TaXavvy

Budget 2023 Edition

7 October 2022

Welcome to our **TaXavvy Budget Edition** which brings you the key tax proposals of Budget 2023 as announced by the Finance Minister

Highlights

Tax rate for individual

Reduction in individual tax

Chargeable income band	Change in rate
> RM50,001 to RM70,000:	13% to **11%**
> RM70,001 to RM100,000:	21% to **19%**
> RM250,001 to RM400,000:	24.5% to **25%**

Effective for year of assessment (YA) 2023

Tax rate for MSME

First RM100,000 chargeable income **15%**

Income tax rate for the first RM100,000 of chargeable income be reduced from 17% to 15%.

Effective from YA 2023

Accelerated capital allowance (ACA) for Industry 4.0

Enhanced ACA

ACA for automation equipment be enhanced to include the adaptation of Industry 4.0 elements.

Effective for applications received from 1 Jan 2023 until 31 Dec 2027

Carry forward of unabsorbed losses

Extended period to carry forward unabsorbed losses

Unutilised business losses to be carried forward for 20 consecutive YAs (previously 10 YAs) for industries with long gestation period.

Global minimum tax

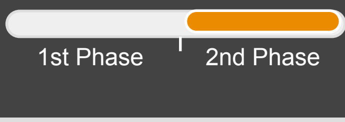
Effective tax rate (ETR) ≥ 15%

Malaysia will introduce the global minimum ETR (as recommended under Pillar 2) and consider a qualified domestic minimum top-up tax (QDMTT).

Targeted for 2024

e-Invoicing

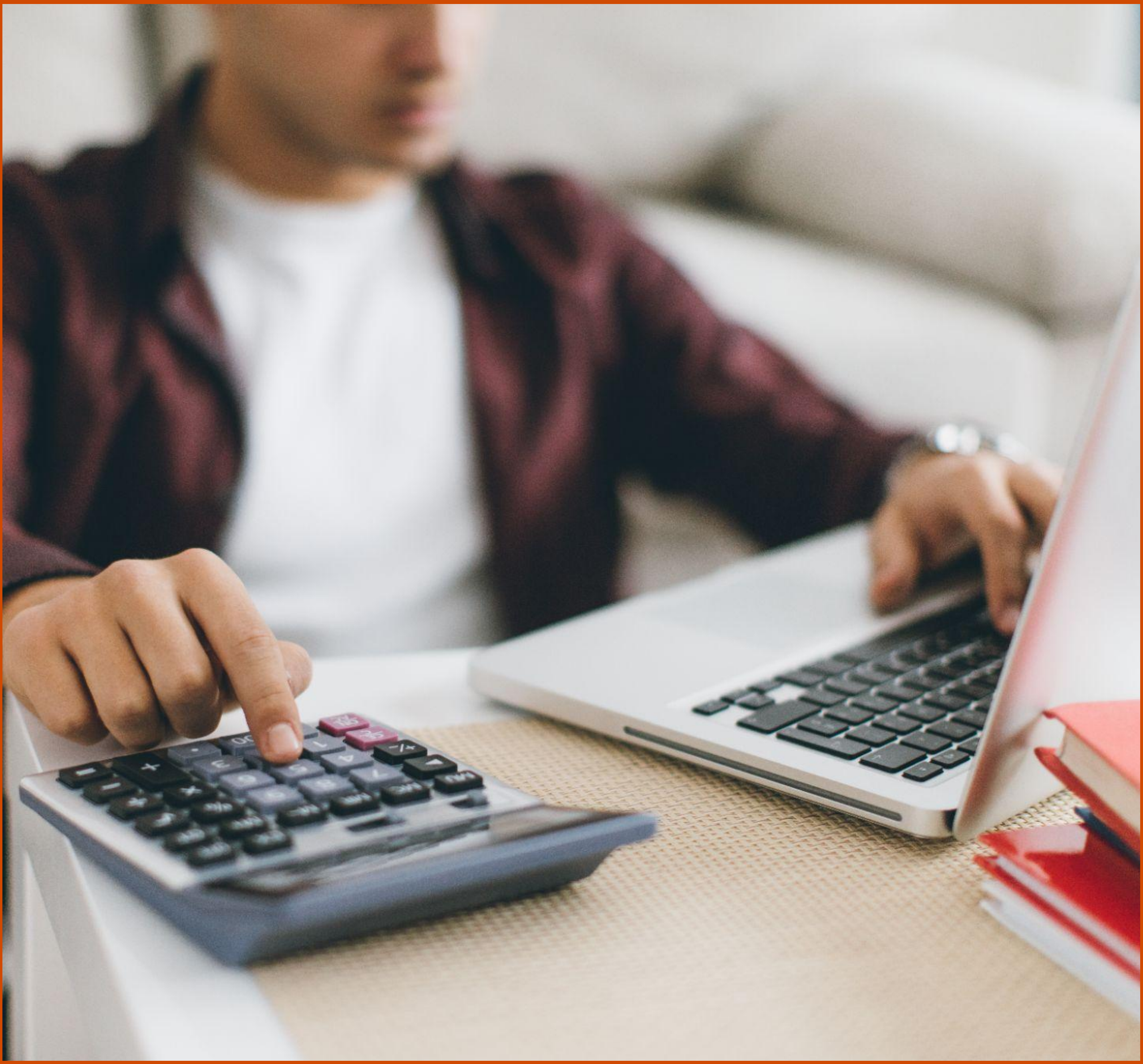
Implementation of e-Invoicing in phases



e-Invoicing will be implemented in stages commencing from 2023, involving development of a system and a pilot project with selected taxpayers.

Effective from 2023

Inside this issue



1

Personal tax

Personal tax rates

Review of individual income tax rates

It has been proposed that -

- The individual tax rate for the chargeable income band RM50,001 to RM70,000 is reduced from 13% to 11%;
- The individual tax rate for the chargeable income band RM70,001 to RM100,000 is reduced from 21% to 19%; and
- The individual tax rate for the chargeable income band RM250,001 to RM400,000 is increased from 24.5% to 25%.

