



# RSM 2020 BUDGET HIGHLIGHTS

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# EXECUTIVE SUMMARY

The Honourable Finance Minister, Mr. Lim Guan Eng tabled the 2020 Budget on 11 October 2019. The theme for the 2020 Budget is "Driving Growth and Equitable Outcomes Towards Shared Prosperity"

The four thrusts anchoring the 2020 Budget are:-

- (I) : Driving Economic Growth in the New Economy and Digital Era
- (II) : Investing in Malaysians: Levelling Up Human Capital
- (III) : Creating a United, Inclusive and Equitable Society
- (IV) : Revitalisation of Public Institutions and Finances

Overall, this Budget gives priority to crucial sectors for future development and delivers measures to promote equality, create jobs, raise productivity, revitalise growth and investments.

This highlight looks into the key changes affecting your business or industries. Please feel free to contact us if you require any clarification /information.

## I: PERSONAL TAX

### Review of individual tax rate

It is proposed that for individuals with chargeable income in excess of RM2 million, a new tax bracket of 30% is introduced.

The non- resident individual tax rate is also increased by 2% from 28% to 30%

*Effective from Year of Assessment (YA) 2020*

Comment:- 

To enhance the progressiveness of the personal tax structure.

### Increase in limit of tax relief for fees paid to childcare centers and kindergartens

With effect from Year of assessment 2017, tax relief up to RM1,000 is given to resident individuals who enrolls his/her children up to 6 years old in childcare centres / kindergartens registered with the Department of Social Welfare or Ministry of Education. The relief is only claimable by either parent of the child.

It is proposed that the individual tax relief be increased from RM1,000 to RM2,000

*Effective date from YA 2020*

Comment: - 

The objective of this proposal is to reduce the financial burden of parents in providing childcare and early childhood education

## Extension of tax exemption for women returning to work from career

Currently, income tax exemption on employment income for a maximum of 12 consecutive months is available for women who return to work after a career break. The exemption is eligible as a claim in YA 2018 – YA 2020.

It is proposed that the existing tax incentive be extended for a period of 4 years

*Effective date: For applications received by TalentCorp from 1 January 2020 to 31 December 2023*

## Extension of period of income tax deduction on Perbadanan Tabung Pendidikan Tinggi Nasional (PTPTN) loan amount paid by employers to employees

It is proposed that the tax incentive and hence the personal income tax exemption for the employees be extended for a further period of 2 years i.e. 1 January 2020 until 31 December 2021.

*Effective date from YA 2020 – 2021*

Comment: - 

The objective of this proposal is to encourage more employers to make PTPTN loan repayments on behalf of employees

## Donation to charitable and sports activities and projects of national interest

The cap on tax deduction to contributions for charitable and sports activities as well as projects of national interest is proposed to be increased from 7% to 10% of the aggregate income.

The tax deduction is also expanded to include the following:-

- Cash wakaf contribution to state religious authority or body established by the state religious authority to administer wakaf
- Cash wakaf contribution to public university approved by the state religious authority to receive wakaf;
- Cash endowment contribution to public university

*Effective date: Year of assessment 2020*

Comment:- 

The objective of this proposal is to support social enterprises which are involved in the uplifting of religious institutions and public universities

## Increase in minimum wage

It is proposed that minimum wage be increased to RM1,200 per month for “major cities” which have yet to define.

*Effective from year 2020*

## II: CORPORATE TAX

### Review of Corporate Income Tax Treatment for Small and Medium Enterprises (SMEs)

Currently, the first RM 500,000 chargeable income for company with paid-up capital or limited liability partnership with capital contribution of up to RM 2.5 million (SMEs) is subject to income tax rate of 17% and remaining chargeable income is taxed at 24%.

It is proposed that the first chargeable income which is subject to 17% tax rate be increased from RM 500,000 to RM 600,000 for SMEs having annual sales of not more than RM 50 million.

*Effective from YA 2020*

Comment:- 

This is to further support the growth of SMEs and be more competitive in the current challenging economic environment.

