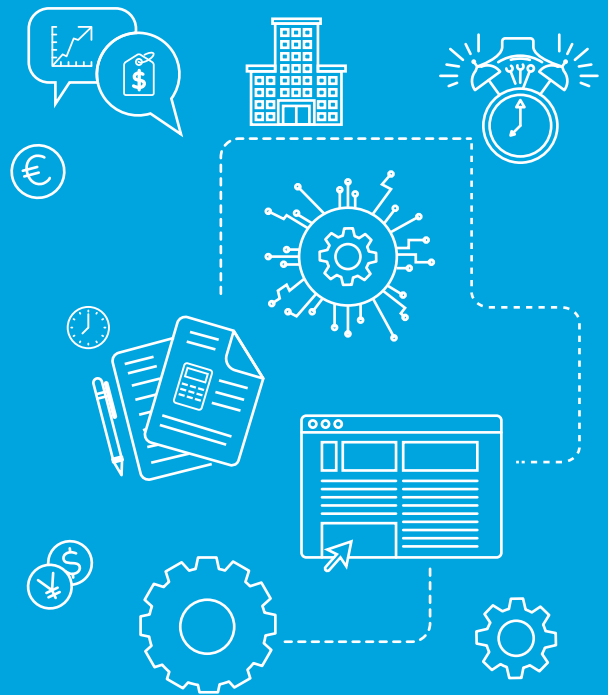


RSM 2021 BUDGET HIGHLIGHTS



BUDGET 2021 HIGHLIGHTS

RSM Tax Consultants (Malaysia) Sdn Bhd

EXECUTIVE SUMMARY

Dear Clients & Business Associates,

Budget 2021 was announced on 6 November 2020. It focused on 3 Integral goals as follows:-

- Rakyat / People's Well-being
- Business Continuity
- Economic Resilience

Budget 2021 Overview:-

- Total budget : RM322.54 billion

Government expenditures

● Operating expenditure	RM236.54 billion
● Development expenditure	RM 69.00 billion
● Covid-19 Fund	RM 17.00 billion

RM322.54 billion

- Government revenue RM236.90 billion
- The largest budget in Malaysian history
- Expansionary and deficit budget
- Fiscal deficit rises to 6% of Gross Domestic Products (GDP)
- GDP growth rate : 6.5% to 7.5%
- Income tax collection : RM172 billion
- Budget for unprecedented times
- A helping hand from the Government for businesses and individuals to recover from the hardship caused by Covid-19 pandemic

Please refer to the key highlights of the Budget 2021 proposed changes attached and do join us at our Tax Budget Webinar on 18 November 2020 for a more detailed analysis of Budget 2021.

Stay safe & Stay Healthy

Review of Tax Incentives for Companies Relocating Their Operations to Malaysia and Undertaking New Investments

Currently, new and existing companies in the manufacturing sector that relocate their business or manufacturing activities from abroad to Malaysia may be eligible for the following tax incentives:

Investments in fixed assets	New companies		Existing companies	
	Tax incentive	Period	Tax incentive	Period
RM300 -RM500 million	Income tax rate 0%	10 years	Investment tax allowance 100%	5 years
Above RM500 million		15 years		

The above incentive is granted for applications received by Malaysian Investment Development Authority (MIDA) from 1 July 2020 until 31 December 2021.

It is proposed that the tax incentives for companies relocating their operations to Malaysia and making new investment be reviewed as follows:

- application period for the tax incentives be extended for another 1 year i.e. until 31 December 2022 and ;
- the scope of tax incentives be expanded to companies in selected services sector including companies adapting Industrial Revolution 4.0 and digitilisation technology with investment that contribute to significant multiplier effect in the following services:
 - a) provision of technology solution, or more typically technology company which develops technology and provides technology solutions based on substantial scientific or engineering challenges;
 - b) provision of infrastructure and technology for cloud computing;
 - c) research and development/design and development activities;
 - d) medical devices testing laboratory and clinical trials; and
 - e) any services or manufacturing related services as determined by the Minister of Finance.
- These above proposed tax incentives are given as follows:

New companies		Existing companies	
Tax incentive	Period	Tax incentive	Period
Income tax rate 0% to 10%	Up to 10 years	Income tax rate 10%	Up to 10 years

Tax Incentives for Companies Manufacturing Pharmaceutical Products Including Vaccines

The proposed tax incentives to be given to manufacturers of pharmaceutical products including vaccines (especially Covid-19 vaccine) are as follows:

- Income tax rate of 0% up to 10% for the first 10 years;
- Income tax rate of 10% for the subsequent period of 10 years;
- Strategic investments by such companies may be considered for other facilities including grants, import duty/sales tax exemption for machineries and equipment as well as raw materials.
- Granted for applications received by MIDA from 7 November 2020 to 31 December 2022.

