

pwc

Centre Stage:

Budget 2023 (Re-tabled) Overview

24 February 2023

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Foreword

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The re-tabled Budget 2023 takes a very structured approach to addressing the challenges the nation is expected to face in view of continuing global economic uncertainty.

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The re-tabled Budget 2023 adopts a more reformist and strategic approach, revolving around the ‘Developing Malaysia Madani’ theme.

Focussed approach to Tax Incentives

As regional competition for investments intensifies, it is vital to redefine investment parameters by placing greater emphasis on quality, focusing on multiplier effects in creating high quality jobs and building key ecosystems to stimulate the development of local players.

Expanding the Tax Base

Although a broad-based consumption tax was not introduced in the re-tabled Budget 2023, it includes a few initiatives aimed at expanding the tax base for those who can afford it. The initiatives includes proposals to introduce a Luxury Goods Tax, a commitment to study the introduction of Capital Gains Tax on disposal of non-listed shares by a company and an increase in personal tax rates for the RM100,001 to RM1,000,000 tax brackets.

Voluntary Disclosure Programme

The Voluntary Disclosure Programme is not new, but the re-tabled budget this time takes it one step further. It reveals a full waiver of penalties for taxpayers who come forward under the programme. Besides contributing positively to government revenues, it is a welcomed move as taxpayers will be encouraged to come clean on their tax affairs.



What’s in it for the M40

The M40 group continue to be supported in the re-tabled Budget 2023. Taxpayers in the RM35,001 to RM100,000 tax brackets will receive a 2% reduction in rates.

The Human Capital Agenda

The re-tabled Budget 2023 straight-on addresses the growing mismatch between graduates and employer expectations and the resultant issue of underemployment, in addition to our high reliance on foreign labour. A number of measures were announced to tackle these issues including deepening private-public partnerships, automation and upskilling/reskilling initiatives.

The Re-tabled Budget 2023 - conclusion

Budget 2023 adopts a strategic approach in dealing with the domestic challenges and a more subdued outlook for the global economy. The expansionary approach of increasing development expenditure will serve as a counter-cyclical measure in driving growth. The Government also proposes to differentiate Malaysia when it comes to attracting foreign direct investments in targeted sectors.

The welfare of the *Rakyat* is also not forgotten with various measures for the B40 and M40 groups not only in terms of providing immediate support but making structural changes to elevate their income levels.

Jagdev Singh

Tax Leader, PwC Malaysia

Budget snapshot

Budget 2023: Developing Malaysia MADANI

Agenda 1:

Driving a comprehensive and sustainable economy



Fiscal sustainability

- Expanding fiscal base
- Managing debt levels
- Increasing national income

Fulfilling the Rakyat's economic needs

- Tax cuts
- Facilitating small businesses
- Facilitating loans and financing guarantees

Managing natural disasters

- Preparing for natural disasters
- Green behaviours

Attracting high impact investments

- Facilitating investments
- Investing in priority sectors
- Economy and Islamic finance

Agenda 2:

Institutional reform and good governance to restore confidence



Refreshing the public sector

- Transparency in government procurement
- Accelerating infrastructure projects
- Encouraging innovative ministries and agencies
- Solving Rakyat's issues
- Institutional reforms

Strengthen public-private partnership

- Industrial collaboration on TVET
- Encouraging employment with a commensurate income
- Matching fund to revive the tourism sector

Prioritising the Digital Agenda

- Internet for the Rakyat
- Digitalising businesses

Strengthen the role of government agencies and GLCs

- Highly innovative start-ups
- Corporate social responsibility

Agenda 3:

Social justice for reducing inequality



Eradicating hardcore poverty

- Cash aid and Inisiatif Pendapatan Rakyat (IPR)
- The role of state governments

Reducing the cost of living

- Konsep Payung Rahmah
- Sumbangan Tunai Rahmah (STR)
- Assistance for rice & rubber farmers
- Disposable income of M40
- Food security

Ensuring harmony and unity

- Sabah and Sarawak development
- Internal security & defense
- Syiar Islam
- Sports and culture

Providing Quality Basic Needs

- Transportation
- Education
- Healthcare
- Housing
- Social protection

Budget snapshot

Fiscal position

Budget remains expansionary



Smaller Budget deficit

Deficit: RM94 bn
Revenue: RM292 bn
Expenditure: RM386 bn

2023: -5.0% of GDP

2022: -5.6% of GDP

Total expenditure is estimated to be slightly lower mainly due to expiry of COVID-19 fund and spending optimisation measures



