



# Tax Whiz

**Tax highlights from your advisers**

**National Economic Recovery Plan**

KPMG in Malaysia

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5 June 2020



# National Economic Recovery Plan ("NERP") – "Building the Economy Together"

Resolve, Resilience, Restart, Recovery, Revitalize and Reform – The 6R approach to Malaysia's response to the impact of COVID-19. We have been in COVID-19 crisis mode for close to 3 months. Thanks to measures initiated by the Government, we can be extremely proud to say that we have weathered its drastic impact better than most. With more than 80% of all cases having fully recovered, we are extremely thankful to the front liners who have battled tirelessly to keep us safe.

We are now in the 4th phase of the 6 step approach – Recovery and our honorable Prime Minister, Tan Sri Muhyiddin Yassin announced the National Economic Recovery Plan or PENJANA on 5 June 2020. As many as 40 initiatives were announced involving some RM35 billion, out of which RM10 billion will be direct from Government funds.

Significant recovery measures are crucial given that the global economy is being projected to shrink for the first time since the Great Depression of the 1930s. Malaysia itself is forecasting its overall GDP growth for 2020 to be as low as -4.7%.

The focus on 3 key thrusts – Empower People, Propel Businesses and Stimulate the Economy, are certainly key directions we as Malaysians will hope and pray, leads us to the road of recovery in the "New Normal". Initiatives to upskill our workforce, digitalize our businesses and adopt radical changes to life, work and commerce are desirable outcomes that we cannot merely hope for, but rather must achieve in order to prosper in this "New Normal".

Not surprisingly, SMEs and Micro Enterprises, which make up 98.5% of the business population in Malaysia, are the main focus for the stimulus announced. Numerous grants and soft loans are being targeted at this sector of the economy as well as incentives to hire, retrain and upskill the unemployed and youth to sustain Malaysian business and the rakyat. The move to push the digitalization agenda is also much needed in order to enable businesses to thrive and not be left behind.

Support continues to be provided to the tourism sector, arguably the worst hit of them all. News of hotels and other tourism operators closing down has been so depressing and one must feel for these businesses and their employees who are so adversely affected.

Amidst all these measures for local businesses and the Rakyat, the Government has not forgotten the need to stimulate and attract investments and hence, the move to entice multinationals to invest in Malaysia must be applauded. In fact, the incentives just announced can even be said to be superior to those that are currently available. It is however absolutely crucial that clear and unambiguous guidelines are issued rapidly so that these multinationals can have ample time to consider our offerings and we are able to court them successfully.

A slew of tax incentives has also been announced under PENJANA that are expected to provide relief to individuals and businesses alike. My team has prepared a summary of these key measures and I am pleased to set them out in the following pages for your reading pleasure.

Stay Safe and my best regards to you.



**Tai Lai Kok**

Executive Director – Head of Tax  
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# NERP Highlights

## CORPORATE TAX

### 1 Tax Incentives for Small and Medium Enterprises ("SMEs")

- An SME established and in operations between 1 July 2020 and 31 December 2021 will be given an annual income tax rebate of up to RM20,000 for the first 3 Years of Assessment ("YAs").
- With the recent closure of many businesses due to the economic downturn, this tax relief should provide encouragement needed for new businesses to emerge and for existing businesses to diversify into more profitable sectors in these trying times.

### 2 Relocation of Companies / Overseas Manufacturing Facilities into Malaysia

- Foreign companies that relocate their business operations into Malaysia and have made new investments in the manufacturing industry will be taxed at a rate of 0% for the following periods:
  - a) 10 years for capital investment between RM300 million to RM500 million
  - b) 15 years for capital investment above RM500 million

provided that the companies relocate and commence their operations within 1 year from the date of approval and the committed capital investment is made within 3 years.
- An existing company in Malaysia would be granted a 100% investment tax allowance for a period of 5 years if it relocates its overseas manufacturing facilities back into Malaysia.
- Both incentives apply to applications made from 1 July 2020 to 31 December 2021. For applications made before 1 July 2020, it remains to be seen if similar incentives would apply.
- As the focus is on stimulating investment, it is hoped that similar incentives can also be considered for the services sector, which plays an equally important role in the health of the Malaysian economy.



# NERP Highlights (Cont'd)

## CORPORATE TAX (CONT'D)

### 3 | **Special Reinvestment Allowance ("RA") for Manufacturing and Selected Agriculture Activity**

- Presently, RA is available for existing companies engaged in manufacturing and selected agricultural activities that reinvest for the purposes of expansion, automation, modernisation or diversification, subject to meeting the prescribed conditions.
- Special RA will be given to the above companies whose RA incentive period has expired and continue reinvesting in YA 2020 and YA 2021.