The new schedule of income tax rates for resident individuals is as follows:

	Current (YA 2022)		Proposed (from YA 2023 onwards)		Potential tax savings
Changeable income	**Rate (%)**	**Tax payable (RM)**	**Rate (%)**	**Tax payable (RM)**	**(RM)**
First 5,000		0		0	
Next 15,000	1	150	1	150	
First 20,000		150		150	
Next 15,000	3	450	3	450	
First 35,000		600		600	
Next 15,000	8	1,200	8	1,200	
First 50,000		1,800		1,800	
Next 20,000	13	2,600	**11**	2,200	
First 70,000		4,400		4,000	**400**
Next 30,000	21	6,300	**19**	5,700	
First 100,000		10,700		9,700	**1,000**
Next 150,000	24	36,000	24	36,000	
First 250,000		46,700		45,700	**1,000**
Next 150,000	24.5	36,750	**25**	37,500	
First 400,000		83,450		83,200	**250**
Next 200,000	25	50,000	25	50,000	
First 600,000		133,450		133,200	**250**
Next 400,000	26	104,000	26	104,000	
First 1,000,000		237,450		237,200	**250**
Next 1,000,000	28	280,000	28	280,000	
First 2,000,000		517,450		517,200	**250**
Above 2,000,000	30		30		

Personal tax relief

	Existing	Proposed
1	**Expansion of the scope of life insurance premiums or takaful contribution on life insurance policy**	
	Tax relief for payment of life insurance premiums or takaful contribution on life insurance policy contracted on the life of the individual or spouse for - ● Pensionable public servant - restricted to RM7,000 ● Other than public servant - restricted to RM3,000	The scope of the relief is to be expanded to cover contributions to Employees Provident Fund made voluntarily by individuals or pensionable public servants of up to RM3,000. (Effective from YA 2023)
2	**Extension of tax relief on fees paid to child care centre and kindergarten**	
	Tax relief for fees paid to child care centre (registered with the Director General of Social Welfare under the Child Care Centre Act 1984) and kindergarten (registered under the Education Act 1996) for each child aged 6 years and below is RM3,000 for YAs 2022 and 2023.	The relief of RM3,000 is to be extended for another 1 year. (Effective for YA 2024)
3	**Extension of relief for deposit in Skim Simpanan Pendidikan Nasional (SSPN)**	
	A tax relief is given to an individual for the net amount deposited in SSPN for his/her children's education of up to RM8,000 for YAs 2019 until 2022.	The relief is to be extended for another 2 years until YA 2024. (Effective for YAs 2023 and 2024)
4	**Expansion of scope of tax relief for medical treatment expenses for taxpayer, spouse and child**	
	Tax relief is given for medical treatment expenses of up to RM8,000 for the following: ● serious illness for taxpayer, spouse or child ● fertility treatment for taxpayer or spouse ● vaccination for taxpayer, spouse or child of up to RM1,000 ● full medical check-up, mental health check-up or consultation, COVID-19 detection test including the purchase of self-test kit for taxpayer, spouse or child, limited to RM8,000.	The scope of the relief is expanded to cover expenses on dental examination and treatment from dental practitioners registered with the Malaysian Dental Council of up to RM1,000. (Effective from YA 2023)
5	**Expansion of scope of tax relief for COVID-19 detection test**	
	Tax relief of up to RM1,000 is given for the following COVID-19 detection test expenses: ● Fees for a COVID-19 detection test conducted in clinic or hospital (evidenced by receipt issued by a hospital/clinic/medical practitioner registered with the Malaysian Medical Council); or ● Purchase of self detection test kit (evidenced by receipt).	The scope of the relief is expanded to cover expenses on test conducted in a laboratory recognised by the Ministry of Health Malaysia. (Effective from YA 2023)

Personal tax - incentives

	Existing	Proposed
1	**Tax exemption for women returning to work from a career break**	
	Women returning to work from a career break are eligible for a tax exemption on the payment of income tax in respect of the income derived from an employment for period not exceeding 12 consecutive months subject to conditions such as - ● return to work after a career break for a period of at least 2 years prior to or as at 27 October 2017 ● applications must be received by Talent Corporation Malaysia Berhad (TalentCorp Malaysia) not later than 31 December 2023; and ● the tax exemption is for the employment income received from the YA 2018 to YA 2024.	It is proposed the existing conditions be reviewed as follows: ● career break of at least 2 years on the date of application received by TalentCorp Malaysia; and ● tax exemption on employment income received be extended to YA 2028. (Effective for applications received by TalentCorp Malaysia from 1 January 2023 until 31 December 2027)
2	**Concessionary tax rate for C-Suite in Electrical & Electronic (E&E) sector**	
	A flat rate of 15% (for 5 consecutive years) applies to non-citizen individuals who are resident in Malaysia and hold a C-Suite position or key position in Malaysian companies which - ● Relocate their overseas manufacturing facilities into Malaysia, subject to meeting the eligibility criteria; or ● Invest in new strategic investments. (For applications received by Malaysian Investment Development Authority (MIDA) until 31 December 2022)	For companies in E&E sector which relocate their manufacturing operations to Malaysia, the preferential tax rate is to be extended until 2024.

2

Corporate tax

Global minimum tax

More than 130 jurisdictions of the OECD Inclusive Framework on Base Erosion and Profit Shifting (IF) have politically committed to changes to the international corporate tax system.

Pillar 2 establishes a minimum tax system with a minimum effective tax rate (ETR) of 15% at the jurisdictional level. Companies with global turnover EUR 750m or more will be within the scope of Pillar 2. Under the Pillar 2 Model Rules developed by the OECD, where the ETR is below the agreed minimum, the main rule under Pillar 2 will introduce a top up tax liability so that the overall rate will reach the established minimum in each jurisdiction. The Ultimate Parent Entity's (UPE) jurisdiction has the first right to apply the top up tax.

The Pillar 2 Model Rules also contemplate the introduction by source jurisdictions of their own domestic minimum top-up tax, which is then fully creditable against any top up tax liability at the UPE jurisdiction, thereby preserving a source jurisdiction's primary right of taxation over its own income. In other words, a qualified domestic minimum top-up tax (QDMTT) effectively changes the order in which countries are entitled to impose the top up tax. With a QDMTT, a country becomes first in line to collect the top up tax revenue.

Jurisdictions which have indicated plans to consider the feasibility of introducing the QDMTT include:

- Hong Kong
- Singapore
- United Kingdom
- Canada
- Switzerland

In line with the above global developments, it is announced that Malaysia will introduce the global minimum ETR as recommended under Pillar 2, targeted for 2024. Detailed analysis will also be done to consider the introduction of QDMTT.