Down 2.3% Overall expenditure

2023: RM386 bn

2022: RM395 bn



Down 1.2% Operating expenditure

2023: RM289 bn

2022: RM293 bn



Up 35.5% Gross development expenditure

2023: RM97 bn

2022: RM72 bn

Note: Overall expenditure for 2022 includes COVID-19 fund spending

Lower revenue due to anticipated decline in non-tax revenue



Down 1.0% Revenue

2023: RM292 bn

2022: RM294 bn

Government debt remains below the debt ceiling



Elevated Government debt

**End-2022: 60.4% of
GDP**

Due to rounding, numbers presented throughout this document may not add up precisely to the totals provided and percentages may not precisely reflect the absolute figures.



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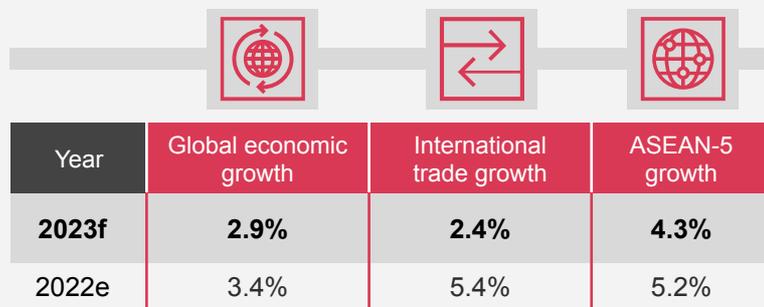
The fiscal deficit is expected to consolidate further in 2023. This is in line with Government's consolidation plan guided by the Medium-term Fiscal Framework.

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Economic outlook 2023

Slower expansion in the global economy

Global and regional growth



ASEAN-5: Indonesia, Malaysia, Philippines, Thailand, Vietnam

e: Estimates; f: Forecast

Source: International Monetary Fund (IMF)

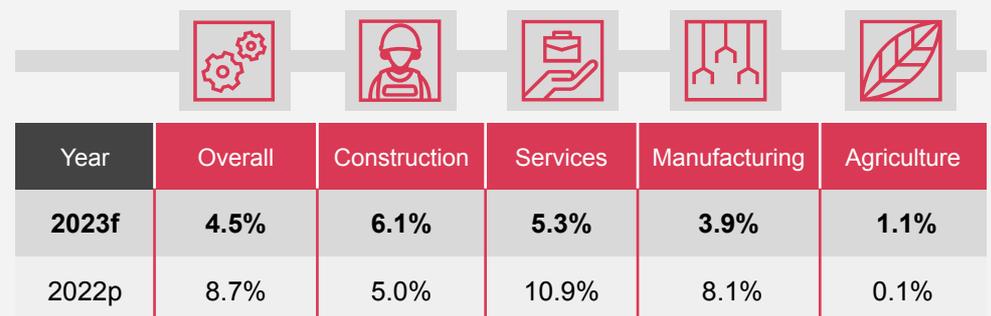
Global growth is projected to soften, mainly due to tightening global financial conditions to counter inflation and less favourable sentiment resulting from the Russia-Ukraine conflict.

Nonetheless ASEAN-5 countries are expected to outpace global growth, supported by steady domestic demand.

The Malaysian economy will be supported by the recovery in construction of major infrastructure projects, improved labour supply and tourism-related activities.

Slower overall economic growth

Malaysia's growth by sector

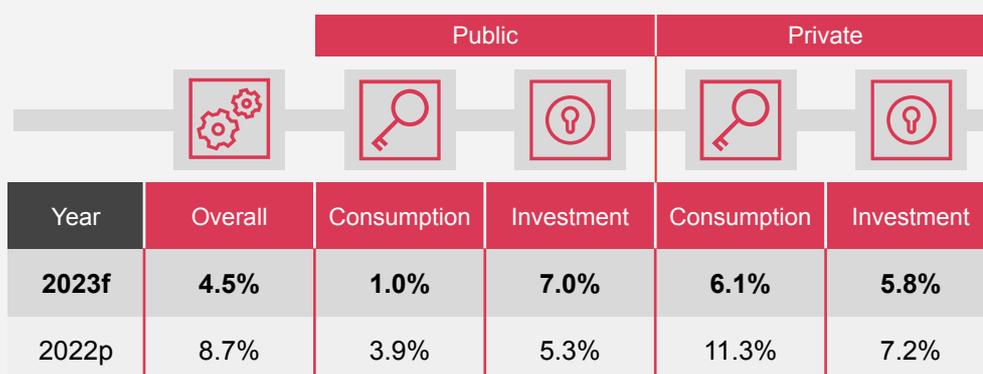


f: Forecast p: Preliminary

Source: Ministry of Finance (MOF)

