Extension of tax deductions on sukuk issuance cost under Wakalah principle until YA2025</td>
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<td>• Tax exemption for fund management companies managing Shariah compliant funds extended until YA2023</td>
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<td>Others</td>
<td>• RM50m to My Co-Investment Fund (MyCIF) to leverage new digital financial platforms in financing SMEs</td>
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<td>• RM100m for Small Business Loans for the Chinese community</td>
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<td>• RM20m for Indian entrepreneurs</td>
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</tbody>
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# Impact on Business (cont’d)

## Driving economic growth in the new economy

### Strengthening economic diversity

<table>
<thead>
<tr>
<th>Growing green energy and equipment sector</th>
<th>Supporting the palm oil industry</th>
<th>Promoting intellectual property</th>
<th>Promoting the tourism sector</th>
</tr>
</thead>
</table>
| • **Extension of tax incentives for renewable energy**  
  • Green Investment Tax Allowance and Green Income Tax Exemption incentives will be extended to 2023  
  • A 70% income tax exemption of up to 10 years will be given for solar leasing activities  
  • **Investment into energy saving equipment**  
    Government will accelerate Energy Performance Contracting implementation for Government buildings, prioritising hospitals and education institutions | • **Extension of tax incentives for renewable energy**  
  • RM550 million palm oil replanting loan fund for smallholders collateral-free at an interest rate of 2% per annum  
  • Implementation of B20 biodiesel for the transport sector to be implemented by the end of 2020 | • **Enhancing Research & Development (R&D) framework**  
  • Intensifying R&D in the public sector with an allocation of RM524m to Ministries and Public Agencies  
  • Promote commercialisation of R&D from the public sector, research universities beginning with the University of Malaya  
  • IP-generated income based on the Modified Nexus Approach (MNA) derived from patents and copyright software will be given tax exemption for a period of up to 10 years | • **Tax incentives targeted at the arts and tourism sector**  
  • Income tax exemption be given for organisers of approved arts and cultural activities, approved international sports recreational competitions, and conferences organisers  
  • Investments in international theme park projects will be given income tax exemption of 100% of statutory income or Investment Tax Allowance of 100% to be set off against 70% for 5 years;  
  • Increasing tax deductions given to companies sponsoring arts, cultural and heritage activities in Malaysia from RM700,000 to RM1,000,000 per year  
  • Licensed travel agents under the Ministry of Tourism, Arts and Culture are allowed to submit group application for up to 100 people per transaction through the eNTRI and eVISA system.  
  • **Solidify Malaysia’s leading position as a medical tourist destination**  
    Government will allocate RM25 million to strengthen the position of Malaysia as the preferred destination for health tourism in oncology, cardiology and fertility treatment |
Levelling up human capital

Enhancing job opportunities for Malaysians
- RM6.5bn over five years for Malaysians@Work programme
  Up to RM500 per month wage incentive and up to RM300 per month hiring incentive, creating better employment opportunities for unemployed graduates, women, and Malaysians (shifting away from dependency on low-skilled foreign workers)

Modernising the labour market
- Review of the Employment Act 1955, proposing:
  - Increasing maternity leave from 60 days to 90 days effective 2021
  - Extending eligibility to overtime from those earning less than RM2,000 to those earning less than RM4,000 per month
  - Improving protection and procedures for handling sexual harassment complaints
  - Introducing new provisions on the prohibition of discrimination of religion, ethnicity, and gender

- Increase of minimum wage in major cities to RM1,200 per month effective 2020

Investing in education and talent
- Extension of EPF withdrawal scope for qualifications attained at certificate level, and RM40m from Government and HRDF
  Encouraging adults to undertake professional certification examinations in fields relating to IR4.0, in line with the nation’s IR4.0 aspirations

- RM1.3bn allocated to educate low income and rural bumiputeras under MARA’s educational institutions

- RM192m for Yayasan Peneraju professional certification programmes
Creating a united, inclusive and equitable society