Reduction of income tax rate for MSME

Currently, the preferential income tax rate for the eligible Micro, Small and Medium Enterprises (MSME)* is as follows:

Chargeable income	Income Tax Rate (%)
Up to RM600,000	17
Exceeding RM600,000	24

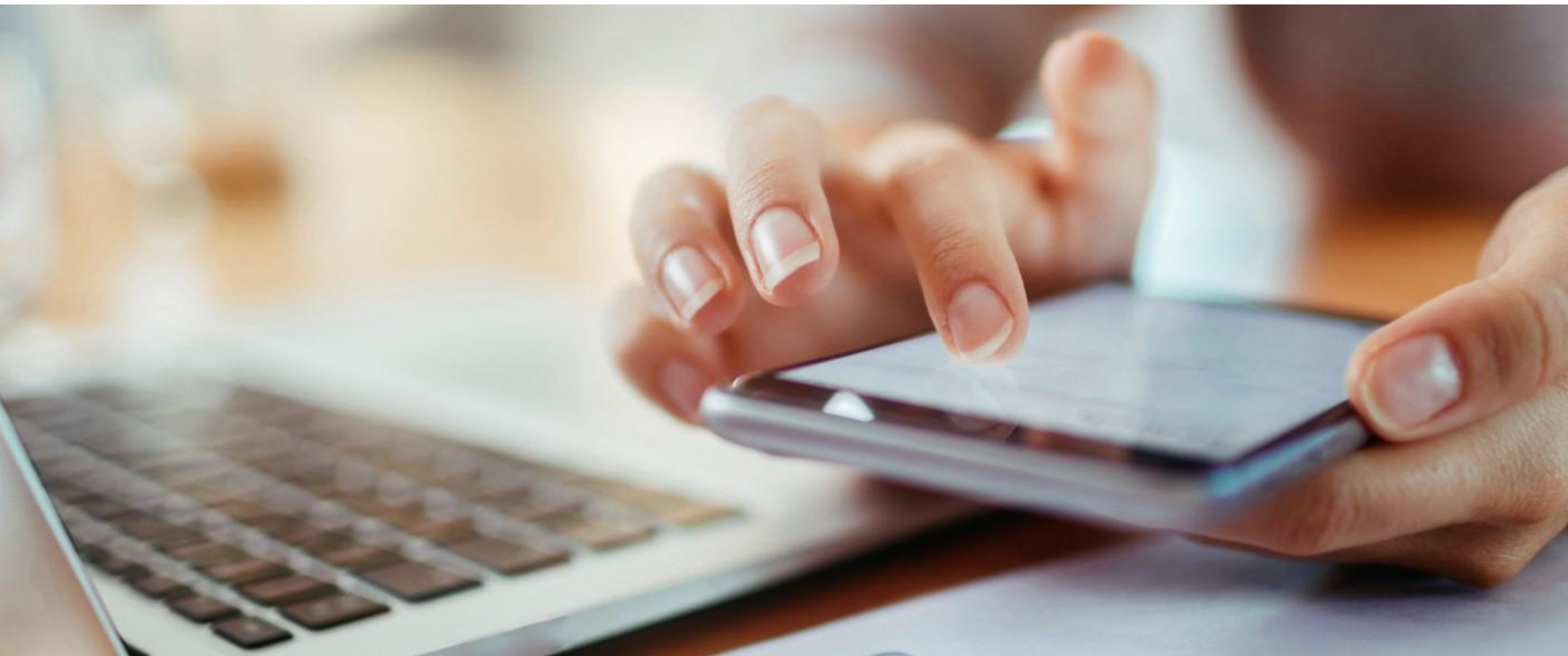
** MSME refer to companies with paid up capital in respect of ordinary shares of not more than RM2.5 million or Limited Liability Partnership (LLPs) with total contribution of capital of not more than RM2.5 million and having gross business income of not more than RM50 million.*

As the Government's commitment to support and empower MSME, it is proposed that the income tax rate for the first RM100,000 of chargeable income be reduced by 2 percent:

Chargeable income	Income Tax Rate (%)
First RM100,000	15
RM100,001 - RM600,000	17
Exceeding RM600,000	24

This will result in a tax savings of up to RM2,000.

(Effective from YA 2023)



Corporate tax

Revised time limit to carry forward business losses

Effective from the YA 2019, unutilised business losses in a YA can only be carried forward for a maximum period of 10 consecutive YAs to be utilised against income from any business source.

It is proposed that the existing time limit to carry forward unutilised business losses be extended for up to 20 years for companies operating in industries with long gestation period such as forest plantation and hydroelectric projects.

Expansion of definition of plant for capital allowance claims

Effective from YA 2021, the definition of 'plant' has been inserted into the Income Tax Act 1967 (ITA 1967) as "an apparatus used by a person for carrying on his business, **but does not include** a building, **an intangible asset** or any asset used and that functions as a place within which a business is carried on" **(emphasis)**.

It is proposed that the definition of 'plant' is extended to include intangible assets such as software which was specifically excluded previously.

Comment

Further clarity on the proposal is required from the draft legislation on this proposal including whether there is any change to claims which are currently provided under:

- Income Tax (Accelerated Capital Allowance) (Information and Communication Technology Equipment) Rules 2018
- Income Tax (Capital Allowance) (Development Cost for Customised Computer Software) Rules 2019

3

Tax incentives

Tax incentives - New

Incentives for manufacturer of electric vehicle charging equipment

To further complement the ecosystem for electric vehicle (EV) and to attract immediate high-value investment in the manufacturing of EV charging equipment, the government has proposed the following incentives:

Incentive	Description
Pioneer Status	Exemption from income tax on 100% of the statutory income (SI) for YAs 2023 to 2032.
Investment Tax Allowance (ITA)	100% qualifying capital expenditure (QCE) incurred for a period of 5 years and can be utilised against 100% of the SI for each YA

(Effective for applications received by the MIDA from 8 October 2022 until 31 December 2025)

Investment incentives for petrochemical industry

In order to support the Government’s initiative to develop the Pengerang Integrated Petroleum Complex as a petrochemical hub, it is proposed that a specific status be given for Pengerang to incentivise the investments in chemical and petrochemical industries.