Private sector will remain the major contributor

Malaysia's growth by expenditure



Source: Ministry of Finance (MOF)

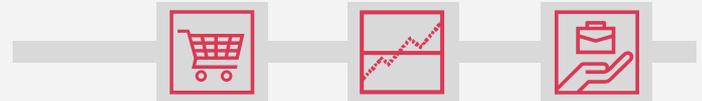
Private consumption and investment are projected to drive growth. The improving labour market conditions, higher tourism activities and increased investments in manufacturing are expected to drive domestic demand.

Economic outlook 2023

Inflation is projected to range between 2.8% - 3.8% on the back of supply disruptions risk.

Labour market conditions is expected to be sustained by the continued expansion in economic activities.

Manageable inflation and unemployment



Year	Consumer Price Index	Producer Price Index	Unemployment
2023f	2.8% - 3.8%	-	3.5 - 3.7%
2022	3.3%	7.8%	3.6%

Source: Ministry of Finance (MOF)



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Key budget measures



Key budget measures

The measures announced in the re-tabled Budget 2023 covers a number of areas from driving growth, institutional reforms, social aid to job creation. Highlighted below are among the key measures that would impact the economy and businesses going into 2023.

Impact of re-tabled Budget 2023 economic and fiscal measures on businesses

Driving an inclusive and sustainable economy



Fiscal sustainability



Investments in priority sectors



Development of SMEs

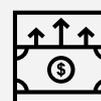


Preparing for natural disasters and encourage green practices

Institutional reform and good governance to restore confidence



Institutional reform



Improve wages in the industry



Accelerating innovation



Digitalisation for Rakyat and businesses



Industrial collaboration for TVET

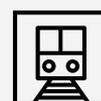


Corporate social responsibility

Social justice for reducing inequality



Eradicating poverty and reducing cost of living



Infrastructure development and research



Ensuring food security and expanding social protection

Key budget measures



A snapshot of ESG budget measures

To further strengthen the sustainability agenda, the Budget has incorporated a number of Environmental, Social and Governance (ESG) initiatives, as summarised below:



Environmental

Encouraging green business activities

- Green Technology Financing Scheme (GTFS) to be extended until 2025 with an increased allocation to **RM3 bn**
- BNM to finance up to **RM2 bn** to support green technology start-ups and help SMEs implement low-carbon practices
- Khazanah will provide **RM150 mn** to environmentally friendly project developments. These include supporting the carbon market and reforestation

Ensuring food security

- FELDA, FELCRA, RISDA and agencies under the Ministry of Agriculture and Food Security to cultivate their idle land with acreage of up to 800 acres into agrofood projects

Commitment towards conservation and preservation of wildlife

- **RM238 mn** allocated to increase number of wildlife rangers, protection of endangered wildlife and preservation of forests
- An increased **RM150 mn** allocation for the Ecological Fiscal Transfer (EFT) for Biodiversity Conservation to state governments



Social

Empowering the people

- **RM8 bn** in cash aid under Sumbangan Tunai Rahmah to benefit 8.7 mn people
- The Amanah Saham Malaysia (ASM) fund size will be increased by **RM5 bn** in line with the Unity Government's commitment to ensure the equality of multiracial society
- The government has received a commitment from the private sector to set up Wakaf MADANI with assets over **RM1 bn**. Assets include land, mosques, buildings, health and education facilities which will be optimized for the benefit of the poor, low income and other vulnerable groups
- **RM1 bn** allocation for government to contribute RM500 to EPF Account 1 of members aged 40 to 54 with less than RM10,000
- **RM750 mn** is allocated for Inisiatif Pendapatan Rakyat (IPR) to provide economic opportunities and empower the poor in increasing their earning potential. The IPR will come under the purview of the Ministry of Economy



