Tax e-Alert
@14 Oct 2023

2024 Budget:
Tax Implications on Businesses

The Prime Minister cum Finance Minister of Malaysia tabled the 2024 Budget in the Parliament yesterday.

Here is an overview of key tax proposals in the Budget announcement.

1 Additional Taxes

- ✓ Service Tax increased to 8%
- ✓ Capital Gains Tax of 10% from March 2024
- ✓ Luxury Goods Tax of 5% to 10%
- ✓ Global Minimum Tax of 15% from year 2025

2 Strengthening Collection of Existing Taxes

- ✓ Implementation of e-Invoice from August 2024
- ✓ Enhanced enforcement on smuggling of cigarettes and liquor

3 Tax Incentives

- ✓ Investment Tax Allowance ("ITA") for reinvestment in high-value activities
- ✓ Accelerated Capital Allowance for Information and Communications Technology ("ICT") equipment and software
- ✓ Renewal and improvement of personal reliefs
- ✓ Extension of incentive for women returning from career break

This e-Alert outlines details of key tax proposals and their impact on businesses.

1. Implementation of e-Invoice from August 2024

In the last decade, many countries have rolled out e-Invoicing. Malaysia is also joining the league from 1st August 2024, starting with businesses with annual turnover exceeding RM100 million.

Here are four (4) pertinent characteristics about Malaysia's e-Invoice model:

i. It is a clearance model, i.e. prior to issuance of any invoice to customer, the supplier is required to submit some 51 fields to the Inland Revenue Board of Malaysia ("IRBM") for validation. Upon *validation* by IRBM, the vendor is required to embed a *QR code* on the invoice prior to sharing the validated e-Invoice with the customer.

ii. The scope covers Business-to-Business ("*B2B*") transactions, Business-to-Government ("*B2G*") transactions as well as Business-to-Consumer ("*B2C*") transactions. Exemptions are available for certain B2C transactions, but even in those cases the vendors must be prepared to issue an e-Invoice upon request by the customer.

iii. There is a requirement for *self-billed e-Invoice* to be raised for invoices received from foreign vendors (for purchase of goods and services) and for local acquisitions from individuals who are not conducting a business. Hence, businesses should look at both billing and *accounts payable transactions*. In fact, the scope also covers a wide range of transactions such as *staff claims* on business expenses to *receipt of dividends* from foreign subsidiaries.

iv. Successful implementation of e-Invoicing requires a *multidisciplinary* team of finance personnel, IT personnel, project managers and various stakeholders to collaborate. This implementation can bring *commercial benefits* in addition to meeting regulatory requirements.

2. Capital Gains Tax from March 2024

In February 2023, the Government announced plans to implement Capital Gains Tax ("CGT") on gains arising from disposal of *shares of unlisted companies*.

The 2024 Budget announcement provides further clarification as follows:

Effective Date: 1st March 2024

Tax Rate:

Acquisition Date	*Disposal Date*	*Tax Rate*
1st March 2024 or later	1st March 2024 or later	10% on net gain
Prior to 1st March 2024	1st March 2024 or later	The taxpayer may choose to pay either: (i) 10% on net gain; or (ii) 2% on gross sales value

Exemptions:

(i) Initial Public Offering ("IPO") approved by Bursa Malaysia

(ii) Restructuring within the same group

The Budget announcement is *silent* as to whether CGT would also apply on gains arising from disposal of *foreign assets*, for example shares of a foreign company. Given the European Union ("EU") scrutiny, Hong Kong and Singapore would be imposing CGT on disposal of foreign assets in 2024. Malaysia's position would be clear only when the Finance Bill is tabled in the parliament.

Also, the February 2023 announcement expressly stated that CGT would apply only if the disposer is a company. Yesterday's announcement is silent. This too would be clear once the Finance Bill is made public.

3. New Tax Incentives for Reinvestment and Global Services Hub

There are two (2) new tax incentives announced, as summarised below:

i. In line with the New Industrial Master Plan 2030, reinvestments in high-value activities are given an Investment Tax Allowance ("ITA") of 60% or 100% of qualifying capital expenditure. This ITA is subject to approval, for which applications may be made to Malaysian Investment Development Authority ("MIDA") from 1st January 2024 to 31st December 2028. The ITA rate (60% or 100%) is determined by outcome-based approach.

ii. Global Services Hub that carries out activities such as strategic business planning, corporate development and business unit management are granted concessionary tax rate of 5% or 10% (determined by outcome-based approach) on service income and, if applicable, trading income for a period of up to ten (10) years. This incentive is subject to approval, for which applications may be submitted to MIDA by end of the year 2027.