Tax incentives - New

Incentives for carbon capture and storage

Malaysia envisages to achieve Low Carbon Nation Aspiration by 2040 under the National Energy Policy 2022 - 2040. The Government has identified an initiative to control the emission of carbon dioxide (CO2) using Carbon Capture and Storage technology (CCS). The oil and gas and power generation industries are identified as pioneer industries and use the CCS technology in Malaysia. This technology comprises of 3 activities as follows:

- carbon capture;
- transportation of captured CO2; and
- underground or sea bed carbon storage.

To recognise CCS activities as a new source of economic growth and in achieving net zero greenhouse gas emission, the following tax incentives are proposed:

(i) Companies undertaking CCS in-house activity	
a)	ITA of 100% of QCE for a period of 10 years and can be set-off against up to 100% of business SI;
b)	Full import duty and sales tax exemption on equipment for CCS technology commencing from 1 January 2023 until 31 December 2027; and
c)	Tax deduction for allowable pre-commencement expenses within 5 years prior to the date of commencement of operation.
(ii) Companies undertaking CCS services	
a)	ITA of 100% of QCE for a period of 10 years and can be set-off against up to 100% of SI; or
b)	Tax exemption of 70% on SI or a period of 10 years; and
c)	Full import duty and sales tax exemption on equipment for CCS technology starting 1 January 2023 until 31 December 2027.
(iii) Companies engaging CCS services be given tax deduction on fees incurred for use of CCS services	

(Effective for application received by Ministry of Finance from 1 January 2023 until 31 December 2027)

Tax deduction can be claimed through the Income Tax Return Form from YAs 2023 until 2027.

Tax incentives - New

Tax deduction on contribution in the sports industry

To ensure the training programs and sports facilities continue to remain in prime condition, it is proposed that tax deduction of up to 10% from aggregate income is given to individuals or corporations for contributions made to non-profit organisations focusing on sports development at the grassroot level.

Tax deduction for contribution in the creative sector

To support the industry players in creating high-quality creative content, it is proposed that a tax deduction of up to 10% from aggregate income is given for contributions made to the *Tabung Komuniti Filem dan Pembangunan Filem Kenegaraan under FINAS*.

Tax deduction for the issuance cost of Sustainable and Responsible Investment (SRI) linked Sukuk

To provide an innovative Shariah-compliant financing and place Malaysia as a regional hub of SRI-linked sukuk issuance, it is proposed that a tax deduction be given for a period of 5 years on the cost of issuing SRI-linked sukuk that is approved / permitted / deposited with the Securities Commission Malaysia.

(Effective from YAs 2023 to 2027)

Tax incentives - Extension and changes

<table>
<tr><th></th><th>Existing</th><th>Proposed</th></tr>
<tr><td>1</td><td colspan="2">Extension of Principal Hub 3.0 incentive</td></tr>
<tr><td></td><td>Approved principal hub companies enjoy preferential tax rate on services income derived from qualifying activities, subject to meeting the qualifying conditions, as follows:
<table>
<tr><th rowspan="2"></th><th colspan="2">New company</th><th rowspan="2">Existing company</th></tr>
<tr><th>Tier 1</th><th>Tier 2</th></tr>
<tr><td>Incentive period (block years)</td><td colspan="2">5 years
+
5 years
(renewable)</td><td>5 years</td></tr>
<tr><td>Tax rate</td><td>0%</td><td>5%</td><td>10%</td></tr>
</table>
(For applications received by MIDA from 1 January 2021 to 31 December 2022)</td><td>The deadline for application be extended for another 3 years.
(Effective for applications received by MIDA from 1 January 2023 to 31 December 2025)</td></tr>
<tr><td>2</td><td colspan="2">Extension of Global Trading Centre (GTC) incentive</td></tr>
<tr><td></td><td>A company approved with the GTC incentive may enjoy a concessionary corporate tax rate of 10% for 5 years and extendable by 5 years.
(For applications received by MIDA from 1 January 2021 to 31 December 2022)</td><td>The deadline for application be extended to another 3 years.
(Effective for applications received by MIDA from 1 January 2023 to 31 December 2025)</td></tr>
<tr><td>3</td><td colspan="2">Deduction on cost of listing in Bursa Malaysia</td></tr>
<tr><td></td><td>For YAs 2020 to 2022, a tax deduction of up to RM1.5 million is given on the following listing costs:
Fees to authorities;
Professional fees; and
Underwriting, placement and brokerage fees,
incurred by -
Technology-based companies for listing in Access, Certainty, Efficiency (ACE) Market; and
MSME for listing in the Leading Entrepreneur Accelerator Platform (LEAP) Market.</td><td>The tax deduction is to be extended for another 3 years until YA 2025 and the scope is to be expanded to cover the listing costs incurred by technology-based companies for listing in BURSA Main Market.
(Effective from YAs 2023 until 2025)</td></tr>
</table>

Tax incentives - Extension and changes

	Existing	Proposed
4	**Extension of income tax exemption for tour operators**	
	100% tax exemption is given on statutory income for a Malaysian resident company which - - carries on a tour operating business; and - provides a domestic tour package for travel within Malaysia utilised by local and foreign tourists Provided that the number of local tourists is not less than 200 per YA. The exemption is given up to YA 2022.	The incentive be extended for an additional year with the following conditions: - the minimum number of local tourists is increased from 200 to 400 per annum; or - the minimum number of foreign tourists is 200 per annum. (Effective for YA 2023)
5	**Reinvestment allowance (RA) for hotel and selected tourism projects**	
	RA is given to manufacturing and selected agriculture sectors which incur QCE for qualifying projects (i.e. expansion, diversification, modernisation and automation). RA is claimed at 60% on QCE and can be set off against 70% of SI or 100% of SI (projects that have achieved the level of productivity as prescribed by the Minister of Finance) for 15 consecutive years.	It is proposed that a new RA schedule be introduced for renovation, expansion and modernisation activities incurred by: - 1 to 5-star hotels registered with Ministry of Tourism, Art and Culture (MOTAC); and - Selected tourism projects namely theme park and convention centre with a capacity of at least 3,000 participants and registered with MOTAC. RA is claimed at 60% on QCE and can be set off against 70% of SI for 5 consecutive years. (Effective from YA 2023 to YA 2027) **Comment** As the 5-year period is stated to end in YA 2027, clarity is required whether the incentive period is for: - A maximum period of 5 years up to YA 2027; or - A total period of 5 years, so long the first qualifying expenditure is incurred within the period from YA 2023 to YA 2027.
6	**Special tax deduction on the purchase of local handicraft products**	
	Capital allowance can be claimed on qualifying assets while a tax deduction can be claimed on subsequent purchase for replacing the assets valued at less than RM2,000.	A special tax deduction be given for expenditure on qualified Malaysian-made handicraft purchased from handicraft entrepreneur certified by Perbadanan Kemajuan Kraftangan Malaysia incurred by hoteliers limited to RM500,000. (Effective for 1 January 2023 to 31 December 2023)

