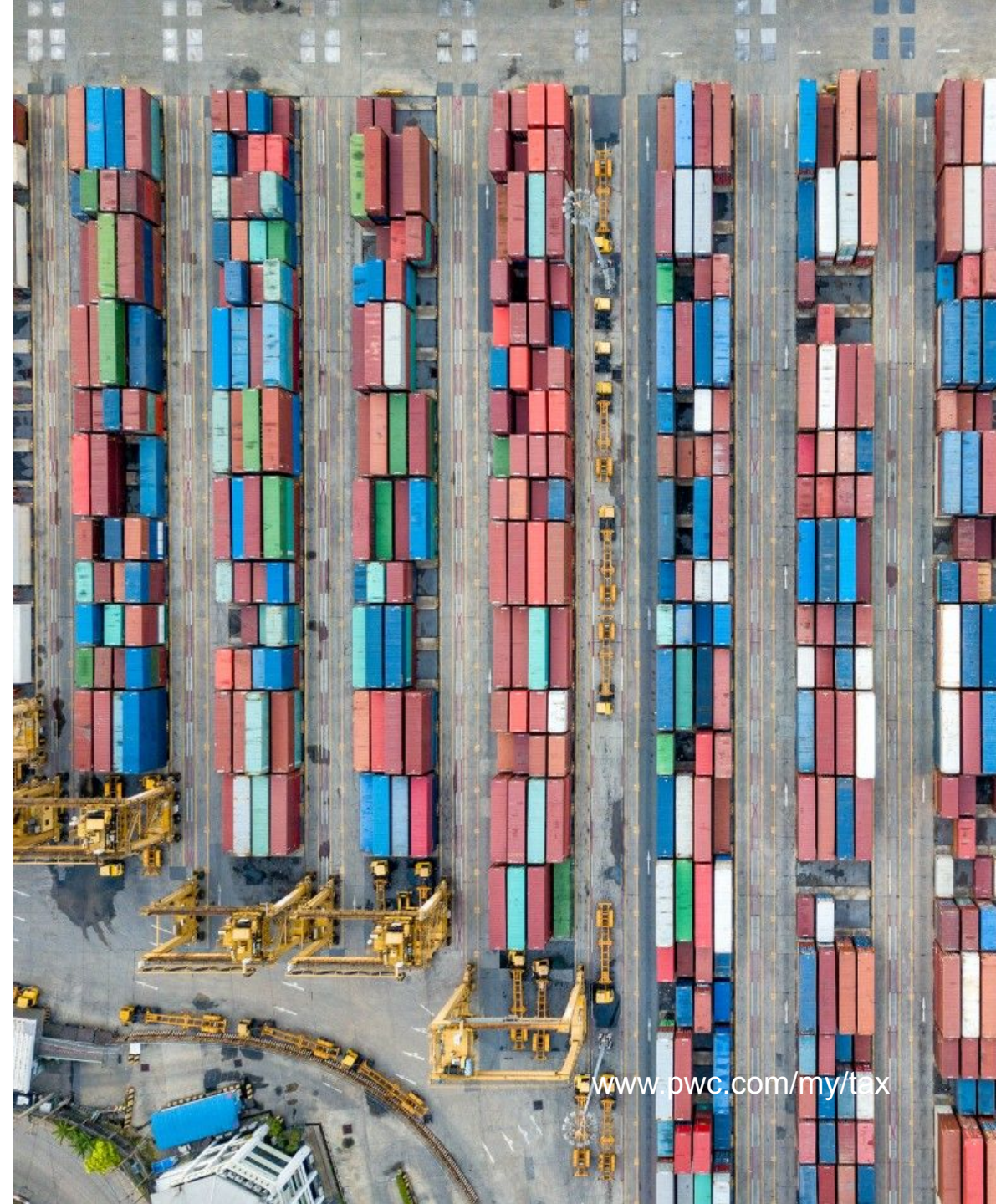




# Taxavvy

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## Short-term Economic Recovery Plan (PENJANA) - Update on Tax Measures



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## Short-term Economic Recovery Plan (PENJANA)

PENJANA has been announced by the Prime Minister on 5 June 2020. Following the announcement, further details on the tax measures that were announced have been made available by the authorities.

This issue of TaXavvy highlights the additional details as provided in the PENJANA Booklet and Appendices.