**Inclusive development**

- **Supporting regional prosperity**
  - RM5.2bn allocation for Sabah, RM4.4bn for Sarawak
    To tackle the urban-rural divide, basic infrastructure investments in Sabah and Sarawak, includes RM470m for rural water and RM550m for rural roads

- **Addressing income inequality**
  - RM5bn allocation for Bantuan Sara Hidup (BSH)
    - Singles who are of 40 years old and above and earning less than RM2,000 a month will be eligible for RM300 Bantuan Sara Hidup aid
    - Disabled individuals aged 18 and above will also be eligible for the aid
    - They will also automatically receive the Takaful MySalam insurance scheme free

- **Developing bumiputera SMEs**
  - RM8bn to support bumiputera entrepreneurship development
    - RM6.6bn for Bumiputera institutions focused on education, e.g. MARA, UiTM and Yayasan Peneraju Pendidikan Bumiputera
    - RM1bn of financing for Bumiputera SMEs e.g. SJPP and SME Bank
    - RM445m for entrepreneurship programmes e.g. SMECorp, Pelaburan Hartanah, PUNB, TEKUN and TERAJU

**Towards better health services**

- **Improving preventive health care**
  - Resources have been allocated to intensify preventive measures to manage the burden on public healthcare expenses
    - These include investments in hospitals and clinics, upgrading medical equipment, kick-starting pneumococcal vaccination for children, Skim Peduli Kesihatan (PeKA) B40 to provide screenings and early intervention for non-communicable diseases such as mental health and cancer, etc.
Creating a united, inclusive and equitable society

**Enhancing the transportation ecosystem**

**Easing burdens**
- Allocation of RM450m to acquire up to 500 electric buses for public transport
- RM85m to ease congestion at the Causeway and 2nd Link
- All PLUS highway toll charges lowered 18%
  - Minimum reduction of average toll charges by 18% discount across all PLUS highways
  - Second Penang bridge toll to be reduced from RM8.50 to RM7
  - Introduction of congestion charges that will be lowered by up to 30% of the present toll rates during near peak and normal hours and free during off-peak hours
  - No extension of the existing concession and will end according to the existing concession contract

**Better fuel subsidy targeting**
- Individuals who own not more than two cars and two motorcycles are eligible to receive fuel Targeted Subsidy Programme (PSP) for one vehicle
  - RM30 per month for car owners, RM12 per month for motorcycle owners
  - For all other motorists who are not BSH recipients, they will receive a special Kad95 which allows them to enjoy the fuel subsidy at a discount of 30 sen per litre limited to 100 litres per month for cars or 40 litres per month for motorcycles when purchasing RON95

**Promoting access to housing**

**Stimulating housing demand**
- Up to RM10bn Rent To Own (RTO) financing scheme provided by financial institutions with support from the government via a RM3bn guarantee
  For purchase of first home up to RM500k. The applicant will rent the property for up to 5 years and after the first year, the tenant will have the option to purchase the house
- Reduce residential property overhang (amounting to RM8.3 billion)
  Lower the threshold on high rise property prices in urban areas for foreign ownership from RM1m to RM600k
Budget 2020 tax proposals

Highlights

Corporate Tax

- **Customised packaged investment incentives**
  The government will make available customised packaged investment incentives annually over 5 years for investment (minimum RM5 billion) into the high technology, manufacturing, creative and new economic sectors in Malaysia.

- **Review of income tax for Small and Medium Enterprises (SME)**
  The chargeable income limit which is subject to the 17% preferential rate is to be increased from RM500,000 to RM600,000. To qualify as SME for tax purposes, annual sales must now not exceed RM50 million [effective from YA 2020].

- **Tax deduction on listing costs for ACE Market or LEAP Malaysia**
  Tax deduction of up to RM1.5 million is to be given on listing costs comprising fees to authorities, professional fees, underwriting, placement and brokerage fees [effective from YA 2020 until YA 2022].

