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The Ministry of Finance (MOF) has released the Budget 2024 Touchpoints and additional appendix on tax measures. Key additional updates on Budget 2024 tax measures are as follows:

Expanded scope of taxable foreign-sourced income

Effective from 1 March 2024, the scope of taxable foreign-sourced income received in Malaysia will include gains from the disposal of capital assets from outside Malaysia. However, the gains are eligible for tax exemption subject to meeting economic substance requirements.

PwC Comments:

- *The proposal is likely to meet the EU Code of Conduct Group (Business Taxation)'s updated guidance which requires a foreign-sourced income exemption regime to include capital gains as a general class of taxable items.*
- *If this is part of the capital gains tax (CGT) which has been announced to take effect from 1 March 2024, would the gains remitted into Malaysia be subject to the same CGT tax rates which was announced on 13 October 2023 as follows:*
 - *Assets acquired before 1 March 2024 - 10% on net gain, or 2% on gross sales value*
 - *Assets acquired from 1 March 2024 - 10% on net gain*
- *The eligibility for tax exemption is a welcomed move as it helps to preserve the competitiveness of Malaysia's tax regime. Other jurisdictions such as Singapore, which are adding capital gains from disposal of foreign assets into the scope of their tax, are similarly scoping those gains into their tax net only if economic substance requirements are not met.*
- *Whether the proposal is also applicable to resident individuals as currently resident individuals qualify for exemption on all classes of income (except income from a partnership business in Malaysia which is received in Malaysia from outside Malaysia).*
- *The double tax agreements entered by Malaysia need to be reviewed to determine whether gains from disposal of foreign assets can be taxed in Malaysia.*

Assessment under the Labuan Business Activity Tax Act 1990 (LBATA 1990)

The tax assessment under the LBATA 1990 is proposed to be based on the current year basis (currently on a prior year basis) starting from the year of assessment 2025. This will be aligned with the treatment under the Income Tax Act 1967.

Pengerang Integrated Petroleum Complex (PIPC)

Details of the tax incentive package for PIPC is provided as follows:

Chemical and petrochemical manufacturing company with minimum investment of RM500 million

- Income tax rate of 5% or 10% on income from qualifying activities for a period up to 10 years, or
- Investment Tax Allowance of 100% for a period up to 10 years to be set-off against 70% of statutory income.

Developers of industrial areas in the PIPC

- Income tax rate of 10% on the income from sale or rent of land or building for a qualifying project for a period of 10 years.

Effective date of the proposed change of rate and expansion of scope of taxable services

The effective date for the proposed change of rate from 6% to 8% and the proposed expansion of scope of taxable services is **1 March 2024**.

Proposed increase in service tax rate

It is proposed the service tax rate is increased from 6% to 8% for all taxable services subject to tax at 6%, except for:

- (a) Food & beverage services
- (b) Telecommunication services
- (c) Parking services
- (d) Logistics services (proposed new taxable service)

Service tax - Proposed expansion of taxable services

New types of taxable services proposed are:

- (a) Karaoke centre services
- (b) Delivery of goods (except for delivery of food & beverage)
- (c) Brokerage and underwriting services related to non-financial related services. Examples given include brokerage for ship and aircraft space, commodity and real estate.
- (d) Logistic services

PwC Comments:

- *The effective date of 1 March 2024 gives businesses just under 6 months to make the necessary preparations. The Service Tax Act 2018 does not currently provide for the transitional considerations following a change in rate or scope of tax. Therefore, we expect that there will be updates in the Finance Act 2024 to address this matter.*
- *The proposal to tax delivery of goods (as an expansion of the scope of courier delivery services) was announced in the Budget 2022. It is our view that the delivery of goods falls within the ambit of logistics services. Therefore, if delivery services and logistics services are to be introduced as 2 separate types of taxable services, there needs to be a clear definition of what is intended to be taxed and to ensure that there is no overlap in scopes.*

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

Have questions?

Let's connect

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