Expansion of Scope of Tax Incentive for Commercialisation of Research and Development Findings

Currently, tax incentives for commercialisation of research and development (R&D) findings of public research institutions including public higher learning institutions in Malaysia are as follows:

- a. For investor company - Tax deduction equivalent to the amount of investment made in the subsidiary company that undertakes commercialisation of R&D findings of public research institutions.
- b. For subsidiary companies that commercialise R&D findings of public research institutions - Income tax exemption of 100% of statutory income for 10 years.

The commercialization of R&D findings is segregated into Resource Based and Non-Resource Based activity or products. The incentive for Non-Resource Based activity or products was available for applications received by the MIDA from 29 September 2012 to 31 December 2017.

It is proposed that the scope of the above tax incentives be expanded as follows:

- Tax incentive for the commercialisation of Non Resource-Based R&D findings be reintroduced;
- Tax incentives for the commercialisation of R&D findings by public research institutions including public higher learning institutions be expanded to include private higher learning institutions; and
- Granted for applications received by the MIDA from 7 November 2020 until 31 December 2025.

Global Trading Centre Tax Incentive

Currently, a Principal Hub which currently carries out services and trading activities are eligible for special tax rate of 0% or 5% on statutory income on the qualifying activities for a period of up to 10 years.

To enhance and simplify tax incentive for trading activities previously covered under the Principal Hub incentive which was subjected to higher eligibility criteria, a new Global Trading Centre incentive is proposed which grants 10% income tax rate for a period of 5 years and may be renewed for another 5 years.

The above incentive is granted for applications received by MIDA from 1 January 2021 until 31 December 2022.

Extension of Income Tax Exemption on the Green Sustainable and Responsible Investments ("SRI") Sukuk Grant

Currently, Green SRI sukuk issuers who receive grant from the Securities Commission of Malaysia ("SC") are exempted from income tax for applications received by the SC from 1 January 2018 to 31 December 2020.

It is proposed that:

- The existing income tax exemption on grant will be expanded to all types of SRI sukuk and bond which meets the ASEAN Green, Social and Sustainability Bond Standards approved by the SC.
- The above income tax exemption will be extended for another 5 years.
- This is applicable for applications received by the SC from 1 January 2021 to 31 December 2025.

Extension of Tax Incentive for Principal Hub

Currently, locally incorporated companies who make Malaysia as a centre to conduct business and regional or global operations for the purpose of management, control and support function including risk management, decision making, strategic business activities, commerce, finance, management and human

resource management may qualify for Principal Hub incentive with concessionary income tax rates of 0%, 5% and 10% for 5 years (with possibility of extension for another 5 years), subject to meeting the relevant conditions.

The incentive may be granted for applications received by MIDA from 1 January 2019 to 31 December 2020.

It is proposed that:

- The application period for Principal Hub incentive for companies undertaking qualifying services activities be extended for another 2 years;
- The minimum condition of the number of high value job, annual operating expenditure and the number of key post for renewal of the tax incentive for the second 5 years be relaxed; and
- This is applicable for applications received by MIDA from 1 January 2021 to 31 December 2022.

Tax Incentive for Investment in Equity Crowdfunding

Equity Crowdfunding (“ECF”) allows start-up companies greater access to capital through registered ECF platforms approved by the Securities Commission of Malaysia (“SC”).

It is proposed that individual investors be given income tax exemption on aggregate income equivalent to 50% of the investment amount made in ECF, subject to the following:

- The tax exemption is capped at RM50,000 for each year of assessment (“YA”);
- The deductible amount is restricted to 10% of the aggregate income for each YA. Any excess amount will be disregarded;
- The investor, investee company and amount of investment made must be verified by the SC;
- The investor must not have any family relationship with the investee company;
- The investment must be made through ECF platform approved by the SCM;
- The investment must not be disposed of either in full or in part within 2 years from the date of investment made; and
- This is applicable for investment made from 1 January 2021 until 31 December 2023.