### Review of Capital Allowance for Small Value Assets (SVAs)

Currently, qualifying SVAs with value not exceeding RM 1,300 each are eligible for 100% capital allowance with a limit of up to RM 13,000 for each year of assessment. Such limitation does not apply to SMEs.

It is proposed that:

- i. the qualifying expenditure of each SVAs be increased from RM 1,300 to RM 2,000; and
- ii. the total qualifying expenditure in respect of SVAs for non-SMEs be increased from RM 13,000 to RM 20,000 for each year of assessment.

*Effective from YA 2020*

Comment:- 

The proposal is to improve the tax treatment for SVAs.

### Review of Tax Treatment for Expenses Incurred on Secretarial Fee and Tax Filing Fee

Currently, expenses incurred on secretarial fee and tax filing fee are eligible for tax deduction for each year of assessment as follows:-

- i. secretarial fee up to RM 5,000; and
- ii. tax filing fee up to RM 10,000.

It is proposed that the limit to for tax deduction on expenses incurred on secretarial fee and tax filing fee be combined and allowed up to RM 15,000 for each year of assessment.

*Effective from YA 2020*

Comment:- 

This is to enhance the tax compliance and to ensure good governance while providing flexibility to taxpayers.

## Tax Deduction on Cost of Listing in Bursa Malaysia

Currently, no tax deductions are given to expenses incurred for listing of a company in Primary Market (Main Board), Access Certainty, Efficiency (ACE) Market and Leading Entrepreneur Accelerator Platform (LEAP) Market in Bursa.

It is proposed that tax deduction of up to RM 1.5 million be given on the following listing costs:-

- i. fee to authorities;
- ii. professional fees; and
- iii. underwriting, placement and brokerage fees.

*Effective from YA 2020 to YA 2022*

Comment:- 

The proposal aims to assist technology-based companies and SMEs to grow their business by raising additional capital through listing in ACE Market or LEAP Market.

## Special Investment Incentive for Electrical and Electronic Sector

Currently, Electrical and Electronic (E&E) companies engaged in manufacturing activities are eligible for tax incentives under Promotion of Investment Act, 1986 and Reinvestment Allowance (RA) for 15 consecutive years of assessment for qualifying capital expenditure incurred on modernisation, expansion, diversification and automation. The special RA is given from the year of assessment 2016 to the year of assessment 2018 to companies which have exhausted the eligibility period of 15 consecutive years to claim RA.

It is proposed that:-

- (i) income tax exemption up to 10 years for E&E companies investing in selected knowledge-based services; and
- (ii) investment tax allowance of 50% on qualifying capital expenditure incurred within a period of 5 years to be set-off against 50% of statutory income.

*Effective for incentive (ii): For applications received by Malaysian Investment Development Authority from 1 January 2020 until 31 December 2021.*

Comment:- 

This proposal is to encourage continuous investment in Malaysia and to further promote high-value added activities in Electrical and Electronics industry to transition into 5G digital economy and Industry 4.0.

## Tax Incentive for Development of Intellectual Property

Currently, tax incentives provided for research and development (R&D) activities among others are as follows:-

- i. double deduction on in-house R&D expenditure approved by Inland Revenue Board of Malaysia;
- ii. double deduction on R&D contributions to approved research institutions or expenditures for R&D services obtained from approved institutions or research companies;
- iii. tax deduction for cost of acquisition of proprietary rights;
- iv. income tax exemption for companies that commercialise resource based and non-resource based R&D findings; and
- v. income tax exemption for R&D contract companies that provide R&D services.

It is proposed that income tax exemption of 100% up to 10 years be given to qualifying intellectual property income derived from patent and copyright software of qualifying activities. For the purpose of computation of income tax exemption, the Modified Nexus Approach will be adopted for this tax incentive.

*Effective: For applications received by Malaysian Investment Development Authority from 1 January 2020 until 31 December 2022.*

Comment:- 

The incentive is to continue enhancing Malaysia's R&D framework and to encourage intellectual property development activities.