4. Implementation of Global Minimum Tax deferred to year 2025

In line with the Global Minimum Tax ("GMT") initiatives of G20 and OECD, it was initially announced that Malaysia would implement Qualified Domestic Minimum Top-Up Tax ("QDMTT") in year 2024. Yesterday's announcement has made it clear that the implementation is deferred to year 2025.

This would allow the Government to identify and assess its strategy to remain competitive in attracting investments. In the meantime, Malaysian subsidiaries of Groups with consolidated annual revenue of at least EUR750 million should be mindful of the consequences of having a parent company in a jurisdiction which commences GMT implementation in year 2024.

Any time available should be carefully utilised for *impact assessment* and to assess *data and technology readiness*.

5. Widening of Service Tax

Since the repeal of multi-stage Goods and Services Tax ("GST") in 2018, Malaysia has implemented the single-stage Sales Tax and Service Tax (collectively abbreviated as "SST").

Service Tax presently applies to an exhaustive list of services at a rate of 6%. The 2024 Budget proposes to *increase the rate of tax from 6% to 8%*. While this is an additional cost to the consumers, the implications are certainly not as far-reaching as reintroduction of GST. Further, the rate of 6% is maintained for certain basic needs such as Food and Beverage ("F&B") and telecommunication.

Concurrently, the scope of Service Tax is widened to include *logistics, brokerage, underwriting and karaoke*.

These initiatives are expected to raise additional RM3.45 billion for the Government for the fiscal year 2024.

Businesses should prepare for the change. While the change may be straightforward for some businesses, more thorough preparation may be required by others. For example, hotel operators would have to ensure their billing system is able to cope with a dual service tax rate; 8% for lodging and 6% for F&B bills.

6. Liberalisation of Tax Exemption for NGOs

Many of the NGOs operating in Malaysia are approved by the tax authority pursuant to Section 44(6) of Income Tax Act 1967. This approval allows the NGOs to enjoy an exemption on any income that accrues to the NGO and allows the donors to enjoy tax deductions on their contributions. The following liberalisations are being made to Section 44(6) regime effective from Year of Assessment ("YA") 2024:

Conditions	*Up to YA 2023*	*YA 2024 onwards*
Limit on the percentage of accumulated fund allowed to be utilised in participation of business activities	25%	35%
Threshold of charitable activity expenditure	At least 50%	50% or 60%, depending on the utilisation of accumulated funds

Further, it has been clarified that in the event of breach of conditions, the consequences would be limited to the NGO losing its tax exemption. The donor's eligibility for tax deduction would not be affected. This move is welcomed as it ensures that the donors are not penalised for matters that are beyond their control.

7. Other Corporate Tax Measures

Below is a summary of other corporate tax measures in the Budget announcement:

- Tax deduction of up to RM50,000 for YAs 2024 to 2027 for expenses incurred in relation to *ESG reporting, e-Invoicing implementation, transfer pricing documentation* and reports related to *Tax Corporate Governance Framework ("TCGF")*.

- Capital allowance on *ICT equipment and software* (license and customized software) is granted at accelerated rates of 40% for initial allowance and 20% for annual allowance. This is effective from YA 2024.

- The scope of automation capital allowance (and the related accelerated capital allowance) is widened to include the *commodity sector*. This applies to applications received by 31st December 2027.

- The tax deduction up to RM300,000 on *lease payments* of Electric Vehicles ("*EVs*") is extended up to YA 2027. Such concession, however, does not apply in respect of capital allowance on purchased EVs.

- The green tax incentives (Green Investment Tax Allowance ("GITA") and Green Income Tax Exemption ("GITE")) are *extended* to cover applications received/verified by end of 2026. The rate of incentive is tiered. Also, the scope of qualifying activities is widened to cover green hydrogen and wind energy.

- Tax deduction on issuance cost of Sustainable and Responsible Investment ("SRI") sukuk is *extended* until YA 2027.

- Tax exemption on management fee income of companies managing SRI funds is *extended* until YA 2027.

- Widening of scope of income tax exemption on SRI Sukuk Grant and Bond Grant Scheme to include SRI-Linked Sukuk Grants and Bonds issued under the ASEAN Sustainability-Linked Bond Standards (“ASEAN SLBS”).

- The income tax exemption on statutory income from fund management services of Shariah-compliant fund management services companies is *extended* until YA 2027, but the rate of exemption is reduced to 60% of the income.

- Income tax exemption for Social Enterprises is *extended* until 31st December 2025.

- The tax incentive given to investors of equity crowdfunding is *extended* until end of the year 2026 with a *wider* scope that includes individual investors who invest through Limited Liability Partnership nominee company.

- The tax exemption for Angel Investors investing in a tech start-up company is *extended* until the end of 2026.