Extension of Period of Tax Incentive for Export of Private Healthcare Services

Currently, income tax exemption equivalent to 100% of the value of the increase in exports of services to be set-off against 70% of the statutory income derived from the export of healthcare services is given to companies that provide healthcare services until YA 2020.

It is proposed that the existing tax incentive be extended for a period of 2 years i.e. for YAs 2021 and 2022.

Review of Tax Incentives for Manufacturers of Industrialised Building System (IBS) Components

Currently, manufacturers of IBS components producing IBS basic components (such as columns, beams, slabs, walls and roof trusses) and producing IBS systems (such as precast concrete system, formwork system, steel framing system, block work system, timber framing system, innovative system, and modular system/components) are provided with the following tax incentives:

CORPORATE TAX (CONT)

Category	Description	Type of tax incentive
1	Companies producing at least 3 basic components of IBS or IBS system that use at least 3 basic IBS components	Income tax exemption of 70% of statutory income for a period of 5 years; or Investment Tax Allowance of 60% on qualifying capital expenditure incurred within 5 years to be set-off against 70% of statutory income.
2	Companies producing at least 4 or more basic components of IBS or IBS system that use at least 4 basic IBS components	Income tax exemption of 100% of statutory income for a period of 5 years; or Investment Tax Allowance of 60% on qualifying capital expenditure incurred within 5 years to be set off against 100% of statutory income.

The above incentive may be granted for applications received by MIDA from 10 September 2015 until 31 December 2020.

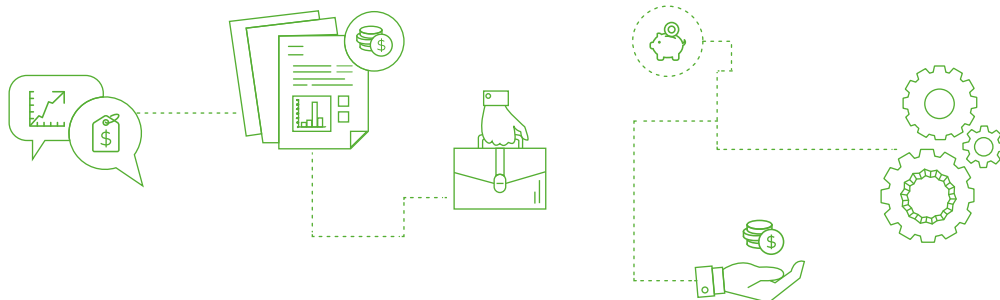
It is proposed that:

- IBS tax incentive be extended for a period of 5 years;
- Categories 1 and 2 to be merged where companies are only required to produce at least 3 basic components of IBS or IBS systems that use at least 3 basic IBS components;
- The tax incentive given is Investment Tax Allowance of 60% on qualifying capital expenditure incurred within 5 years to be set off against 70% of statutory income; and
The above incentive is given for applications received by MIDA from 1 January 2021 to 31 December 2025.

Extension of Period of Tax Deduction for Employment of Senior Citizens, Ex-Convicts, Parolees, Supervised Persons and Ex-Drug Dependants

Currently, further tax deduction given on remuneration paid by employers to senior citizens who are above 60 years old, ex-convicts, parolees, supervised persons and ex-drug dependants as a full time employee whose remuneration do not exceed RM4,000, from YA 2019 until YA 2020.

It is proposed that the further tax deduction be extended for a period of 5 years i.e. from YA 2021 until YA 2025.



Review of Income Tax Rate for Resident Individual

Currently, the income tax structure for resident individual is based on progressive rates ranging from 0% to 30% on chargeable income.

It is proposed that effective from YA 2021, the income tax rate for resident individuals be reduced by 1% (i.e. from 14% to 13%) for the chargeable income band from RM50,001 to RM70,000 .

Increase in Limit of Income Tax Relief on Expenditure of Medical Treatment, Special Needs and Parental Care

Currently, income tax relief of up to RM5,000 is available for resident individual taxpayer on medical expenses and parental care.

It is proposed that effective from YA 2021 the income tax relief to be increased from RM5,000 to RM8,000.

Review of Income Tax Relief for Medical Treatment Expenses for Self, Spouse and Child

Income tax relief of up to RM6,000 is available for resident individual taxpayer for medical expenses for serious diseases for taxpayer, spouse and child and fertility treatment for spouse and child. The relief includes an amount up to RM500 for full medical check-up expenses.