### 4 | **Deduction / Capital Allowance on Covid-19 Related Expenses**

- All businesses are entitled to claim tax deductions or capital allowances on expenses incurred on Covid-19 testing, personal protective equipment ("PPE") and thermal scanners.
- The above would be a follow up on the Economic Stimulus Package 2020 ("ESP 2020") where companies are entitled to claim tax deductions on expenses for provision of disposable PPE and capital allowance on non-disposal PPE.

### 5 | **Further Tax Deduction for Employers which Adopt Flexible Work Arrangements ("FWAs")**

- Employers which implement FWAs (such as work-from-home arrangements) or undertake enhancement of their existing FWAs will be given further tax deduction effective 1 July 2020.
- It is uncertain at this point what type of expenses would qualify for the further tax deduction mentioned above and in what form these deductions would be.

### 6 | **Remission of Penalty for Late Payment of Taxes**

- It was announced in the NERP Speech that there would be a remission of penalty for the late payment of taxes. However, the booklet published by the Ministry of Finance ("MOF") narrows down the scope of remission to only include a 50% remission of penalty for the late payment of sales tax and service tax which is due and payable from 1 July 2020 to 30 September 2020. Further clarification would need to be sought on the details of the remission and whether it may be extended to individual or corporate income taxes and this will be subject to the release of the gazette rules.

# NERP Highlights (Cont'd)

## CORPORATE TAX (CONT'D)

### 7 Extension of Period for Current / Proposed Tax Incentives Introduced in the ESP 2020 and PRIHATIN Packages

No.	Current / Proposed Tax Incentives	Extension of Period
1.	Deferment of tax instalment payments for tourism industry for 6 months from 1 April 2020 to 30 September 2020	Extended to 31 December 2020
2.	Special tax deduction for rental reduction of at least 30% on business premises rented to SMEs from April 2020 to June 2020	Extended to 30 September 2020
3.	Special tax deduction of up to RM300,000 for renovation and refurbishment expenses of business premises from 1 March 2020 to 31 December 2020	Extended to 31 December 2021
4.	Accelerated capital allowance (annual allowance of 40%) in respect of qualifying capital expenditure incurred on machinery and equipment, including information and communication technology equipment from 1 March 2020 to 31 December 2020	Extended to 31 December 2021

The relevant gazette orders required for items 2 to 4 have yet to be issued.

# NERP Highlights (Cont'd)

## STAMP DUTY AND REAL PROPERTY GAINS TAX

- 1 **Stamp Duty Exemption for SMEs on Instruments Executed for Mergers and Acquisitions**
  - Stamp duty exemption will be given on instruments executed by SMEs for mergers and acquisitions taking place between 1 July 2020 and 30 June 2021.
  - Corporations which are affected by the COVID-19 pandemic may be compelled to restructure their businesses and undertake mergers and acquisitions. The Government should consider extending the stamp duty exemption to all corporations instead of limiting it to SMEs only.
  
- 2 **Stamp Duty Exemption on Instrument of Transfer and Loan Agreement for the Purchase of Residential Houses**
  - Stamp duty exemption will be given for residential houses priced between RM300,000 to RM2.5 million (subject to at least 10% discount provided by the developer) as follows:
    - a) Instrument of transfer: limited to the first RM1 million of the house price
    - b) Loan agreement: full stamp duty exemption

provided that the sales and purchase agreements are signed between 1 June 2020 and 31 May 2021.
  - These benefits for the property sector are indeed welcome as the sector was not provided with any stimulus in the previous PRIHATIN packages.
  
- 3 **Real Property Gains Tax Exemption for Disposal of Residential Houses**
  - Real property gains tax on gains arising from the disposal of residential houses by an individual who is a Malaysian citizen between 1 June 2020 and 31 December 2021 is exempted.
  - The exemption is limited to the disposal of three (3) units of residential houses for each individual.
  - This measure will help to stimulate the property sector and encourage property transactions. As an added benefit, it will also provide financial relief to Malaysian citizens who may be forced to dispose of their residential houses during this period.



# NERP Highlights (Cont'd)

## INDIVIDUAL TAX

### 1 Income Tax Exemption

- Individual income tax exemption of up to RM5,000 will be given to employees who receive a handphone, notebook and tablet from their employer effective 1 July 2020.
- Whilst the exemption will apply for YA 2020, it is uncertain whether it will be extended to YA 2021 and subsequent YAs.
- Currently, there is an individual tax exemption granted on benefits or gift of handphone (restricted to one unit) to employees. With the above proposal, effective 1 July 2020, the tax exemption should be extended to notebook and tablet but capped at RM5,000.

### 2 Income Tax Relief

- Income tax relief for parents on the fees paid to childcare centres or kindergartens will be increased from RM2,000 to RM3,000 for YA 2020 and YA 2021.
- The childcare centres must be registered with the Director General of Social Welfare under the Child Care Centre Act 1984 and the kindergartens must be registered with the Department of Social Welfare or the Ministry of Education.