Tax incentives - Extension and changes

<table>
<tr><th></th><th>Existing</th><th>Proposed</th></tr>
<tr><td>7</td><td colspan="2">Income tax exemption for charitable hospitals</td></tr>
<tr><td></td><td>Hospitals can apply to be regarded as an approved institution / organisation under Section 44(6) of the ITA 1967. Income of the approved institution is tax exempted provided that conditions are fulfilled and donors would be eligible to claim a tax deduction up to 10% of aggregate income.</td><td>It is proposed that income tax exemption equivalent to expenditure incurred for charity purposes be given to charitable hospitals registered as company limited by guarantee (“CLBG”). Donors would be eligible to claim a tax deduction of up to 10% of aggregate income under Subsection 44(11C) of the ITA 1967.
(The effective date is not stated)</td></tr>
<tr><td>8</td><td colspan="2">Extension of income tax exemption for manufacturers of pharmaceutical products</td></tr>
<tr><td></td><td>Manufacturers of pharmaceutical products are eligible for tax incentive as follows:
<table>
<tr><th>Income tax rate</th><th>Incentive period</th></tr>
<tr><td>0% to 10%</td><td>The first 10 years</td></tr>
<tr><td>10%</td><td>Next 10 years</td></tr>
</table>
(Effective for applications received by MIDA from 1 January 2021 to 31 December 2022)</td><td>The incentive be extended for another 3 years.
(Effective for applications received by MIDA from 1 January 2023 to 31 December 2025)</td></tr>
<tr><td>9</td><td colspan="2">Export of private healthcare services</td></tr>
<tr><td></td><td>Currently, private healthcare companies are eligible for tax exemption on income from export of healthcare services to foreign patients. The tax exemption is equivalent to 100% of the value of increased export of services to be set-off against 70% of the SI, from YAs 2018 to 2022, subject to the following conditions:
● The number of foreign clients is at least 10% of the total patients for each YA; and
● At least 10% of the company’s gross income is derived from foreign clients for each YA.</td><td>The existing incentive is to be extended to YA 2025.
(Effective from YAs 2023 to 2025)</td></tr>
</table>

Tax incentives - Extension and changes

10 Review of green technology tax incentives

Existing

Green Investment Tax Allowance (GITA)

Tax incentive	Incentive period
Investment tax allowance of 100% on capital expenditure for qualifying green activities (to be set off against 70% of SI)	3 years

Green Investment Tax Exemption (GITE)

Tax incentive	Incentive period
Income tax exemption of 70% of SI for qualifying green services activities	3 years
Income tax exemption of 70% of SI for solar leasing companies certified by the Sustainable Energy Development Authority	5 - 10 years

(For applications received by MIDA from 1 January 2020 to 31 December 2023)

Proposed

It is proposed that GITA and GITE be reviewed based on tiering approach as follows:

Tier 1: Qualifying services other than solar (including Battery Energy Storage System)

Tier 2: Qualifying services related to solar

Green Investment Tax Allowance (GITA)

Tier 1	Tier 2
Project and green building Investment tax allowance of 100% on capital expenditure for qualifying green activities for 5 years (to be set off against 70% of SI)	**Asset and project** Investment tax allowance of 60% on capital expenditure for qualifying green activities for 3 years (to be set off against 70% of SI)
Asset Investment tax allowance of 100% on capital expenditure for 3 years (to be set off against 70% of SI)	

Green Investment Tax Exemption (GITE)

Tier 1	Tier 2
Income tax exemption of 70% on SI for qualifying green services for 5 years	Income tax exemption of 70% on SI for qualifying green services for 3 years
Income tax exemption of 70% on SI for up to 10 years for Solar Leasing	

(For applications received by MIDA from 1 January 2024 to 31 December 2025)

Tax incentives - Extension and changes

	Existing	Proposed
11	**Expansion of tax incentive for automation in manufacturing and services sector**	
	Manufacturing companies are eligible for ACA on purchase of automation equipment - **Category 1: Labour-intensive industry (rubber, plastic, wood and textile products)** ● ACA of 100% on the first RM4 million of QCE incurred ● Income tax exemption equivalent to 100% on the above ACA **Category 2: Other industries (including services sector)** ● ACA of 100% on the first RM2 million QCE incurred ● Income tax exemption equivalent to 100% on the above ACA (For applications received by MIDA until 31 December 2023)	The incentive be enhanced as follows: ● Scope of automation to include the adaptation of Industry 4.0 elements; ● Scope of tax incentive be expanded to include agriculture sector; and ● Capital expenditure threshold for categories 1 & 2 and agriculture be increased to RM10 million. (Effective for applications received by MIDA and Ministry of Agriculture and Food Industries from 1 January 2023 to 31 December 2027)
12	**E&E Sector**	
	A special tax incentive for relocation to Malaysia is offered to attract investors to relocate their operations to Malaysia. The incentives offered (for applications received by 31 December 2022) are as follows: Manufacturing ● Special tax rate of 0% for 10 years for new investment in manufacturing sector (capital investment of at least RM300 million and above). ● Special tax rate of 0% for 15 years for new investment in manufacturing sector (capital investment of at least RM500 million and above). ● 100% ITA for 5 years for existing company in Malaysia relocating overseas facilities into Malaysia (capital investment above RM300 million). The ITA is available to offset up to 100% of statutory income. Selected Services ● Special tax rate of 0% for up to 10 years for a new entity that undertakes services activities or company that relocates its existing services activities from overseas or establish new services activities.	The relocation incentive is to be extended to the E&E sector until 2024.