It is proposed that effective from YA 2021:

- the income tax relief be increased from:
 - i. RM6,000 to RM8,000 for medical expenses for serious diseases for taxpayer, spouse and child and fertility treatment for spouse and child.
 - ii. RM500 to RM1,000 for full medical check-up expenses
- Total deduction allowable for (i) and (ii) is restricted to RM8,000.
- Scope of tax relief be expanded to include vaccination expenses of up to RM1,000 for taxpayer, spouse and child.

Increase in the Limit of Income Tax Relief for Disabled Spouse

Currently, a resident individual taxpayer with a disabled spouse is given an additional tax relief of up to RM3,500.

It is proposed that effective from YA 2021, the additional tax relief limit for disabled spouse be increased from RM3,500 to RM5,000.

Review of Income Tax Relief for Lifestyle

Currently, Income tax relief of up to RM2,500 is provided to an resident individual taxpayer on the purchase of reading materials, including e-book, printed daily newspapers, computers smartphones/tablets, internet subscriptions, sports equipment and gymnasium membership.

It is proposed that effective from YA 2021:

- the tax relief for lifestyle be increased from RM2,500 to RM3,000 with the additional RM500 allocated for the cost of purchasing sports equipment, entry/rental fees for sports facilities and participation fees in sports competitions.
- scope of existing lifestyle tax relief be expanded to include subscription for online newspaper.

Expansion of the Scope of Income Tax Relief for Expenses on Study Fees

Currently, a resident individual taxpayer who pursues any course of study in selected fields of study, or Master or Doctorate in any field offered by institutions or professional bodies in Malaysia recognised by the Government of Malaysia or approved by the Minister of Finance is eligible to claim tax relief on the study fees. The relief claimable is up to RM7,000 a YA and the eligible fields of study are as follows:

- i. Certificate/Diploma/Bachelor - Law, accounting, Islamic finance, skills or vocational, technical, industrial, scientific and technological skills
- ii. Master/Doctorate – All fields

it is proposed that:

- The scope of relief of RM7,000 a year be expanded to cover fees for attending up-skilling and self enhancement courses in any field of skills recognised by the Department of Skills Development, Ministry of Human Resources;
- The tax relief is limited to RM1,000 for each YA; and
- The above is effective for YAs 2021 and 2022.

Extension of Period of Income Tax Relief on Contribution to Private Retirement Scheme (PRS)

Currently, income tax relief of up to RM3,000 on contribution to PRS is eligible to be claimed annually by resident individual taxpayers from the year of assessment 2012 to the YA 2021.

It is proposed that the income tax relief up to RM3,000 on contribution to PRS be extended for another 4 years i.e. from the YA 2022 to the YA 2025.

Extension of Period of Individual Income Tax Relief on Net Annual Savings in the National Education Savings Scheme

Currently, income tax relief of up to RM8,000 is given to a resident individual taxpayer for net annual savings in the National Education Savings Scheme (Skim Simpanan Pendidikan Nasional - SSPN) effective from the year of assessment 2019 until the YA 2020.

It is proposed that the tax relief of up to RM8,000 on net annual savings in the SSPN be extended for another 2 years i.e. for YAs 2021 and 2022.

Increase in the limit of income tax exemption on compensation for loss of employment

Currently, an employee is entitled for exemption of income tax arising from compensation received for loss of employment under the following circumstances:

- i. full exemption on income tax on compensation for loss of employment if the Director General of Inland Revenue is satisfied that the compensation is received due to health problems; or
- ii. exemption on income tax of RM10,000 for each full year of service with the same employer or companies within the same group.

It is proposed that for the YAs 2020 and 2021, the income tax exemption limit for compensation for loss of employment with the same employer or companies within the same group be increased from RM10,000 to RM20,000 for each full year of service.

Extension of tax incentive for Returning Expert Programme (REP)

Currently, tax incentives under the REP are as follows:

Year	Tax Incentives
2001- 2010	Duty/tax exemption for the purchase of 2 locally assembled vehicles (Completely Knocked-Down-CKD) or imported vehicles (Completely Built-Up-CBU).
2011-2014	<ol style="list-style-type: none">i. flat rate of 15% on employment income for a period of 5 consecutive years of assessment; andii. duty/tax exemption for the purchase of 2 CKD vehicles.
2014-2020	<ol style="list-style-type: none">i. flat rate of 15% on employment income for a period of 5 consecutive years of assessment; andii. exemption on import duty and excise duty for the purchase of a CBU vehicle or excise duty exemption for the purchase of a CKD vehicle subject to the total duty exemption limited up to RM150,000.

