

Indirect Tax Alert

Stay updated



Indirect Tax Alert: Budget 2020

The 2020 Budget Speech was laid before the Dewan Rakyat today. At the time of writing, the Finance Bill, which will enact the changes into law has not been released.

We set out below a summary of the indirect tax changes proposed in the Budget Speech.

Introduction of Approved Major Exporter Scheme under the Sales Tax Act 2018 (Effective 1 July 2020)

The Government has proposed the introduction of an Approved Major Exporter Scheme. To qualify for this scheme, the traders or manufacturers of exempted goods must export not less than 80% of their annual sales.

Under this proposed scheme:

- Traders are eligible for full sales tax exemption on the importation or purchase of their goods.
- Manufacturers of exempted goods are eligible for full sales tax exemption on the importation or purchase of raw materials, components and packaging materials for use in the manufacture of their goods.

However, sales tax must be paid accordingly:

- where the traders sell goods in the local market;
- where the manufacturers do not export the goods or sell the goods in the local market;
- where the manufacturers dispose of or sell waste or refuse raw materials, components and packaging materials in the local market.

The formula to determine the sales tax payable for items 1 and 2 above has not been released.

PwC Comment

For manufacturers, this scheme will overcome the shortcomings in the current exemption system whereby manufacturers are unable to determine at the time of applying for the exemption the quantity of raw materials, components and packaging materials to be used in the manufacture of exempted goods to be exported.

For traders, this scheme will alleviate the cash flow impact where a substantial quantity of their goods are exported.



Improvement on group relief facility under service tax ***(Effective 1 January 2020)***

Currently, services within Group G 'Professional Services' (excluding employment services and security services) provided within the 'same group of companies' qualify for the 'group relief' concession. However, where such services are provided to persons outside the group, then service tax will apply to the services provided both within and outside the group.

It has been proposed that a *de minimis* rule will be introduced which allows a company to still apply the 'group relief' when the same taxable service is provided outside the corporate group. This rule will only apply when the value of services provided to a person outside the corporate group does not exceed 5% of the total value of services provided by that company within the 12 month period. It is unclear at this stage what the value of services refers to in determining the 5% threshold.

PwC Comment

The proposed change allows businesses providing a relatively small value of taxable services to persons outside the corporate group to still apply the 'group relief' concession.

Service tax exemption on provision of training and coaching services for disabled persons ***(Effective 1 January 2020)***

Training and coaching services were introduced as taxable services effective 1 January 2019.

It is proposed that service tax exemption will be given to training and coaching services provided by the following persons to the disabled persons with hearing, visual, physical, speech, mental, and learning disabilities:

- Training and coaching centres registered with Ministry of Health Malaysia or Department of Social Welfare; or
- Training and coaching centres endorsed by any national association for disabled person registered with Registry of Societies Malaysia.

PwC Comment

This will reduce the tax burden on disabled persons with hearing, visual, physical, speech, mental, and learning disabilities.

Introduction of deferred payment facility

It has been proposed that the Royal Malaysian Customs Department will introduce a deferred payment facility to expedite cross border transactions.

PwC Comment

At this stage it is not clear how this system will be implemented, and what the qualifying criteria (if any) will be.



Excise duty exemption for tourism vehicles ***(Effective period: 1 January 2020 - 31 December 2021)***

Currently, an excise duty exemption of 50% is given to licensed tour operators on the purchase of locally assembled four wheel drive vehicles.

It has been proposed that the 50% excise duty exemption be broadened from only four wheel drive vehicles to the purchase of all new locally assembled vehicles used as tourism vehicles by licensed tour operators. An application must be made to the Ministry of Finance.

PwC Comment

This proposal is in line with the government's intention to promote tourism in Malaysia, by lowering the cost of upgrading vehicles to be used for tourism purposes.

At this juncture, it remains unclear whether the exemption is intended to apply to two wheeled vehicles (motorcycles) which are used for tourism purposes. It is also not clear what conditions (if any) will be imposed by the Ministry of Finance.



Review of export duty rate on Crude Palm Oil ("CPO") ***(Effective 1 January 2020)***

Effective 1 January 2013, the export duty rate on CPO ranges from 0% to 8.5% based on the CPO market price.

It has been proposed that the export duty rate on CPO will be reduced by 0.5% across the applicable market price ranges, excluding the market price range of RM2,250 to 2,400/tonne which will be reduced by 1.5%.

PwC Comment

This proposal will reduce the cost of CPO exports, helping to enhance Malaysia's competitiveness in this area.

Exemption of entertainments duty for stage performance ***(Effective period: 1 January 2020 - 31 December 2020)***

Currently, the entertainments duty rate of 5% is imposed on stage performance held by artists that have not been certified by Kementerian Komunikasi dan Multimedia Malaysia ("KKMM").

It has been proposed that full entertainments duty exemption be given on admission tickets for stage performances (including concerts, singing, music, dances and theatres) by local and international artists held at any venue in Kuala Lumpur, Labuan and Putrajaya, subject to approval by the relevant local authorities.

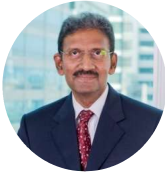
PwC Comment

This exemption is given for a limited period, and appears to be designed to coincide with Visit Malaysia 2020.

We hope this issue of Indirect Tax Alert is useful to you in highlighting the indirect tax impact of the Budget 2020. We will provide our insights into the Finance Bill after it is made available.

If you wish to discuss any aspects on these updates, do reach out to us.

Contact Us:



Raja Kumaran
Director

+603 2173 1701
raja.kumaran@pwc.com



Dato' Tan Kwong Jin
Advisor

+603 2173 1808
kwong.jin.tan@pwc.com



Dato' Abd Gani Othman
Advisor

+603 2173 1648
abdgani.othman@pwc.com



Yap Lai Han
Director

+603 2173 1491
lai.han.yap@pwc.com



Chan Wai Choong
Director

+603 2173 3100
wai.choong.chan@pwc.com



Tim Simpson
Director

+603 2173 1613
tim.simpson@pwc.com