Tax incentives - Extension and changes

Existing | **Proposed**

13 Extension of tax incentive for aerospace industry

Existing

New and existing aerospace companies in Malaysia undertaking high value activities such as -

- Manufacturing or assembly of systems, devices, parts or components
- Maintenance, repair and overhaul for aircraft (MRO), systems, devices, parts or components
- Engineering & design / services related

are eligible for the following incentives:

	Tax incentive	Incentive period
New company	Income tax exemption of 70% to 100% of SI	5 to 10 years
	Investment tax allowance of 60% to 100% on QCE (to be set off against 70% to 100% of SI)	5 years
Existing company	Investment tax allowance of 60% on QCE (to be set off against 70% of SI)	5 years

(For applications received by MIDA until 31 December 2022)

Proposed

The incentive be extended for another 3 years.

(Effective for applications received by MIDA from 1 January 2023 to 31 December 2025)

14 Extension of tax incentive for ship building and ship repairing (SBSR) industry

Existing

Companies undertaking SBSR activities in Malaysia are eligible for the following incentives:

	Tax incentive	Incentive period
New company	Income tax exemption on 70% of statutory income (SI)	5 years
	Investment tax allowance of 60% on QCE (to be set off against 70% of SI)	5 years
Existing company	Investment tax allowance of 60% on QCE (to be set off against 70% of SI)	5 years

(For SBSR applications received by MIDA from 1 January 2020 to 31 December 2022)

Proposed

The incentive be extended for another 5 years.

(For SBSR applications received by MIDA from 1 January 2023 to 31 December 2027)

Tax incentives - Extension and changes

	Existing	Proposed
15	**BioNexus Status**	
	Companies undertaking biotechnology activities are eligible for income tax exemption on statutory income or Investment Tax Allowance on qualifying capital expenditure. For applications received by Malaysian Bioeconomy Development Corporation Sdn Bhd (MBDC) from 1 January 2021 until 31 December 2022.	The application period for submission to MBDC has been extended for 2 years. (Effective for applications submitted to MBDC from 1 January 2023 to 31 December 2024)
16	**Expansion of scope and extension of period**	
	Companies involved in food production project enjoy the following incentives: ● Deduction equivalent to the amount of investment made by an investor company in a subsidiary company engaging in new food production projects ● Company engaging in food production project ○ New project - income tax exemption of 100% on statutory income for 10 years of assessment ○ Expansion project for existing company - income tax exemption of 100% on statutory income for 5 years of assessment For applications received by Ministry of Agriculture and Food Industries (MAFI) from 1 January 2021 until 31 December 2022.	The tax incentive period for food production projects is extended for 3 years until the end of 2025. The scope of incentive expanded to include agricultural projects based on Controlled Environment Agriculture. (Effective for applications received by MAFI from 1 January 2023 until 31 December 2025)
17	**Review of incentive for chicken rearing in Closed House System**	
	Reinvestment allowance was given until YA 2010 to chicken and duck rearers who shifted from the open house system to a closed house system.	It is proposed that accelerated capital allowance and income tax exemption of 100% on qualifying capital expenditure will be given to chicken rearers who adopt closed house system. (Effective for the YAs 2023 until 2025)

Tax incentives - Extension and changes

	Existing	Proposed
18	**Expansion of scope for Equity Crowdfunding (“ECF”)**	
	Individual investors who invest in equity crowdfunding are given tax exemption on aggregate income equivalent to 50% of the amount invested subject to conditions as follows: 1. Eligible amount for tax exemption is limited to RM50,000 for each YA; 2. Deductible amount is restricted to 10% of aggregate income for each YA. Any excess amount will be disregarded; 3. The investor, investee company and amount of investment must be verified by the Securities Commission Malaysia (SC); 4. Investor must not have family relationship with the investee company; 5. Investment must be made through ECF platform approved by SC; and 6. The investment must not be disposed of within 2 years from the date of investment made. The above exemption is available for investments made from 1 January 2021 to 31 December 2023.	The tax exemption is enhanced as follows: I. Scope of the exemption is expanded to include investment made by individual investor through a Limited Liability Partnership Nominee Company; and II. the investment period is extended for 3 years. (Effective for investments made from 1 January 2024 until 31 December 2026)
19	**Extension of period for Angel Investor**	
	An angel investor who invests in an investee company qualifies for tax exemption equivalent to the amount of investment. Application is to be made to the Ministry of Finance by 31 December 2023.	The incentive be extended for another 3 years. (Effective for applications received by Ministry of Finance from 1 January 2024 until 31 December 2026)
20	**Further tax deduction for the employment of senior citizens, ex-convicts, parolees, supervised persons and ex-drug dependants**	
	A further deduction is given to employers for the remuneration on the employment of senior citizens, ex-convicts, parolees, supervised persons and ex-drug dependants (Effective from YA 2019 to YA 2025)	The scope of tax incentive be extended to include remuneration paid to the following: ● Inmate and ex-inmate of Henry Gurney; School under Malaysian Prison Department ● Protection and rehabilitation institutions and registered care centres under the Social Welfare Department (Effective from YA 2023 to YA 2025)

Tax incentives - Extension and changes

Incentive for the development of intellectual property

Existing

Companies which undertake research and development (R&D) for promoted products and the development of intellectual property (IP) in Malaysia are eligible for 100% income tax exemption for a period up to 10 years on the IP income arising from patents and copyright software. The exemption is subject to compliance with the BEPS Action 5-based modified nexus approach (MNA) (refer to TaXavvy 21-2021 for details).

Eligible applicants may submit the application to Malaysian Investment Development Authority (MIDA) from 1 January 2020 until 31 December 2022.

Note: The issuance of the MNA rules are still pending from the authorities.

Proposed

The existing incentive is to be extended for a period of 3 years.

(For applications received by MIDA from 1 January 2023 until 31 December 2025)

Extension of tax incentives for economic corridors

To stimulate economic growth in the corridors, it is proposed that the existing tax incentive package that will expire by end of this year be improved and extended for another 2 years.