It is proposed that the application period for REP incentive be extended for another 3 years and revised as follows:

- i. flat rate of 15% for a period of 5 consecutive years of assessment; and
- ii. exemption on import duty and excise duty for the purchase of a CBU vehicle or excise duty exemption for the purchase of a CKD vehicle subject to the total duty exemption limited up to RM100,000.

The above incentive is granted for applications received by Talent Corporation Malaysia Berhad from 1 January 2021 until 31 December 2023.

Special income tax rate treatment for non-resident individuals holding key positions in companies investing in new strategic investment

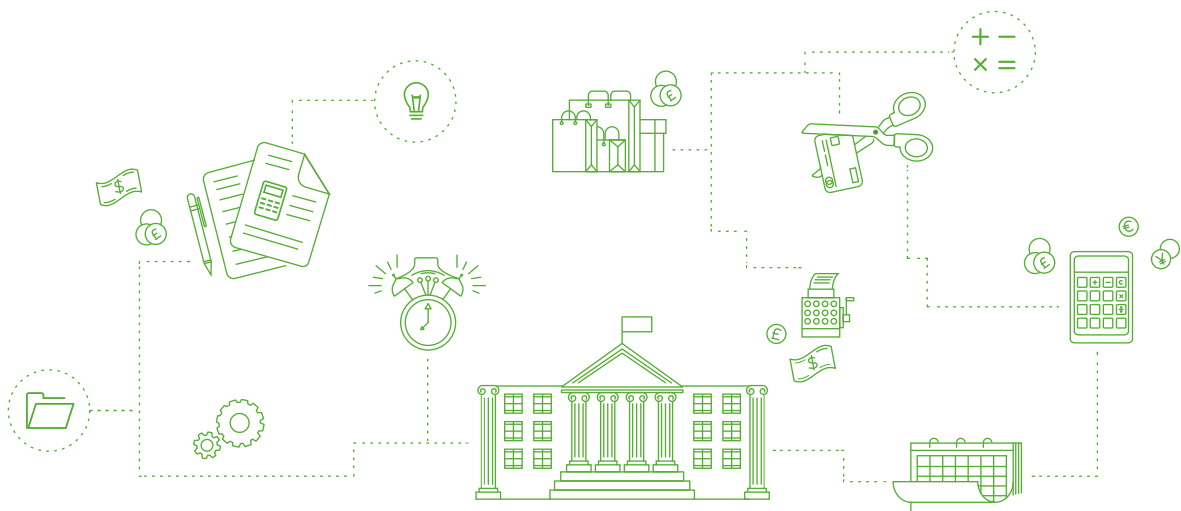
Currently, income tax treatment at a flat rate of 15% is given to the following individuals:

- i. Malaysian citizens who are categorised as experts and approved under the Returning Expert Program and return to work in Malaysia;
- ii. Individual knowledge workers in Iskandar Malaysia; and
- iii. Individual knowledge workers in Malaysia-China Kuantan Industrial Park.

In addition, the Government through the Pelan Jana Semula Ekonomi Negara (PENJANA) has announced tax incentive for manufacturing companies that relocate their operations to Malaysia with income tax rate at 0% for a period of up to 15 years.

It is proposed that:

- Individual income tax at a flat rate of 15% be given to non-citizens holding key positions / C-Suite positions for a period of 5 consecutive years.
- This tax incentive is limited to 5 non-resident individuals employed in each company that has been granted relocation tax incentive under the PENJANA initiative.
- Individuals that are approved the flat rate of 15% shall be:
 - i. receiving a monthly salary of not less than RM25,000; and
 - ii. a Malaysian tax resident for each year of assessment throughout the flat rate tax treatment.
- The incentive is granted for applications received by MIDA from 7 November 2020 until 31 December 2021.



Value-Added Activities in Free Industrial Zone (“FIZ”) and Licensed Manufacturing Warehouse (“LMW”)

Currently, companies operating in FIZ and LMW are allowed to perform value-added and additional activities. The current limit for such activities is 10% of the company’s annual sales value.