- Full income tax exemption for a period of five (5) years for *Labuan entities* that undertakes *Islamic financial-related trading activities* such as Islamic digital banking, Islamic digital bourses, *ummah*-related companies and Islamic digital token issuers. This incentive is effective from YAs 2024 to 2028.

- Tax deduction for entities contributing or sponsoring activities related to tree planting projects or environmental preservation and conservation awareness projects verified by Forest Research

Institute of Malaysia ("FRIM"). This incentive is applicable only for applications received by the Ministry of Finance from 1st January 2024 to 31st December 2026.

- Further tax deduction of up to RM300,000 for the expenses associated with the Development and Measurement, Reporting, and Verification ("*MRV*") of carbon projects. This incentive is applicable only for applications received by the Malaysia Green Technology and Climate Change Corporation ("MGTC") from 1st January 2024 to 31st December 2026.

- The choice of special tax rate for ITA relation to investments to turn *Pengerang Integrated Petroleum Complex ("PIPC")* into a development hub for the chemical and petrochemical sector.

- Exemption of income tax on income derived from Islamic Securities Selling and Buying ("ISSB") effective from YA 2024.

8. Indirect Tax Measures

- Scope of Sales Tax exemption on costs incurred by manufacturers is widened to include *manufacturing aids* such as jigs and consumables. This move which is effective from 1st January 2024 alleviates hidden taxation.

- Introduction of *Luxury Goods Tax* in year 2024 at a tax rate of 5% to 10% on the value of items such as jewellery and watches that exceed a pre-determined threshold to be considered as luxury.

- Excise duty on *sugar sweetened beverages* is increased from RM0.40 per litre to RM0.50 per litre effective 1st January 2024.

- Excise duty on *chewing tobacco* is introduced at a rate of 5% of product's value plus RM27 per kilogram effective 1st January 2024.

- Tightening of the *smuggling control measures* on illegal cigarettes and liquor products. This includes new restrictions on transhipment of liquor and requirement for cigarettes import activities to be carried out on a full container load. Further, rewards are offered for enforcement agencies amid proposal to establish a *single border agency*.

- *Entertainment duty* for Federal Territories (Kuala Lumpur, Putrajaya and Labuan) is reduced from the standard 25% to:
  - ✓ 10% for stage performance by international artist, light show, circus, cinema, exhibition, zoo, aquarium, sports event, e-sports, bowling, snooker, pool, billiard and karaoke.
  - ✓ 5% for theme park, family recreation centre, indoor games centre and simulator.
  - ✓ Zero percent for stage performance by local artist.

  This is applicable for applications received by the Ministry of Finance from 1st January 2024 to 31st December 2028. The entertainment duty reduction in other states is subject to the policy of the respective state government.

9. Personal Tax Measures

- Personal relief up to RM1,000 for *dental examination and treatment* expenses effective YA 2024. This is part of the existing RM10,000 relief for medical expenses.

- Personal relief up to RM1,000 for *full medical examination for parents* effective YA 2024. This is part of the existing RM8,000 relief for parents' medical expenses.

- Streamline personal reliefs for lifestyle and sports activities, which involves inclusion of fees for self-skills enhancement course in the scope of relief and increase of relief for sports activities from RM500 to RM1,000. These changes are effective from YA 2024.

- The personal relief for *up-skilling and self-enhancement course* fees up to RM2,000 is extended until YA 2026.

- The personal relief of RM2,500 for installation, rental, purchasing including hire-purchase equipment / subscription fees for *EVs* is extended until YA 2027.

- Tax exemption for employees on *childcare allowances* is increased to RM3,000 effective YA 2024.

- The 12-month tax exemption given to *women under career comeback programme* is extended for applications received by 31st December 2027.

- The *returning expert programme* which offers flat income tax rate of 15% on employment income and excise duty exemption on vehicles (limited to CKD vehicles) is extended to include applications received by Talent Corp by 31st December 2027.

- Exemption of income tax on income derived from Islamic Securities Selling and Buying ("ISSB") effective from YA 2024.

10. Stamp Duty Measures

- As part of property price control mechanism, foreign companies and *non-citizen* individuals are imposed a *flat 4% stamp duty* on purchase of property (instead of progressive rate of 1% to 4% imposed for Malaysians).

- For transfer of property ownership by way of *renunciation of rights* by an eligible beneficiary (in relation to an inheritance) to another eligible beneficiary only a *nominal* RM10 would be imposed instead of ad valorem duty. This change is effective from 1st January 2024.

IMPORTANT NOTE: This e-Alert is prepared based on the Budget speech and appendices, which are generic. The technical details would only be known upon release of the Finance Bill.

Complimentary Budget Webinar

To know more, register for our complimentary budget webinar on 20th October 2023 at 10:00 to 12:00 at https://us06web.zoom.us/webinar/register/WN_F3u5uorzSEqeqBDo0IDxJw