Governance

Structural reforms

- A **special task force to reform government agencies (STAR)** has been established and is led by the Chief Secretary to the government
- Retirement packages for executives and top management of GLCs and statutory bodies to be revised

Increased transparency

- To improve transparency, the **Government Procurement Act** and amendments to the **Whistleblower Protection Act** is to be tabled
- Government to ensure increased transparency in the management of Digital Nasional Berhad to achieve full participation by telecommunications companies

Institutional reforms

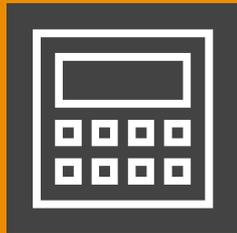
- Government to reform public service institutions that are seen to have overlapping functions

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Key budget measures



Driving an inclusive and sustainable economy



<p>Fiscal sustainability</p>	<ul style="list-style-type: none"> ● Introduction of Luxury Goods Tax on certain goods ● Government to study implementation of low-rate Capital Gains Tax on disposal of unlisted shares by companies from 2024 ● Excise duty to be imposed on vape and e-cigarettes
<p>Development of SMEs</p>	<ul style="list-style-type: none"> ● Income tax for micro SMEs will be reduced from 17% to 15% for the first RM150,000 of chargeable income ● RM40 bn in loan facilities for micro SMEs through government agencies: <ul style="list-style-type: none"> ○ Loan facility worth RM1.7 bn to help micro entrepreneurs, women and youth provided by BNM, BSN and TEKUN ○ Almost RM10 bn in loans for SMEs provided by BNM ○ RM20 bn in loans to SMEs in technology, agriculture and manufacturing sectors through Syarikat Jaminan Pembiayaan Perniagaan (SJPP)
<p>Preparing for natural disasters and encourage green practices</p>	<ul style="list-style-type: none"> ● Retendering of six (6) Flood Mitigation Plan projects with a projected savings of RM2 bn ● Up to RM150 mn allocated to NADMA for relief efforts ● Green business initiatives that include funds for Ecological Fiscal Transfer (EFT) for Biodiversity Conservation, loans to support green technology start-ups and funds for development of environmentally friendly projects - <i>refer to Snapshot of ESG Budget measures</i>
<p>Investment in priority sectors</p>	<ul style="list-style-type: none"> ● Invest Malaysia Council and National Committee on Investment (NCI) will lead efforts to accelerate approval of high potential investment projects ● PEMUDAH, the special task force to facilitate business, will be empowered as a facilitator of the investment climate and business environment ● Launch of the Pelan Induk Perindustrian Baharu 2030 that will include restructuring of investment incentives ● Investment in major sectors that include: <ul style="list-style-type: none"> ○ Extension of the special tax rate of 15% for individuals in C-Suites position in manufacturing companies relocating their operations to Malaysia until 2024 ○ Extension of income tax incentives as well as investment tax allowances to the aerospace sector until Dec 31, 2025 ○ Tun Razak Exchange (TRX) was mandated as Malaysia's international financial hub ○ Strengthen development of Iskandar Malaysia in Johor through creation of a special financial zone to attract international investors ○ Bank Pembangunan Malaysia Berhad (BPMB) to provide up to RM6 bn in strategic funding to accelerate the sustainability agenda and automation ● Improve Islamic economy and finance <ul style="list-style-type: none"> ○ Syariah savings assets under EPF will be fully segregated to provide competitive returns to 1.25 mn shariah account members starting from 2024 ○ Private sector to establish Wakaf MADANI - <i>refer to Snapshot of ESG Budget measures</i>