### *Employers*

#### **Deduction or capital allowance on personal protective equipment, thermal scanners and COVID-19 testing**

Under the Economic Stimulus Package (ESP), it was announced that expenditure incurred in providing employees with disposable personal protective equipment (PPE) such as face masks is deductible under Section 33(1) of the Income Tax Act 1967 (the Act), while expenditure incurred in providing non-disposable PPE to employees can be claimed as capital allowance.

Under PENJANA, the scope of the above measures is to be expanded to cover expenditure for COVID-19 testing and purchase of thermal scanners. In addition, the period of these incentives is to be extended. However, the period of extension was not provided at the time of the announcement.

In both the ESP and PENJANA announcements, the effective dates for both the initial and extension periods were not provided.

#### Additional information

It is now clarified that:

- The expansion in the scope of the expenditure will take effect from 1 March 2020.
- This incentive which was to cover the initial period of 1 March 2020 to 31 December 2020 will be extended beyond 31 December 2020. However, the end date of the extended period has not been made known.

## ***Flexible Work Arrangement Incentives***

### **Tax exemption up to RM5,000 for mobile phones, laptops and tablets to employees**

Currently, gifts and monthly bills for a fixed line telephone, mobile phone, tablet, pager or PDA which is registered under the name of the employee is fully exempted from tax. The exemption given is limited to one unit for each asset category.

To encourage and support the adoption of work-from-home practices, a tax exemption of up to RM5,000 will be given to employees who receive a mobile phone, notebook and tablet from their employer.

The exemption will take effect from 1 July 2020.

#### Additional information

- It is now stated in the appendices that the exemption will be effective from the year of assessment (YA) 2020.

#### *Our comments*

- As two effective dates have been announced (1 July 2020 based on the PENJANA booklet and speech, and YA 2020 based on the subsequently released appendices, it is not clear if this exemption is extended to gifts received by employees from 1 January 2020 onwards or is restricted to gifts received from 1 July 2020 onwards.
- There is a need to ascertain if this is an additional exemption given on top of the existing exemption under the Income Tax (Exemption) Order 2009.

### **Special personal income tax relief on the purchase of mobile phone, notebook & tablet**

Currently, resident taxpayers can claim a lifestyle relief of RM2,500 for the following expenses:

- a) purchase of books, journals, magazines, printed newspapers and similar publications
- b) purchase of a personal computer, smartphone or tablet
- c) purchase of sports equipment and gym membership
- d) payment of monthly bill for internet subscription

A special personal income tax relief of up to RM2,500 will be given to resident individuals for the purchase of mobile phones, notebooks and tablets. As these expenses are already covered under the current lifestyle relief, a question which had arisen at the time of the announcement was whether this is a separate tax relief from the existing lifestyle tax relief.

#### Additional information

- It is now clarified that this special personal income tax relief will be given in addition to the current lifestyle relief.
- It is to be given for purchases made from 1 June 2020 to 31 December 2020.

## ***Flexible Work Arrangement Incentives (con't)***

### **Further tax deduction for implementation of FWA**

It was announced that a further tax deduction will be given to employers which implement FWA or enhance their existing FWA. Details on the types of expenses which will qualify for this further tax deduction were not given.

#### Additional information

- The types of qualifying expenditure (QE) comprise the following:
  - a. Consultancy fees,
  - b. Expenditure for development of capacity for FWA including training cost of employees
  - c. Cost to purchase virtual working environment software
- The QE is limited to RM500,000 for each YA and will be given for 3 consecutive YAs. The claim is subject to applications submitted to TalentCorp from 1 July 2020 to 31 December 2022.

#### *Our comments*

- It is not clear what types of development expenditure is included and whether this further deduction is extended to expenditure of a capital nature.
- It is hoped that further clarity will be provided in the new gazette order to be issued.



### ***Special reinvestment allowance (RA)***

It was announced that a special RA for manufacturing and selected agriculture projects will be given for YA 2020 to YA 2021 (2 YAs). Details pertaining to rates and qualifying conditions were not made available.

#### Additional information

- The objective of this incentive is to encourage reinvestment by existing companies which have exhausted its existing RA period and special RA granted for YA 2016 to YA 2018.
- The special RA is at a rate of 60% on qualifying expenditure (QE) which is incurred for the purposes of a qualifying manufacturing and agriculture project as currently defined under Schedule 7A of the Act.
- The effective period is a period of 3 YAs from YA 2020 to YA 2022 instead of 2 YAs.

