

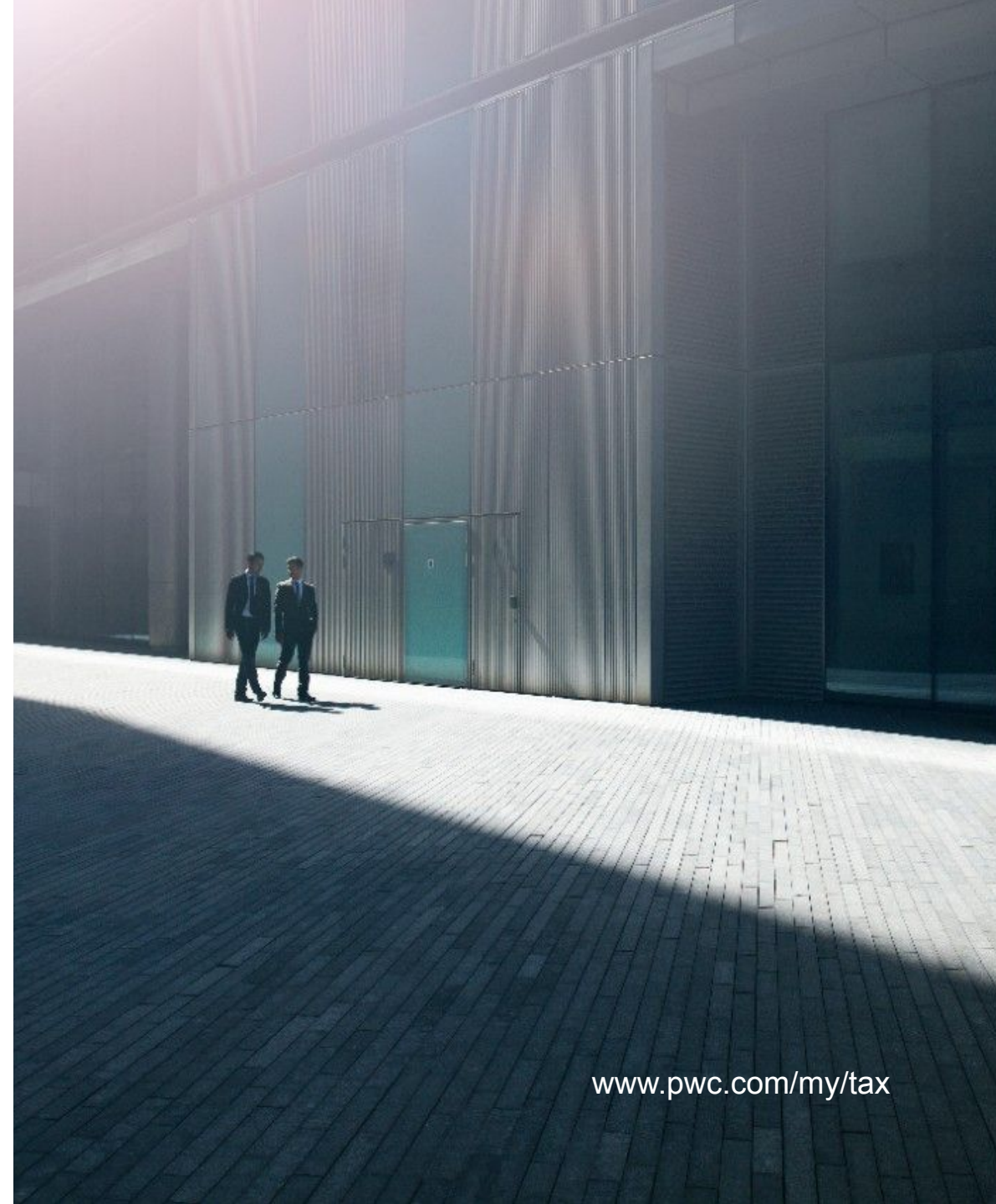


Taxavvy

3 November 2021 | Issue 29-2021

In this issue

- Tax treatment for financial institutions adopting MFRS 9
- Stamp duty exemption for SME loan / financing agreement
- Double deduction for National Dual Training Scheme
- Further deduction for costs of implementation of Flexible Work Arrangements
- Further deduction on expenditure incurred on COVID-19 detection test for employees



www.pwc.com/my/tax

Tax treatment for financial institutions adopting MFRS 9

The Income Tax (Special Treatment for Bank or Development Financial Institution which Adopt Malaysian Financial Reporting Standard 9: Financial Instruments) Regulations 2021 (“2021 Regulations”) has been gazetted.