- **Special investment incentive for electrical and electronic (E&E) sector**
  E&E companies that have exhausted the 15 year Reinvestment Allowance eligibility period are to be given income tax exemption equivalent to Investment Tax Allowance (ITA) of 50% on qualifying capital expenditure (QCE) incurred within 5 years, to be set-off against 50% of statutory income for each YA [applications received by MIDA from 1 January 2020 until 31 December 2021].

- **Tax incentive for development of intellectual property (IP)**
  Income tax exemption of 100% up to 10 years is to be given on qualifying IP income derived from patent and copyright software of qualifying activities in Malaysia [applications received by MIDA from 1 January 2020 until 31 December 2022].

- **Tax incentives for automation**
  (i) The following existing incentives are to be extended for 3 years until YA 2023:
  (a) Labour-intensive industry (rubber, plastic, wood, textile products) - Accelerated capital allowance (ACA) for automation equipment of 100% on 1st RM4 million of QCE + income tax exemption equivalent to 100% of the ACA
  (b) Industries other than in the above - ACA on automation equipment of 100% on 1st RM2 million + income exemption equivalent to 100% of the ACA
  (ii) The tax incentives in (b) are extended to the Services sector [applications received by MIDA from 1 January 2020 until 31 December 2023].

- **Tax deduction on contribution to charity and community projects**
  Tax deduction is expanded to include environmental preservation and conservation projects including forest, island, beach and national park; and maintenance and conservation projects for designated heritage buildings [effective from YA 2020].
Budget 2020 tax proposals (cont’d)

Highlights (cont’d)

**Personal Tax**

- **Review of tax rate for individuals**
  New chargeable income band exceeding RM2 million with income tax rate of 30% for resident individuals is to be introduced. Fixed income tax rate for non-resident individuals is to be increased from 28% to 30% [effective from YA 2020].

- **Tax deduction on donations**
  Tax deduction cap of 7% of aggregate income is to be increased to 10%. Tax deduction is to be expanded to include cash wakaf contribution to state religious authority (or body established to administer wakaf) and approved public university, as well as cash endowment contribution to public university [effective from YA 2020].

**Other Taxes**

- **RPJT - Revision of base year for acquisition of real property**
  For real properties acquired prior to year 2013 and disposed by Malaysian citizens and permanent residents after 5 years from the date of acquisition, the acquisition price to be used to compute chargeable gain / loss is based on the market value as at 1 January 2013. Previously the market value as at 1 January 2000 was adopted for the disposal of real properties acquired prior to year 2000.

- **Stamp duty remission for transfer of property by way of love and affection**
  Non-Malaysian citizens will no longer be given stamp duty remission of 50% on the instrument of transfer [instruments of transfer executed from 1 January 2020].

- **Increase in stamp duty on foreign currency loan agreement**
  Stamp duty to be increased from RM500 to RM2,000 [loan agreements executed from 1 January 2020].

**Indirect Taxes**

- **Sales Tax - Introduction of the Approved Major Exporter Scheme**
  Under the Scheme, approved traders and manufacturers of exempted goods are eligible for full sales tax exemption on importation and purchase of goods or raw materials, components and packaging materials and are not required to determine the quantity of goods to be exported at the time of importation or purchase of goods. To qualify for the scheme, at least 80% of annual sales must be exported [effective from 1 July 2020].

- **Service Tax - Improvement to the Group Relief Facility**
  Group relief is to be allowed for taxable services under professional group (except employment and security services) provided to a third party who is not within the same group of companies. To qualify, the value of services provided should not exceed 5% of the total value of services provided by that company within 12 months [effective from 1 January 2020].
Check out our Budget 2020 seminars

<table>
<thead>
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<th>Location</th>
<th>Date</th>
<th>Venue</th>
<th>Contacts 1</th>
<th>Contacts 2</th>
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For more information, please visit [here](#).
Let’s talk

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