### ***Manufacturing sector***

#### **Investment tax allowance for Malaysian companies**

It was announced that Malaysian companies which relocate their overseas manufacturing facility to Malaysia will qualify for investment tax allowance of 100% for 5 years for applications submitted from 1 July 2020 to 31 December 2021.

The incentive is subject to a minimum capital investment of at least RM300 million.

#### Additional information

This incentive is open to the manufacturing sector with the exception of certain industries to be specified.

## Property sector

### Real property gains tax (RPGT) exemption for disposal of residential property

Individuals who are citizens of Malaysia will be eligible for RPGT exemption on the disposal of residential properties during the period from 1 June 2020 to 31 December 2021 (“exemption period”). The exemption is limited to the disposal of 3 residential properties per individual.

#### Additional information

The above exemption would not apply to a residential property which -

- was previously acquired from a disposer who is treated to have suffered no gain or no loss in respect of the disposal under Paragraphs 3(1)(b) and 12 of Schedule 2 of the RPGT Act 1976\*; and
- that residential property was acquired during the exemption period.

\* Generally, these refer to:

- *Paragraph 3(1)(b)*: Transfer of real property between spouses or the transfer of real property owned by an individual, by his wife or by an individual jointly with his wife or with a connected person to a company controlled by the individual, by his wife or by the individual jointly with his wife or with a connected person for a consideration consisting of shares in the company, or for a consideration consisting substantially of shares in the company.
- *Paragraph 12*: Real properties disposed by way of gift where the donor and donee/recipient are husband and wife, parent and child, or grandparent and grandchild.

### Stamp duty exemption relating to residential property purchased from property developers under Home Ownership Campaign

It was announced that stamp duty exemption on the instrument of transfer and loan agreement will be given for the purchase of residential properties priced between RM300,000 to RM2.5 million under the Home Ownership Campaign as follows:

- Loan agreement - Full stamp duty exemption
- Instrument of transfer - Stamp duty exemption restricted to the first RM1 million of the value of the residential property.

The conditions include:

- Sale and purchase agreement signed from 1 June 2020 to 31 May 2021.
- The property developer must give at least 10% discount on the price of the residential property.

#### Additional information

Purchasers who qualify for the above exemptions must be Malaysian citizens.

## ***Small and Medium Enterprises (SMEs)***

### **Income tax rebate for new SMEs for the first 3 YAs**

It was announced that new SMEs which are incorporated and commence operations during the period from 1 July 2020 to 31 December 2021 will be eligible for income tax rebate of up to RM20,000 per YA for the first 3 YAs. Based on the initial announcement made, it appeared that a tax rebate fixed at RM20,000 will be given outright.

#### Additional information

It has now been clarified that the rebate claimable is for an amount which is equivalent to the capital or operating expenditure incurred in each YA, subject to a maximum amount of RM20,000 for each YA. Other key conditions include:

- The SME is registered under the Companies Act 2016;
- The SME has a paid-up capital of not more than RM2.5 million and annual sales of not more than RM50 million;
- Any unutilised rebate cannot be carried forward;
- The new entity has to use separate plant, equipment and facilities which are not transferred from an existing company or related company; and
- Other conditions to be specified.

### **Stamp duty exemption for merger and acquisition (M&A)**

It was announced that stamp duty exemption will be given for instruments executed for the M&A of SMEs, for the period from 1 July 2020 to 30 June 2021. However, no further information was available.

#### Additional information

##### *Qualifying instruments*

- Contract or agreement for sale or rental of property (land, building, machinery and equipment)
- Instrument of transfer and memorandum of understanding
- Loan or financing agreement
- First tenancy agreement

##### *Effective period*

The stamp duty exemption is for instruments executed by 31 December 2021 in respect of M&A of SMEs approved by the Ministry of Entrepreneur Development and Cooperatives from 1 July 2020 to 30 June 2021.

## ***Indirect tax measures***

### **Remission of penalties for late payment of sales tax and service tax (SST)**

A 50% remission of penalty for late payment of SST due and payable from 1 July 2020 to 30 September 2020 will be given.

#### Additional information

The 50% remission of penalties for late payment of SST is for penalties arising on or after 1 July 2020 from the taxable periods ending on 31 May 2020, 30 June 2020, 31 July 2020 and 31 August 2020.