Comment

The economic corridors in Malaysia refer to the following:

- Iskandar Malaysia
- Northern Corridor Economic Region (NCER)
- East Coast Economic Region (ECER)
- Sarawak Corridor of Renewable Energy (SCORE)
- Sabah Development Corridor (SDC)

4

Indirect tax

Review of excise duty and sales tax exemption on sale, transfer and disposal of taxi

Current

Excise duty and sales tax exemptions are granted to the sale / transfer / private use / disposal of budget taxis and hired cars, subject to the following conditions:

1. Individually owned budget taxi and hired cars only; and
2. Age of vehicle must exceed 7 years from the date of registration.

Proposed

It is proposed that the current exemption be extended to include:

1. Executive taxi and Teksi 1 Malaysia ("TEKS1M"); and
2. Airport taxis (budget, premier and family)

The qualifying age of the vehicle is proposed to be reduced from 7 years to 5 years from the registration date.

(Effective from 1 January 2023)

Comment

More taxi drivers whose livelihoods were impacted by the Covid 19 pandemic can now avail this exemption when selling, transferring, converting to private use or disposing of their vehicles and not be burdened by additional costs when doing so.

This only applies to applications received by the Royal Malaysian Customs Department ("RMCD") from 1 January 2023.

Indirect tax

<table>
<tr><th></th><th>Existing</th><th>Proposed</th></tr>
<tr><td>1</td><td colspan="2">Extension of import and excise duties exemption on imported Completely Build-Up (CBU) EVs until 31 December 2024</td></tr>
<tr><td></td><td>Imported CBU EVs are fully exempted from import duty and excise duty from 1 January 2022 to 31 December 2023.

*EVs include passenger vehicles (including SUV and MPV), commercial vehicle and motorcycle</td><td>The exemptions will be extended for one year.

(Effective from 1 January 2024 to 31 December 2024)</td></tr>
<tr><td>2</td><td colspan="2">Exemption of Approved Permit application fee for importing EVs until 31 December 2023</td></tr>
<tr><td></td><td>The Approved Permit (AP) application fee for the import of EVs is RM10,000 per unit.</td><td>An exemption of the AP application fee will be granted.

(Effective from 1 January 2023 to 31 December 2023)</td></tr>
<tr><td>3</td><td colspan="2">Import duty and sales tax exemption on Nicotine Replacement Therapy (NRT) products</td></tr>
<tr><td></td><td>NRT products, specifically nicotine gums and nicotine patches are currently subject to import duty and sales tax at the following rate:

<table>
<tr><th>Product</th><th>Import Duty Rate</th><th>Sales Tax Rate</th></tr>
<tr><td>Nicotine Gum</td><td>15%</td><td>5%</td></tr>
<tr><td>Nicotine Patch</td><td>0%</td><td>10%</td></tr>
</table>
</td><td>Import duty and sales tax exemption will be given on the importation of nicotine gum and nicotine patch products for a period of 5 years.

(Effective from 1 January 2023)</td></tr>
<tr><td>4</td><td colspan="2">Excise duty exemption on tourism vehicles</td></tr>
<tr><td></td><td>There is no excise duty exemption on the acquisition of locally assembled vehicles used as tourism vehicles from 1 January 2022 to 31 December 2022.

Under Budget 2020, licensed tour operators were granted a 50% excise duty exemption for the acquisition of all new locally Completely Knocked-Down (CKD) assembled vehicles used as tourism vehicles. However, the exemption was only valid from 1 January 2020 to 31 December 2021.</td><td>50% excise duty exemption to be granted on the purchase of eligible new locally assembled tourism vehicles, as follows:-

i. “hire and drive” cars for tourists; and
ii. excursion bus.

The exemption is only applicable for applications received by the Ministry of Finance from 1 January 2023 to 31 December 2024.

(Effective from 1 January 2023)</td></tr>
</table>

Existing	Proposed
5 Stricter control on movement of imported cigarette and liquor products	
Import, excise duties and sales tax are imposed on all cigarettes brought into Malaysia for transhipment and duty and sales tax drawback is claimable on re-export. Such transhipments of cigarettes are limited to selected ports. The government also disallows transhipment activities and re-exports of cigarettes using pump boats.	The government will continue to combat revenue leakage. The Multi-Agency Task Force will continue its eradication strategy on cigarette and liquor smuggling activities as follows: ● enforce tighter control at import entry points of cigarettes and liquor through legal landing places including private jetties; ● limit the transhipment of liquor products to certain ports; ● make Customs, Immigration and Security Complex in Bukit Kayu Hitam as a single exit point for the northern region; and ● provide special rewards to increase efforts to curb smuggling of cigarettes and liquor.
6 Import duty & sales tax exemption for CCS	
There is no specific import duty and sales tax exemption that is readily available for CCS technology related equipment.	Companies undertaking CCS in-house activities or CCS services will be given import duty and sales tax exemption on equipment for CCS technology. For application received by the Ministry of Finance from 1 January 2023 until 31 December 2027. (Effective from 1 January 2023)
7 Import duties and sales tax exemption on studio and filming production equipment	
Importation of specialised equipment for use in the creative industry such as cameras and broadcasting equipment, audio and video systems, studio equipment and equipment filming productions are subject to import duty rates ranging from 5% to 30% and sales tax at the rate of 10%.	Import duty and sales tax exemptions on studio and filming production equipment be given to providers of equipment and production services including post-production, studio and cinema for a period of 2 years. Exemptions will be granted to applications received by the Ministry of Finance from 1 January 2023 to 31 December 2024. (Effective from 1 January 2023)
8 Extension of sales tax exemption for the purchase of locally assembled bus	
Currently, 10% sales tax exemption is given on the purchase of buses including locally installed air conditioning by eligible bus operators such as school bus, stage bus, express bus, excursion bus and employee bus. The sales tax exemption is effective from 1 January 2021 to 31 December 2022.	It is proposed that the sales tax exemption on purchase of locally assembled buses including air conditioners is extended for another 2 years. (Effective from 1 January 2023)

5

Stamp duty

Stamp Duty

<table>
<tr><th></th><th>Existing</th><th>Proposed</th></tr>
<tr><td>1</td><td colspan="2">Stamp duty treatment for transfer of property by way of love and affection</td></tr>
<tr><td></td><td>The stamp duty exemption for transfer of immovable property from the donor to the recipient is as follows:-
<table>
<tr><th>Exemption (%)</th><th>Donor</th><th>Recipient</th></tr>
<tr><td>100</td><td>Husband / Wife</td><td>Wife / Husband</td></tr>
<tr><td>50</td><td>Mother or father / Child (Malaysian citizen)</td><td>Child / Mother or father (Malaysian citizen)</td></tr>
</table>
</td><td>The instruments of transfer of property between husband and wife, parents and children, as well as grandparents and grandchildren be imposed a fixed duty of RM10 on the condition that the recipient of the property is a Malaysian citizen.