Key budget measures



Institutional reform and good governance to restore confidence

<p>Institutional reforms</p>	<ul style="list-style-type: none"> ● Improve transparency in government procurement with the plans to table the Government Procurement Act and amendments to the Whistleblower Protection Act ● A special task force to reform government agencies (STAR) has been established and is led by the Chief Secretary to the government ● Government to reform public service institutions that are seen to have overlapping functions, e.g. combining Yayasan Pelaburan Bumiputera, Yayasan Amanah Hartanah Bumiputera and Yayasan Ekuiti Nasional in the near future
<p>Accelerating innovation</p>	<ul style="list-style-type: none"> ● Restructure all agencies that monitor and coordinate the start-up and innovation ecosystem ● RM1.5 bn worth of investments in local high growth start-ups from GLCs, such as Khazanah and EPF
<p>Industrial collaboration for TVET</p>	<ul style="list-style-type: none"> ● Identify 50 companies, especially GLCs, to take over parts or in whole the operations of TVET institutions such as community colleges, Institut Latihan Perindustrian and Institut Kemahiran Belia Negara (IKBN) ● RM50 mn allocation to strengthen Skim Latihan Dual Nasional (SLDN) that will benefit over 8,000 trainees
<p>Improve wages in the industries</p>	<ul style="list-style-type: none"> ● RM45 mn allocation for PERKESO to provide incentives to employers that hire graduates, specifically TVET ● PERKESO to provide incentives to employers that hire from vulnerable groups ● RM130 mn allocated to improve wages and employees' welfare in the plantation sector : <ul style="list-style-type: none"> ○ A matching grant to encourage automation in the plantations sector through the implementation of Artificial Intelligence and to hire skilled workers ○ Improve sustainability in the plantations sector and to intensify efforts to counter anti-palm oil narrative ● The year 2025 is set to be Visit Malaysia Year and RM250 mn will be allocated to promote tourism
<p>Digitalisation for Rakyat and businesses</p>	<ul style="list-style-type: none"> ● RM725 mn allocated to accelerate the implementation of Jalinan Digital Negara (JENDELA) by providing digital connectivity to 47 industrial areas and close to 3,700 schools ● A total of RM1 bn funding under BNM to assist MSMEs to automate and digitalise their business ● Ensure more data centres to set up operations in Malaysia by providing tax incentives, secure infrastructure, green energy and suitable locations ● RM100 mn allocated under the Skim Geran Pendigitalan PKS to support small traders in automating and digitalising their businesses
<p>Corporate social responsibility</p>	<ul style="list-style-type: none"> ● Corporate social contribution up to RM250 mn targeted to assist the hardcore poor ● Khazanah Nasional Berhad to take the lead in establishing Tabung Warisan Negara to attract participation of private sector to restore heritage buildings

Key budget measures



Social justice for reducing inequality



Eradicating poverty and reducing cost of living

- **RM64 bn** allocated for **overall subsidies, aid and incentives**
- **RM8 bn** in cash aid under **Sumbangan Tunai Rahmah** to benefit almost 9 mn people
- **RM750 mn** to implement **Inisiatif Pendapatan Rakyat (IPR)** to provide economic opportunities and elevate income of those in poverty
- Changes in personal income tax rates - *refer to tax proposal highlights*

Ensuring food security and expanding social protection

- **RM1 bn** by BNM for **Skim Pembiayaan Agrofood** loans to help improve local food production
- **RM1 bn** allocation for government to contribute RM500 to **EPF Account 1** for members of age between 40 to 54 with less than RM10,000 in their account

Infrastructure development and research

- To review the cost of the **Mass Rapid Transit Line 3 (MRT3)** project, with the aim of lowering it to **RM45 bn** from the current RM50 bn estimate
- **RM6.5 bn** and **RM5.6 bn** development expenditure to be allocated for development in **Sabah** and **Sarawak** respectively
- **RM20 bn** to be allocated to accelerate the development of **Pan Borneo Sabah** and **Sarawak-Sabah Link Road**
- **RM428 mn** to be allocated for **R&D activities** under the Ministry of Science, Technology and Innovation