The 2021 Regulations prescribe the tax treatment for the following financial institutions (FIs) which adopt MFRS 9 - Financial Instruments:

- Licensed banks under the Financial Services Act 2013
- Licensed Islamic banks under the Islamic Financial Services Act 2013
- Development financial institutions under the Development Financial Institutions Act 2002

The 2021 Regulations are effective from:

- Year of assessment (YA) 2018 for FIs with accounting period ending on 31 December
- YA 2019 for FIs with accounting period ending on a day other than 31 December

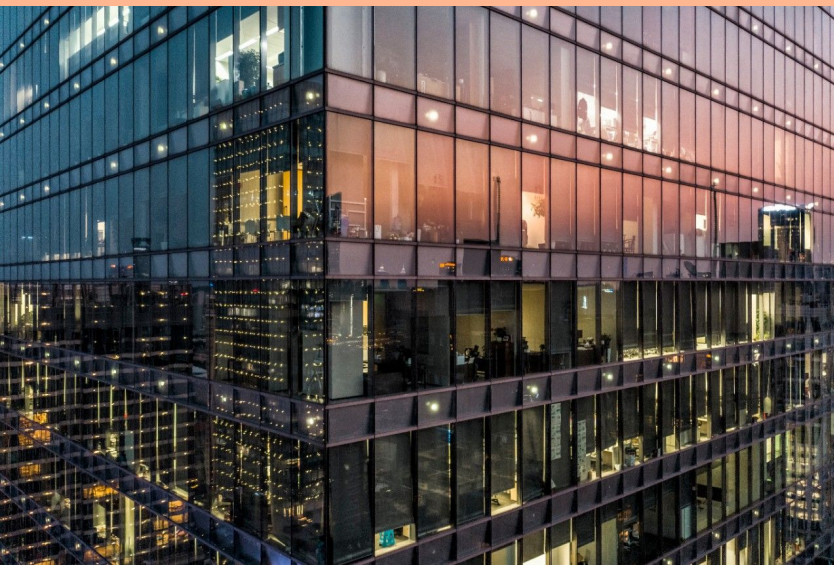
The 2021 Regulations outlines the tax treatment for the classification and measurement of financial assets and financial liabilities from the adoption of MFRS 9 - Financial Instruments. Subject to details under the 2021 Regulations, the salient points are as follows:

Gains in relation to financial assets and financial liabilities on revenue account

The following are to be treated as gross income of the FI from its business in the basis period for that YA:

1. Gains in respect of:

- Reclassification or derecognition of financial asset measured at amortised costs.
- A financial asset or liability measured at fair value through profit or loss, whether realised or not.
- Derecognition of a financial asset which is an equity instrument measured at fair value through other comprehensive income that was previously recognized in other comprehensive income, recognised in the retained earnings.
- Derecognition of a financial asset which is a debt instrument measured at fair value through other comprehensive income that was previously recognized in other comprehensive income, recognised in the profit or loss.
- Derecognition of a financial liability measured at fair value through profit or loss arising from changes in credit risk that was previously recognized in other comprehensive income, recognized in the Retained earnings.



Gains in relation to financial assets and financial liabilities on revenue account (con't)

2. Interest income or finance income in respect of a financial asset computed at the effective interest rate recognised in the profit or loss.