## Review of Green Technology Incentive

It is proposed that:-

### i. Green Investment Tax Allowance (GITA)

Investment Tax Allowance of 100% on capital expenditure for qualifying green activity to be set off against 70% of statutory income is extended for 3 years until 31 December 2023.

### ii. Green Income Tax Exemption (GITE)

- A reduced income tax exemption of 70% on statutory income for qualifying green activities is extended for 3 years until year of assessment 2023.
- Income tax exemption of 70% of statutory income for a period of up to 10 years of assessment for solar leasing companies certified by Sustainable Energy Development Authority (SEDA).

*Effective for item (i): Applications received by Malaysian Investment Development Authority until 31 December 2023*

*Effective for item (ii): Applications received by Malaysian Investment Development Authority from 1 January 2020 until 31 December 2023.*

Comment:- 

This proposal is to encourage more transparent and competitive electricity market to ensure a lower cost of electricity for Malaysian consumers.

## Tax Incentive for Organising Conferences in Malaysia

Currently, income tax exemption of 100% statutory income is given to companies, associations or organisations in Malaysia whose main activities are promoting and organising conferences, subject to the organiser bringing in at least 500 foreign participants annually.

It is proposed that income tax exemption of 100% of statutory income be expanded to entities whose main activities are other than promotion and organising conferences provided that the organiser brings in at least 500 foreign participants annually.

*Effective from YA 2020 to YA 2025*

Comment:- 

This proposal is to support Visit Malaysia 2020 and to promote Malaysia as the preferred destination for hosting international conferences.

## Review of Tax Incentives for Automation

Currently, capital allowance on automation expenditure given to:-

- i. Category 1: High labour intensive industries (such as rubber products, plastics, wood furniture and textiles): Allowance of 200% on the first RM4 million capital expenditure incurred between YA 2015 to YA 2017.
- ii. Category 2: Other industries: Allowance of 200% on the first RM2 million expenditure incurred between YA 2015 to YA 2020.

Companies in both categories are also eligible for income tax exemption equivalent to 100% of the Accelerated Capital Allowance on automation equipment.

It is proposed that:

- i. the incentive period for Category 1 and Category 2 be extended for 3 years until year of assessment 2023; and
- ii. the scope of incentive for Category 2 be expanded to the services sector.

For item (i): For applications received by MIDA until 31 December 2023.

For item (ii): For applications received by MIDA from 1 January 2020 until 31 December 2023.

Comment:- 

The objective of this proposal is to promote automation and expand this relief to the services sector.

### III: REAL PROPERTY GAINS TAX

#### Review of Real Property Gains Tax (RPGT) Treatment

Currently, the market value as of 1 January 2000 is used as the acquisition price in computing the chargeable gain/loss for the disposal by Malaysian citizens and permanent residents of real properties acquired prior to year 2000.

It is proposed that the market value as of 1 January 2000 be replaced by market value as of 1 January 2013 as the acquisition price for the disposal of real properties acquired prior to year 2013 by Malaysian citizens and permanent residents.

*Effective for the disposal of real properties made from 12 October 2019*

Comment:- 

The proposal is to improve RPGT treatment on disposal of real properties by Malaysian citizens and permanent residents after 5 years from the acquisition date.

### IV: STAMP DUTY

#### Stamp Duty Exemption on Rent-to-Own (RTO) Scheme

Under the RTO scheme, a financial institution will buy the house that has been identified by the tenant from the housing developer. The house will be rented to the tenant for up to 5 years and after the first year, the tenant will have the option to purchase the house based on the price fixed at the time the tenancy agreement is signed.

Currently, stamp duty at ad valorem rate of 1% – 4% is imposed on instrument of transfer of first residential home at two levels:-

- i. from housing developer to financial institution; and
- ii. from financial institution to buyer.