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Tax proposal highlights

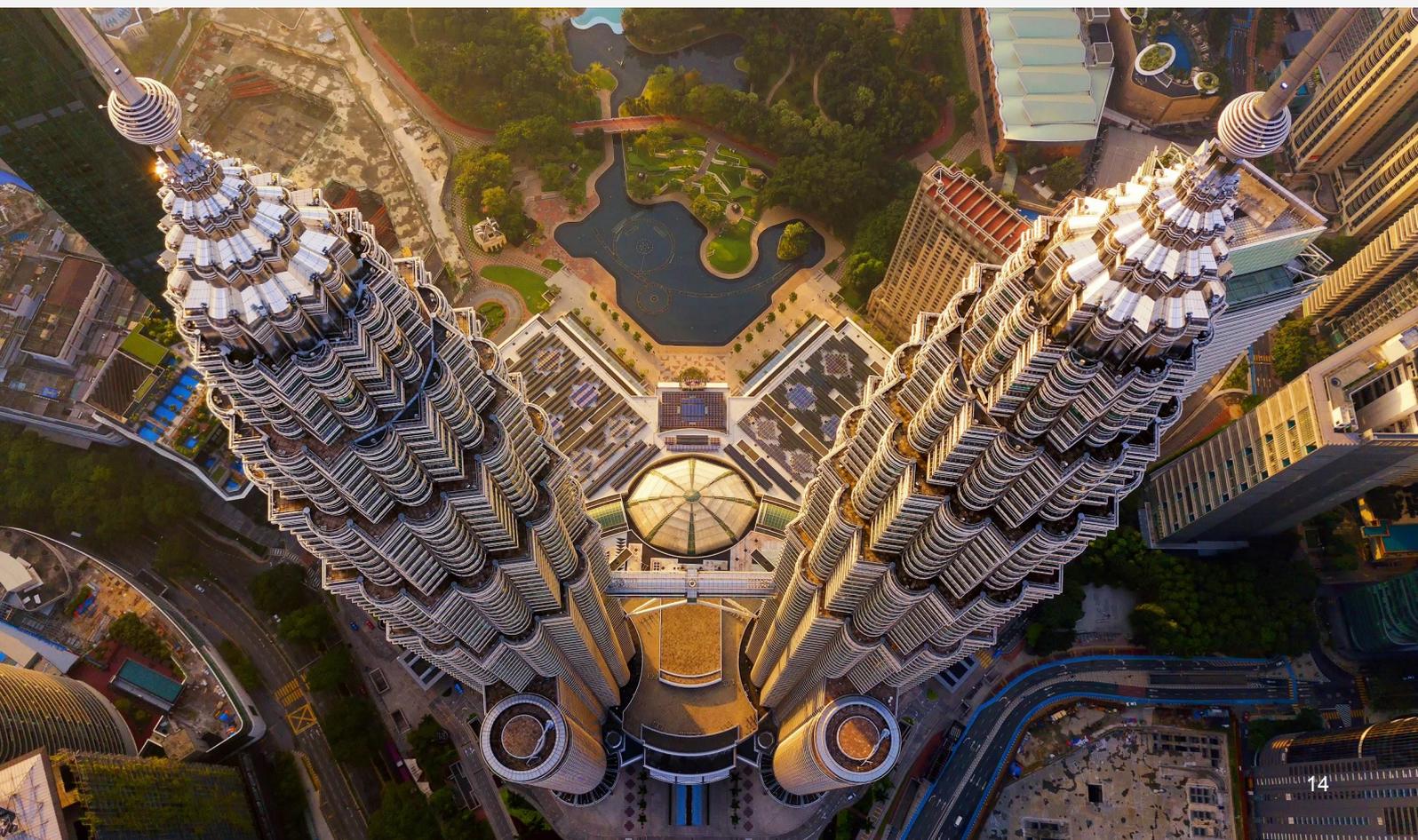


Tax proposal highlights



Key proposed highlights

Capital Gains Tax	Introduction of capital gains tax at a low rate on the disposal of unlisted shares by companies effective 2024 will be studied
Luxury Goods Tax	Imposition of tax on certain luxury goods effective 2023
Voluntary disclosure programme	Inland Revenue Board and Royal Malaysian Customs Department will reintroduce the voluntary disclosure programme from 1 Jun 2023 to 31 May 2024 - 100% waiver of penalty will be granted
2% reduction of corporate income tax rate for Micro, Small & Medium Enterprises (MSMEs)	2% reduction in corporate income tax rate from 17% to 15% for MSMEs for the first RM150,000 of chargeable income effective YA 2023
Review of individual income tax rates	<ul style="list-style-type: none">• 2% reduction in individual income tax rates for each chargeable income band between RM35,001 to RM100,000 (tax savings up to RM1,300)• Tax rates for chargeable income bands between RM100,001 to RM1 mn will be increased by 0.5% to 2% Effective YA 2023



Tax proposal highlights



Environmental

Tax deduction for sponsorship of smart Artificial Intelligence (AI)-Driven Reverse Vending Machine

Tax deduction for companies and other than companies (individuals, partnerships, trusts and cooperatives that have business income) that donate or sponsor AI-Driven Reverse Vending Machine. For contribution/sponsorship and application received by Ministry of Finance **from 1 Apr 2023 until 31 Dec 2024**

Tax incentives for Carbon Capture and Storage (CCS) activities

Tax incentives for companies:

- undertaking CCS in-house activity (10 years of 100% Investment Tax Allowance set off against 100% of statutory business income, 5 years of full import duty, sales tax exemption and tax deduction for allowable pre-commencement expenses);
- undertaking CCS services (10 years of 100% Investment Tax Allowance set off against 100% of statutory business income or 10 years of 70% tax exemption, 5 years of full import duty and sales tax exemption); and
- using CCS services (tax deduction on service fees incurred)

Applications to be received by Ministry of Finance **from 25 Feb 2023 until 31 Dec 2027**



Promoting EV adoption

Tax incentive for rental of EV

Maximum rental amount of non-commercial EV allowed for tax deduction is increased to RM300,000 to encourage utilisation of low-carbon vehicles. Effective **from YA 2023 to 2025**

Tax incentive for manufacturer of EV charging equipment

- 100% income tax exemption on statutory income up to 10 years for companies that make early investments from YA 2023 to YA 2032. If the investments are made by the companies after YA 2023, the companies are eligible to enjoy the incentive for the remaining period only; or
- 5 years 100% Investment Tax Allowance set off against 100% of statutory business income for each YA

Applications to be received by MIDA **from 25 Feb 2023 until 31 Dec 2025**

Extension of tax incentives for EV

- Extended to **31 Dec 2027** - Full import duty exemption on components for locally assembled EV & full excise duty and sales tax exemption for locally assembled CKD EV
- Extended to **31 Dec 2025** - full import duty and excise duty exemption on imported CBU EV

Tax proposal highlights



Digital

Enhancement of Accelerated Capital Allowance (ACA) for automation equipment

- Expansion in scope of automation to include adaptation of Industry 4.0 elements
- Expansion in scope of tax incentive to include agriculture sector (currently ACA is only applicable for manufacturing & services sectors)
- Alignment and increase of capital expenditure threshold to RM10 mn (from minimum RM2 mn) for all sectors (manufacturing, services & agriculture)

Applications to be received by MIDA and Ministry of Agriculture and Food Security (MAFS) from 1 Jan 2023 until 31 Dec 2027

Inclusion of technology-based companies on Bursa Malaysia Main Market for tax deduction on listing costs

Tax deduction on listing costs for ACE and LEAP markets to be expanded to **Bursa Malaysia Main Market** but only for **technology-based companies**. The deduction is also extended until **YA 2025**



Individual

Expansion of income tax relief for medical treatment expenses

Expansion of scope of income tax relief from **YA2023** for medical treatment expenses to include intervention expenditure for Autism, Attention Deficit Hyperactivity Disorder, Global Developmental Delay, Intellectual Disability, Down Syndrome and Specific Learning Disabilities limited to RM4,000. This covers diagnostic assessment certified by a registered medical practitioner and early intervention and rehabilitation programmes by registered health profession practitioners. The amount of income tax relief will also increase from **RM8,000 to RM10,000**

Tax relief on voluntary contribution to Employees Provident Fund (EPF)

Existing tax relief of RM3,000 for life insurance premium or takaful contribution or voluntary contribution to EPF be restructured **from YA2023** to life insurance premium or takaful contribution or additional voluntary contribution to EPF **or both**

Stamp duty on transfer of property between family members

Stamp duty for the first RM1 mn of the property's value will be exempted while there is a **50% remission** on the remaining stamp duty imposed on the transfer of property between parents and children; grandparents and grandchildren

This is provided that the recipient of the property is a Malaysian citizen and this applies to instruments of transfer of property executed after **1 Apr 2023**

Let's talk



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Register for our Budget 2023 Seminar

A seminar by PwC's Academy

Thursday, 9 March 2023 | 8:30am - 5:00pm
Mandarin Oriental, Kuala Lumpur



[Download brochure](#)

Registration fee:

- **RM980 per participant** (inclusive of service tax).
- 10% off registration fee for groups of 3 or more participants registering under the same company or group of companies. If registering as a group, kindly email the list of names to my_events@pwc.com.
- Purchased seats are non-refundable, but a replacement participant may be sent.

Kindly register by **Thursday, 2 March 2023**.

HRDF claimable

Companies that contribute to the Human Resources Development Fund are eligible for HRD Corp Claimable Courses (HCC) training grants.

CPE hours/CPD points

Participants will be presented with a Certificate of Attendance at the end of the seminar which can be used to register CPE hours/CPD points.

For more information, contact:

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