### 3 Special Tax Relief

- Special tax relief of up to RM2,500 will be given on the purchase of handphone, notebook and tablet effective 1 June 2020.
- Whilst the special tax relief will apply for YA 2020, it is uncertain whether it will be extended to YA 2021 and subsequent YAs.
- Currently, the cost of purchase of handphone, notebook and tablet is claimed as part of the lifestyle relief of RM2,500. It appears from the NERP that effective 1 June 2020, the above purchases can be claimed separately up to another RM2,500.

### 4 Relief on Travel Expenses

- Personal income tax relief of RM1,000 on travel expenses incurred from 1 March 2020 to 31 August 2020 is extended to 31 December 2021.

# NERP Highlights (Cont'd)

## INDIRECT TAX

### 1 Sales Tax Exemption on Passenger Cars

- There will be Sales Tax exemption of:-
  - a) 100% on locally assembled passenger cars; and
  - b) 50% on imported passenger cars
 from **15 June 2020 to 31 December 2020**.
- This is an initiative to boost the national automotive industry and proper planning of stock/ pricing for manufacturers and distributors would be crucial during this exemption period. It remains to be seen whether there is avenue to claim back Sales Tax paid on stocks on hand.

### 2 Tourism Tax Exemption

- Accommodation premise operators will be exempted from charging Tourism Tax from **1 July 2020 to 30 June 2021**.

### 3 Extension of Service Tax Exemption for Hotels and Other Similar Establishments

- The provision of accommodation and related services by accommodation premise operators which is exempted from Service Tax from 1 March 2020 to 31 August 2020 will be extended to **30 June 2021**.
- Accommodation premise operators should refer to Service Tax Policy 9/2020 issued by the Royal Malaysian Customs Department ("RMCD") for more details on the services exempted as well as transitional rules.





# NERP Highlights (Cont'd)

## INDIRECT TAX (CONT'D)

### 4 Remission of Late Payment Penalty

- Currently, for payment of tax to the RMCD which is due on 31 March 2020, 30 April 2020 and 31 May 2020, any associated penalty will be remitted in full provided the payment is received by the RMCD on or before 30 June 2020.
- For Sales Tax and Service Tax due on **1 July 2020 to 30 September 2020**, 50% of the late payment penalty will be remitted.
- It appears that the remission of late payment penalty for tax due in June 2020 has been omitted. It is hoped that this will be clarified in the RMCD's official announcement.

### 5 Export Duty Exemption

- 100% export duty exemption will be given on crude palm oil, crude palm kernel oil and refined bleached deodorized palm kernel oil from **1 July 2020 to 31 December 2020**.

# NERP Highlights (Cont'd)

## OTHERS

### 1 Extension of Wage Subsidy Programme

One of the highlights to employers in the PRIHATIN package announced on 27 March 2020 was the wage subsidy programme. An additional RM5 billion is now being allocated to extend the programme as follows:-

- The current wage subsidy programme is for a period of three (3) months effective from 1 April 2020 or the month in which the application was submitted.

The wage subsidy programme will be extended further for three (3) months.

However, the wage subsidy during the extension period is fixed at RM600 per employee per month (up to 200 employees for all eligible employers).

#### Enhancement of Wage Subsidy Programme

- For tourism sectors and businesses which are prohibited from operating during the Conditional Movement Control Order period, employers can apply for wage subsidy for employees who have been instructed to take unpaid leave, subject to employees receiving the wage subsidy directly.
- Employers receiving wage subsidy are now allowed to implement reduced work week (e.g. 4-day work week with a reduced pay of 20%) and reduced pay (the maximum allowable reduced pay is 30%).

The extension and enhancement of the wage subsidy programme is much welcomed and will assist employers and employees who are facing financial constraints.

It is expected that all other conditions set earlier by the Government in respect of the wage subsidy programme should continue to apply. However, one should check the PERKESO FAQ at <https://www.perkeso.gov.my> for updates on the matter.



# NERP Highlights (Cont'd)

## OTHERS (CONT'D)

### 2 Incentives for Hiring Unemployed Workers and Youth

- The following incentives for hiring of unemployed workers and youth have been introduced for businesses:-

Category	Incentive	Duration
Unemployed workers below 40 years old	RM800 per month	Up to 6 months
Unemployed workers 40 years old and above / those who have special needs	RM1,000 per month	Up to 6 months
Retrenched employees not covered under the Employment Insurance System	Training allowance of up to RM4,000 per individual	-
Apprenticeships for school leavers and graduates	RM600 per month	Up to 6 months

Applications for the above incentives will open from mid June to end December 2020.

The comments above are based on the Prime Minister's NERP Speech and the MOF's Booklet entitled "PENJANA – Building the Economy Together" which was released from Embargo on 5 June 2020 and hence are subject to the release of the relevant gazette orders.

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