It is proposed that full stamp duty exemption be given on the above types of transfer for first residential home priced up to RM 500,000, as follows:

Type of transfer	Effective Date
From housing developer to financial institution	<b>For sales and purchase agreement executed from 1 January 2020 to 31 December 2022</b>
From financial institution to buyer	<b>For rental agreement executed from 1 January 2020 to 31 December 2022</b>

The above stamp duty exemption is subject to:-

- i. Financial institutions – to obtain approval from Bank Negara Malaysia; and
- ii. Housing developers – to register with National Housing Department, Ministry of Housing and Local Government.

Comment:- 

The proposal is to assist first home ownership who are unable to pay 10% deposit and to secure banking facilities.



## Stamp Duty Remission for Transfer of Property by way of Love and Affection

Currently, for transfer of real property from parents to children and vice versa by way of love and affection, stamp duty is remitted at 50% and this remission is given to both Malaysian citizens and non-citizens.

It is proposed that the existing stamp duty remission of 50% on the instrument of transfer of real property from parents to children and vice versa by way of love and affection is restricted to Malaysian citizens only.

*Effective for instrument of transfer of real property executed from 1 January 2020*

## Review of Stamp Duty on Foreign Currency Loan Agreement

Currently, the conventional and Shariah-compliant loan agreements in foreign currency are subject to stamp duty at ad valorem rate of RM 5 for every RM 1,000 of the loan amount. However, the total duty payable shall not exceed RM 500.

It is proposed that the maximum amount of stamp duty on foreign currency loan agreements be increased from RM 500 to RM 2,000.

*Effective for loan agreements executed from 1 January 2020*

## V: INDIRECT TAXES

### Review of Export Duty Rate on Crude Palm Oil (CPO)

The existing export duty rate (effective 01 January 2013) of Crude Palm Oil (CPO) against the proposed duty rates based on the Budget 2020 are as follows: -

CPO Market Price (FOB RM/tonne)	Current Export duty rate (%)	New Export duty rate (%)
< 2,250	NIL	NIL
2,250 – 2,400	4.5	3.0
2,401 – 2,550	5.0	4.5
2,551 – 2,700	5.5	5.0
2,701 – 2,805	6.5	6.0
2,851 – 3,000	7.0	6.5
3,001 – 3,150	7.5	7.0
3,151 – 3,300	7.5	7.0
3,301 – 3,450	8.0	7.5
> 3,450	8.5	8.0

*Effective from 1 January 2020*

Comments: - 

The reduction in the export duty rate of CPO is to promote the current low demand of CPO globally.

## Introduction of Approved Major Exporter Scheme Under the Sales Tax Act 2018

It is proposed that the new scheme will grant full sales tax exemption to approved traders and manufacturers of exempted goods on importation and purchase of goods or raw materials, components and packaging materials.

The approved traders and manufacturers of exempted goods are also not required to determine the quantity of goods to be exported at the time of importation or purchase of goods.

However, in order to qualify for the scheme, at least 80% of annual sales must be exported.

*Effective from 1 July 2020*

Comment: - 

This proposed scheme is to improve the existing drawback and exemption facilities.

## Improvement on Group Relief Facility Under Service Tax

It is proposed that Group relief be allowed for taxable services under Group G, Professional (except employment and security services) provided to a third party who is not within the same group of companies.

In order for the company to qualify for this facility, the value of services provided to the third party should not exceed 5% of the total value of services provided by that company within 12 months

*Effective from 1 January 2020*

Comment: - 

Companies who qualify for the group relief facility are required to monitor and ensure that the value of taxable services provided to third party does not exceed 5% of the total value of services provided within 12 months.

## Service Tax Exemption on Provision of Training and Coaching Services for Disabled Person

It is proposed that service tax exemption be given on training and coaching services provided by the following service providers to disabled persons with hearing, visual, physical, speech, mental, and learning disabilities:

- i. Training and coaching centres registered with the Ministry of Health Malaysia or Department of Social Welfare; or
- ii. Training and coaching centres endorsed by any national association for disabled persons registered with the Registrar of Societies Malaysia.

*Effective from 1 January 2020*

Comment: - 

The exemption is to reduce the cost burden for disabled persons seeking training and coaching services.

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