(Effective for instrument of transfer of property executed from 1 January 2023)</td></tr>
<tr><td>2</td><td colspan="2">Extension of stamp duty exemption for restructuring or scheduling of loan / financing agreement</td></tr>
<tr><td></td><td>Stamp duty exemption is given for instrument of loan or financing agreement which relates to the restructuring or rescheduling of a loan or financing between a borrower or customer and a financial institution, executed on or after 1 July 2021 but not later than 31 December 2022.</td><td>The exemption be extended for another 2 years.

(Effective for instruments executed from 1 January 2023 until 31 December 2024)</td></tr>
<tr><td>3</td><td colspan="2">Stamp duty treatment for educational loan/scholarship agreement</td></tr>
<tr><td></td><td>Stamp duty at a fixed duty of RM10 is charged on educational loan/scholarship agreement to pursue tertiary education level (diploma and above) at higher learning institutions whilst stamp duty for other education levels are charged at ad valorem rate.</td><td>The imposition of a fixed duty of RM10 be expanded to include educational loan/scholarship agreement to pursue education at all levels including certificate (education / skills / professionals) in any educational and training institutions.

(Effective for educational loan/scholarship agreement executed from 1 January 2023)</td></tr>
</table>

Stamp Duty

<table>
<tr><th></th><th>Existing</th><th>Proposed</th></tr>
<tr><td>4</td><td colspan="2">Review of stamp duty exemption for the purchase of first residential home</td></tr>
<tr><td></td><td>Presently, 100% stamp duty exemption is given on the instrument of transfer and loan agreement for the purchase of first residential property as follows:-
<table>
<tr><th>Stamp duty exemption</th><th>Type of instrument</th><th>Value of 1st residential home</th><th>Sale and purchase agreement executed in the period</th></tr>
<tr><td>100%</td><td>Instrument of transfer & loan agreement</td><td>Up to RM500,000</td><td>1 Jan 2021 to 31 Dec 2025</td></tr>
</table></td><td>During the launch event of the Home Ownership Programme (Hope) and "Karnival Jom Beli Rumah" in 2022, the Prime Minister has announced that first-time homebuyers would enjoy a 50% stamp duty exemption on the instrument of transfer and loan agreement under the Keluarga Malaysia Home Ownership Initiative (i-MILIKI) for properties valued more than RM500,000 to RM1,000,000, for sale and purchase agreements that are completed from 1 June 2022 to December 2023. To-date, no gazette order has been issued on this exemption.

It is proposed that the stamp duty exemption be increased from 50% to 75% for property transfer documents and loan agreements for homes valued more than RM500,000 to RM1,000,000.

(Effective until 31 December 2023)</td></tr>
</table>

6

Other proposals

Tax administration

e-Invoicing

Based on the Pre-Budget Statement 2023 issued by the Ministry of Finance, the Government intends to implement e-Invoicing in stages in effort to enhance the efficiency of the country's tax administration management to support the growth of the digital economy.

The Minister of Finance has provided an update on the implementation of the e-invoicing. It is announced that the Inland Revenue Board (IRB) will implement the e-invoicing in stages commencing from 2023 involving development of a system and a pilot project with selected taxpayers.

(Effective from 2023)

Tax Identification Number (TIN)

Currently, based on the Frequently Asked Questions on the Implementation of TIN (FAQ) issued by the IRB, amongst others in the FAQ, it is stated that:

- TIN will be given to individuals who are citizen aged 18 years old and above through an application made or provided by the IRB.
- Only documents and instruments for stamping related to the transfer of property, transfer of shares and transfer of business for categories of companies and individuals will require the use of TIN.

It is proposed:

- TIN will be given automatically to individuals who are citizens and permanent residents once they reach 18 years of age.
- The usage of TIN is mandatory for the stamping of all documents and agreements.

(Effective from 2023)

Tax payments

Presently, taxpayers are allowed to make tax payments through the following channels:

- Payment through the FPX medium in the website of the IRB (i.e. ByrHASiL)
- Payment through banking internet portals of the financial institution appointed by the IRB
- Payment counters of the financial institution appointed by the IRB
- Payment made by credit card through the counter of the Kuala Lumpur Payment Centre.

It is proposed that the taxpayers are required to make electronic transmissions for tax payments from YA 2024.

(Effective from YA 2024)

Carbon Tax - Carbon Pricing Mechanism

The Government intends to introduce a carbon tax and will study the feasibility of a carbon pricing mechanism.

To support the implementation of this mechanism, the Government will provide RM10 million matching grant to help prepare carbon assessments for SME companies and eligible related products.

PwC Budget 2023 Webinar

Date:
17 October 2022

Time:
9.00am to 12.30pm

Contact:
Fazlina Jaafar / Chow Xin Yi
(03) 2173 3830 / 0267

Email:
my_events@pwc.com

Online registration:
insights.pwc.my/budget-2023

Connect with us

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

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

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

Penang & Ipoh
Kang Gaik Hong
gaik.hong.kang@pwc.com
+60(4) 238 9225

Kuching
Lee Yuien Siang
yuien.siang.lee@pwc.com
+60(8) 252 7202

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

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

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

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

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

Technology, Media and Telecommunications
Heather Khoo
heather.khoo@pwc.com
+60(3) 2173 1636

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

International Tax Services / Mergers and Acquisition
Gan Pei Tze
pei.tze.gan@pwc.com
+60(3) 2173 3297

Individual Tax
Michelle Chuo
michelle.sy.chuo@pwc.com
+60(3) 2173 1289

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

Geeta Balakrishnan
geeta.b.balakrishnan@pwc.com
+60(3) 2173 1652

People & Organisation
Kartina Abdul Latif
kartina.a.latif@pwc.com
+60(3) 2173 0153

Tax Technology
Yap Sau Shiung
sau.shiung.yap@pwc.com
+60(3) 2173 1555

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

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

Japan Business Consulting
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