Losses in relation to financial assets and financial liabilities on revenue account

The following are allowed as a deduction in determining the adjusted income of the FI from its business in the basis period for that YA:

1. Various losses such as losses in respect of:
 - Reclassification or derecognition of financial asset measured at amortised costs.
 - A financial asset or liability measured at fair value through profit or loss, whether realised or not.
 - Derecognition of a financial asset which is a debt or equity instrument measured at fair value through other comprehensive income that was previously recognised in other comprehensive income, recognized in the retained earnings.
 - Derecognition of a financial asset which is a debt or equity instrument measured at fair value through other comprehensive income that was previously recognised in other comprehensive income, recognized in the profit or loss.
 - Derecognition of a financial liability measured at fair value through profit or loss arising from changes in credit risk that was previously recognised in other comprehensive income, recognized in the retained earnings.
2. Interest expense or finance expense in respect of a financial liability measured at amortised cost computed at the effective interest rate, recognised in the profit or loss on the revenue account.

Gains or losses in respect of financial assets on capital account

The following gains or losses, as prescribed, will not be taxed or allowed tax deduction:

- Gains or losses in respect of financial assets measured at fair value through profit or loss recognised in the profit or loss.
- Gains or losses from other comprehensive income upon derecognition of the financial assets which is a debt instrument measured at fair value through other comprehensive income transferred to profit or loss.

Impairment loss of financial assets

The rate of tax deduction on impairment losses recognised in the profit and loss based on expected credit loss (ECL) are as follows:

- Stage 1 ECL - Not deductible
- Stage 2 ECL - 50% is deductible
- Stage 3 ECL - 100% is deductible

Reversal of impairment loss of financial assets

Profit recognised that is a reversal in respect of an impairment where tax deduction has been allowed previously shall be treated as gross income in that YA, limited to the amount of impairment loss where tax deduction was allowed previously.

Transaction costs on revenue account recognised in profit or loss

- Transaction costs (as defined in the 2021 Regulations) in respect of a financial instrument measured at fair value through profit or loss are tax deductible.
- Transaction costs which are amortised and become part of the interest expense or finance expense computed at the effective interest rate in respect of a financial instrument measured at amortised cost or fair value through other comprehensive income are tax deductible.
- Transaction costs which are amortised and become part of the interest income or finance income computed at the effective interest rate in respect of a financial instrument measured at amortised cost or fair value through other comprehensive income, shall be treated as gross income of the FI from the business in the basis period for that YA.

Gain or loss in respect of hedging instrument

- Unrealised gains or losses in respect of an underlying asset or liability of a hedging instrument recognised on revenue account shall be treated as taxable income or tax deductible loss, respectively.
- Unrealised gains or losses in respect an underlying asset or liability of a hedging instrument recognised on capital account will not be taxed or allowed as a tax deduction, respectively.
- Unrealised gain or loss in respect of fair value changes of the hedging instrument recognised in other comprehensive income will not be taxed or allowed as a tax deduction, respectively.

Gain or loss in respect of financial instruments arising from foreign exchange transactions on revenue account

Foreign exchange gains or losses on revenue account (whether realised or unrealised) shall be treated as taxable income or tax deductible loss, respectively.

Maintaining separate records

Separate records have to be maintained in respect of the following:

- Particulars of financial assets measured at amortised cost.
- Movement of financial assets measured at fair value through other comprehensive income.
- Impairment losses which was allowed a tax deduction and the reversal amount treated as taxable income relating to such impairment losses from the date of initial application.
- Any other records as may be specified by the Director General of Inland Revenue.

Transitional provisions

- Increase in impairment loss in the initial YA arising from adjustment made in the YA preceding the initial YA is tax deductible (“deductible amount”) for the initial year of assessment.

Where a reversal is subsequently made to the impairment loss which relates to the deductible amount, the reversal amount (up to the restated opening balance at the date of initial application) shall be treated as gross income in the YA of reversal.

- Decrease in impairment loss in the initial YA arising from adjustment made in the YA preceding the initial YA is taxable for the initial year of assessment.

Stamp duty exemption for SME loan / financing agreement

The following stamp duty exemption orders have been issued:

- Stamp Duty (Exemption) (No. 12) Order 2021
- Stamp Duty (Exemption) (No. 13) Order 2021
- Stamp Duty (Exemption) (No. 14) Order 2021

The above gazette orders provide stamp duty exemption on the instrument of loan or financing agreement in relation to funds for Small and Medium Enterprises (SMEs).