It is proposed that the current limit be increased to 40% of the company’s annual sales value on the value-added and additional activities. This is effective for new applications or applications to increase the sales value limit received from the Royal Malaysian Customs Department (“RMCD”) from 7 November 2020.

Tightening of Trading of Cigarette and Imposition of Excise Duty on Electronic Cigarette

To ensure that the government is able to recoup the loss of revenue from the sale of illicit cigarette and to level the playing field between cigarettes and electronic cigarettes, the Government has proposed the following changes: -

- No new import license for cigarettes will be issued.
- The renewal process for existing licenses to import cigarettes will be tightened with revised conditions, including the imposition of an importation quota.
- The transshipment of cigarettes will be limited to dedicated ports only.
- Taxes will be imposed on all imported cigarettes, with the availability of drawback facility for those meant for transshipment and re-export.
- Transshipment and re-exportation of cigarettes by small boats is not allowed.
- Taxes will be imposed on cigarette and tobacco products on all duty-free islands.
- 10% excise duty will be imposed on all types of electronic and non-electronic cigarette devices including vaping products.
- E-cigarette liquid or gel will be subject to excise duty at RM0.40 per millilitre.
- The above are to be effective from 1 January 2021.

Expansion of Tourism Tax to Accommodation Premises Booked Through Online Platform

It is proposed that effective from 1 July 2021, tourism tax of RM10 per night be imposed on accommodation premises booked via online platform operators.

Extension of Sales Tax Exemption on the Acquisition of Locally Assembled Buses by Bus Operators

It is proposed that the sales tax exemption granted on the acquisition of locally assembled buses including air conditioners by bus operators which was available until 31 December 2020 be extended to 31 December 2022

Review of Stamp Duty Exemption for the Purchase of First Residential Home

Currently, 100% stamp duty exemption is granted on the instrument of transfer and loan agreement for the first residential home by Malaysian citizen priced up to RM300,000. For the first residential home with purchase price exceeding RM300,000 up to RM500,000, the exemption is limited to the first RM300,000 of the value of the property, with the balance subjected to the prevailing rate of stamp duty.

This exemption is available for or sale and purchase agreement executed from 1 January 2019 to 31 December 2020.

It is proposed that:

- The stamp duty exemption limit be increased from RM300,000 to RM500,000.
- The above stamp duty exemption is extended for another 5 years i.e. for sale and purchase agreement executed from 1 January 2021 to 31 December 2025

Extension of Period of Stamp Duty Exemption to Revive Abandoned Housing Projects

To alleviate the financial burden borne by the original house purchasers and encourage the involvement of rescuing contractors/developers to revive the abandoned housing projects, stamp duty exemption is currently given on the following instruments (executed from 1 January 2013 to 31 December 2020):

- i. Rescuing Contractor/Developer
 - a. loan agreements to finance the revival of the abandoned housing projects; and
 - b. instruments of transfer of title for land and houses in abandoned housing
- ii. Original House Purchaser in the Abandoned Project:
 - a. loan agreements for additional financing; and
 - b. instruments of transfer of the houses.

It is proposed that the above stamp duty exemption be extended for another 5 years i.e. for loan agreements and instruments of transfer executed from 1 January 2021 to 31 December 2025 for abandoned housing projects certified by the Ministry of Housing and Local Government.

Extension of Period of Stamp Duty Exemption for Perlindungan Tenang Products

Stamp duty exemption period on the purchase of Perlindungan Tenang products covering life, fire and flood insurance with an annual premium or contribution value not exceeding RM100 be extended for another 5 years for insurance policies and takaful certificates issued from 1 January 2021 to 31 December 2025.

Extension of Period of Stamp Duty Exemption for Exchange Traded Fund

Stamp duty exemption period on contract notes for trading of Exchange Traded Fund (ETF) be extended for another 5 years i.e. for the trading of ETF executed from 1 January 2021 to 31 December 2025.

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Welcome to RSM Tax Webinar

RSM Tax Updates for Budget 2021



WEBINAR

RSM Tax Updates

Wednesday, 18 November 2020

10:00 am - 11:30 am (GMT +8:00) Kuala Lumpur

REGISTRATION

Please register yourself at the link below (latest by 17 November 2020)
Registration Link: <http://bit.ly/rsmtaxbudget2021>

ENQUIRIES

Please contact us if you have any questions relating to our webinar
Email: askus@rsmmalaysia.my



Limited slots available, so register early to avoid disappointments.

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