### **Service tax exemption for hotel and other accommodation operators**

The exemption from charging service tax on the accommodation services provided by accommodation operators is extended from 1 September 2020 until 30 June 2021.

#### Additional information

The extension of service tax exemption is also applicable to related services provided by the hotel and accommodation providers.

### **Sales tax exemption on passenger motor vehicles**

Passenger motor vehicles are subject to sales tax of 10%. From 15 June 2020 to 31 December 2020, sales tax exemption of 100% and 50% will be given to the sale of locally assembled passenger motor vehicles and the importation of passenger motor vehicles respectively.

#### Additional information

The conditions to qualify for the sales tax exemption on passenger motor vehicles are:

- a. The savings arising from the exemption of sales tax must be passed on as a price reduction in the passenger motor vehicle to the purchaser; and
- b. The list of models/variants together with the recommended selling price after the sales tax exemption must be furnished to the Ministry of Finance for verification.

## Connect with us

### Kuala Lumpur

**Jagdev Singh**  
jagdev.singh@pwc.com  
+60(3) 2173 1469

### Penang & Ipoh

**Tony Chua**  
tony.chua@pwc.com  
+60(4) 238 9118

### Johor Bahru

**Benedict Francis**  
benedict.francis@pwc.com  
+60(7) 218 6000

### Melaka

**Benedict Francis**  
benedict.francis@pwc.com  
+60(7) 218 6000

### Tan Hwa Yin

hwa.yin.tan@pwc.com  
+60(6) 270 7300

### Kuching

**Bryan Chen**  
bryan.chen@pwc.com  
+60(82) 527 218

### Labuan

**Jennifer Chang**  
jennifer.chang@pwc.com  
+60(3) 2173 1828

## Corporate Tax Compliance & Advisory

---

### Consumer & Industrial Product Services

**Margaret Lee**  
margaret.lee.seet.cheng@pwc.com  
+60(3) 2173 1501

### Steve Chia

steve.chia.siang.hai@pwc.com  
+60(3) 2173 1572

## Specialist services

---

### Corporate Services

**Lee Shuk Yee**  
shuk.yee.x.lee@pwc.com  
+60(3) 2173 1626

### Dispute Resolution

**Tai Weng Hoe**  
weng.hoe.tai@pwc.com  
+60(3) 2173 1600

### Global Mobility Services

**Sakaya Johns Rani**  
sakaya.johns.rani@pwc.com  
+60(3) 2173 1553

### Hilda Liow

hilda.liow.wun.chee@pwc.com  
+60(3) 2173 1638

### Emerging Markets

**Fung Mei Lin**  
mei.lin.fung@pwc.com  
+60(3) 2173 1505

### Energy, Utilities & Mining

**Lavindran Sandragasu**  
lavindran.sandragasu@pwc.com  
+60(3) 2173 1494

### Indirect Tax

**Raja Kumaran**  
raja.kumaran@pwc.com  
+60(3) 2173 1701

### Yap Lai Han

lai.han.yap@pwc.com  
+60(3) 2173 1491

### Chan Wai Choong

wai.choong.chan@pwc.com  
+60(3) 2173 3100

### International Tax Services / Mergers and Acquisition

**Gan Pei Tze**  
pei.tze.gan@pwc.com  
+60(3) 2173 3297

### Financial Services

**Jennifer Chang**  
jennifer.chang@pwc.com  
+60(3) 2173 1828

### Services & Infrastructure

**Lim Phaik Hoon**  
phaik.hoon.lim@pwc.com  
+60(3) 2173 1535

### Tax Technology

**Tax Reporting & Strategy**  
**Yap Sau Shiung**  
sau.shiung.yap@pwc.com  
+60(3) 2173 1555

### Pauline Lum

pauline.ml.lum@pwc.com  
+60(3) 2173 1059

### Transfer Pricing

**Jagdev Singh**  
jagdev.singh@pwc.com  
+60(3) 2173 1469

### Technology, Media, and Telecommunications

**Heather Khoo**  
heather.khoo@pwc.com  
+60(3) 2173 1636

### China Desk

**Lorraine Yeoh**  
lorraine.yeoh@pwc.com  
+60(3) 2173 1499

### Japanese Business Consulting

**Yuichi Sugiyama**  
yuichi.sugiyama@pwc.com  
+60(3) 2173 1191

### Clifford Yap

clifford.eng.hong.yap@pwc.com  
+60(3) 2173 1446



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