The key points of the said gazette orders are:

	Stamp Duty (Exemption) (No. 12) Order 2021	Stamp Duty (Exemption) (No. 13) Order 2021	Stamp Duty (Exemption) (No. 14) Order 2021
<i>Effective date</i>	From 1 December 2020		From 15 December 2020
<i>Stamp duty exemption</i>	Exempts the instrument of loan or financing agreement for the Targeted Relief and Recovery Facility approved under Bank Negara Malaysia's (BNM) Fund for SMEs		Exempts the instrument of loan or financing agreement for High Tech Facility - National Investment Aspirations approved under BNM's Fund for SMEs
<i>Parties to the agreement</i>	The agreement is executed between a participating financial institution and a SME	The agreement is executed between BNM and a participating financial institution	The agreement is executed between a participating financial institution and a SME
<i>Key conditions</i>	The loan / financing agreement is executed pursuant to a letter of offer issued during the period 1 December 2020 to 31 December 2021	The loan / financing agreement is executed during the period 1 December 2020 to 31 December 2021	The loan / financing agreement is executed pursuant to a letter of offer issued during the period 15 December 2020 to 31 December 2021



Double deduction for National Dual Training Scheme

The Income Tax (Deduction for Training Costs Under National Dual Training System (NDTS)) Rules 2021 (“NDTS Rules”) has been gazetted. The NDTS Rules are effective from year of assessment (YA) 2019.

The incentive was originally announced in Budget 2019 for companies participating in the National Dual Training Scheme for Industry4WRD programmes for the period from 1 January 2019 to 31 December 2019. It was subsequently extended for another 2 years in Budget 2020.

The following are the salient points of the NDTS Rules:

1. A double deduction is given for expenses incurred by a company incorporated in Malaysia and participating in a qualifying programme which is implemented and approved by the Ministry of Human Resource in the period between 1 January 2019 until 31 December 2021.
2. Expenses which qualify for the double deduction are:
 - Food, travelling, accommodation allowance and expenses incurred for provision of the qualifying programme (total deduction restricted to RM5,000 per apprentice per YA)
 - Monthly training allowance of not less than RM300 paid to the apprentice
 - Insurance provided to the apprentice
3. The company must be accredited by the Department of Skills Development (DSD) to implement the NDTS programme.
4. The qualifying programme must comply with the National Occupational Skills Standard, be accredited by the DSD, be certified as a National Dual Training System - Industry4WRD Programme, and implement training modules comprising practical (70% to 80% of the training) and theoretical (20% to 30% of the training).
5. The NDTS Rules do not apply to expenses where a claim has been made for:
 - any fund or Government grant relating to the training; or
 - exemption / deduction under any other provision of the Income Tax Act 1967.



Further deduction for costs of implementation of Flexible Work Arrangements

The Income Tax (Deduction for the Costs of Implementation of Flexible Work Arrangements (FWA)) Rules 2021 (“FWA Rules”) has been gazetted. The FWA Rules are effective from YA 2020.



The Government has announced under PENJANA that further deduction will be given to employers which implement flexible work arrangement (FWA) or enhance their existing FWA. Following the announcement, the FWA Rules has been gazetted. The following are the salient points of the FWA Rules:

Tax Incentive	Tax deduction against gross business income equivalent to twice the amount of qualifying expenses incurred for the implementation of FWA or enhancement of existing FWA.
Application period	Application for implementation of FWA or enhancement of existing FWA is received by Talent Corporation Malaysia Berhad (TalentCorp) on or after 1 July 2020 but not later than 31 December 2022.
FWA	Means flexible arrangements for: <ul style="list-style-type: none"> • place of work; • scheduling of working hours; or • number of hours worked.
Qualifying expenses	<ul style="list-style-type: none"> • Consultation fee • Cost of capacity development (<i>Note</i>) • Cost of software • Software subscription <p><i>Note: The costs of the capacity development for implementation of FWA include training course or programme fee, internal trainer fee, training material cost, rental of training space cost, examination fee, and training related travelling expenses incurred by the employees and trainers, subject to prescribed limits.</i></p> <p>The qualifying expenses shall be verified by TalentCorp and the total amount shall not exceed RM500,000 for each YA.</p> <p>Where the total amount of qualifying expenses exceeds the amount which, in the opinion of the Director General of Inland Revenue, would reasonably be expected to be incurred in the ordinary course of business, the Director General may, to the extent of that excess, disallow that amount as a deduction under these Rules.</p>
Qualifying period	3 consecutive YAs commencing from the YA in which the certification of the implementation of FWA is given by TalentCorp.

Further deduction on expenditure incurred on COVID-19 detection test for employees

The Income Tax (Deduction for Expenses in relation to the Cost of Detection Test of Coronavirus Disease 2019 (COVID-19) for Employees) Rules 2021 (“the Rules”) has been gazetted.

The Rules have been gazetted following the Government’s announcement under PEMERKASA to encourage compliance with the COVID-19 standard operating procedures (SOP). Salient points of the Rules are:

- Employers which are resident in Malaysia are given a deduction in computing the adjusted income from its business for costs of detection test of COVID-19 for its employees which are incurred within the period from 1 January 2021 until 31 December 2021.
- The amount of deduction is in addition to any amount claimed under Section 33 of the Income Tax Act.
- The claim of the deduction shall be supported by the receipt and certification issued by a medical practitioner registered with the Malaysian Medical Council or a medical practitioner registered outside Malaysia that the detection test has been provided to its employees.
- The Rules are effective from YA 2021.



PwC Malaysia's Budget 2022 Webinar



PwC Malaysia's Budget 2022 Webinar

Building blocks for sustained recovery

Monday, 15 November 2021 | 9:00am - 12:30pm

A webinar by PwC's Academy



For programme details and online registration, please visit insights.pwc.my/budget2022

Kindly register by Tuesday, 9 November 2021.

For more information, contact Fazlina Jaafar or Chow Xin Yi
Tel: +603-2173 3830 /0267
Email: my_events@pwc.com

Connect with us

Kuala Lumpur

Jagdev Singh

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

Penang & Ipoh

Kang Gaik Hong

gaik.hong.kang@pwc.com
+60(4) 238 9225

Melaka

Benedict Francis

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

Tan Hwa Yin

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

Johor Bahru

Benedict Francis

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

Kuching

Lee Yuien Siang

yuien.siang.lee@pwc.com
+60(8) 252 7202

Cynthia Ng

cynthia.hh.ng@pwc.com
+60(3) 2173 1438

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

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

Tax Technology

Yap Sau Shiung

sau.shiung.yap@pwc.com
+60(3) 2173 1555

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 Reporting & Strategy

Lavindran Sandragasu

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

Transfer Pricing

Anushia Soosaipillai

anushia.joan.soosaipillai@pwc.com
+60(3) 2173 1419

People & Organisation

Kartina Abdul Latif

kartina.a.latif@pwc.com
+60(3) 2173 0153

Lee Shuk Yee

shuk.yee.x.lee@pwc.com
+60(3) 2173 1626

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

Japan Desk

Yuichi Sugiyama

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

Clifford Yap

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

Korea Desk

Keegan Ong

keegan.sk.ong@pwc.com
+60(3) 2173 1684



www.pwc.com/my/tax

TaXavvy is a newsletter issued by PricewaterhouseCoopers Taxation Services Sdn Bhd. Whilst every care has been taken in compiling this newsletter, we make no representations or warranty (expressed or implied) about the accuracy, suitability, reliability or completeness of the information for any purpose. PricewaterhouseCoopers Taxation Services Sdn Bhd, its employees and agents accept no liability, and disclaim all responsibility, for the consequences of anyone acting, or refraining to act, in reliance on the information contained in this publication or for any decision based on it. Recipients should not act upon it without seeking specific professional advice tailored to your circumstances, requirements or needs.

© 2021 PricewaterhouseCoopers Taxation Services Sdn Bhd. All rights reserved. "PricewaterhouseCoopers" and/or "PwC" refers to the individual members of the PricewaterhouseCoopers organisation in Malaysia, each of which is a separate and independent legal entity. Please see www.pwc.com/structure for further details.