

Take 5

for business

Volume 8 Issue 9 - 6 November 2020

Malaysia
Budget 2021

EY

Building a better
working world

“

I am encouraged to note that the development of the Budget has been underpinned by the key principles of unity, resilience and sustainable growth which are aligned to the 17 Sustainable Development Goals set by the United Nations. There are decisive and transparent steps to support the *rakyat* in braving the immediate challenges as well as addressing the longer term goal of moving Malaysia towards a prosperous, sustainable and inclusive future.

These resonate deeply with all of us at EY as they are aligned to our purpose of Building a Better Working World and our ambition of creating long-term value for our people, clients and community.

Dato' Abdul Rauf Rashid
EY Asean Assurance Leader
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Budget 2021 overview

At RM322.5b, Budget 2021 is the largest budget in Malaysian history and generally did not see any new taxes being proposed or any existing taxes being increased. It is a fit-for-purpose Budget which meets the immediate needs of the country to encourage recovery, growth and investment. It is now key to monitor and measure the implementation of the Budget closely against the desired objectives. As we saw at the beginning of this year, the COVID-19 pandemic has created significant uncertainties and economic conditions may change very rapidly. As such, the Government needs to be agile and prepared to revisit and supplement the Budget measures as and when necessary.

Budget 2021 continues to address the immediate needs of the most vulnerable, through continuation of targeted stimulus measures, especially for the B40 group. As a result of the stimulus packages and the Budget 2021 proposals, the Government expects the economy to grow by between 6.5% and 7.5% in 2021, representing a significant improvement from the projected contraction of 4.5% in 2020.

To spur this growth, the Government has proposed various new and enhanced incentives designed to make Malaysia more attractive to foreign investors. On this, we saw a proposed extension of the Principal Hub incentive with relaxed conditions and the introduction of a new Global Trading Centre incentive. The PENJANA proposal of a preferential tax rate for selected manufacturers has also been extended to 2022 and the scope has been extended to cover selected services, particularly high technology, research and development and medical-related services. These proposals, combined with the proposed relaxation to the licensed manufacturing warehouse and free zone regimes, will certainly enhance Malaysia's attractiveness, particularly as a supply chain hub.

The Government continues to take a strategic long-term view by providing the highest allocation of the Budget to the education sector for the third year in a row. The allocation for development expenditure is also encouraging, at more than 40% of public expenditure, the highest in 10 years. The development expenditure budget sees RM15b allocated for key infrastructure projects such as the Pan-Borneo highway, the Gemas-Johor Bharu double-tracking and electrification project, and Phase 1 of the Klang Valley Double Track project, to spur spending in the short term. The building of a strong infrastructure network, including an upgrade of broadband infrastructure, is also noteworthy.

Yeo Eng Ping

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Perspectives: Attracting FDI and positioning Malaysia in the global supply chain

Sensing an opportunity from the global realignment of supply chains as a result of trade tensions and the COVID-19 pandemic, Malaysia introduced generous tax incentive packages under the Pelan Jana Semula Ekonomi Negara (PENJANA), to encourage companies to relocate manufacturing operations and make significant investments in Malaysia. Budget 2021 continues on this theme by relaxing qualifying conditions for a key incentive, expanding existing incentives and introducing new incentives for key sectors.

1 Relaxation of tax incentive conditions for Principal Hub (PH) and new incentive for Global Trading Centre (GTC)

PH is a broad incentive to position Malaysia as a regional or global hub to conduct strategic management, control and support functions. It is proposed that the application period for this incentive be extended for two years until 31 December 2022. It has also been proposed that the current qualifying conditions relating to the number of value-added jobs, annual operating expenditure and number of key posts be relaxed for the second five-year period of the incentive.

Further, as a measure to enhance and simplify tax incentives for trading activities, a new tax incentive has been proposed for the establishment of GTC at a concessionary tax rate of 10% for a period up to 10 years (5+5). This incentivizes companies to use Malaysia as a procurement or distribution hub, while allowing investors performing more complex and greater value-add functions to continue using the PH model which has lower concessionary tax rates. Further clarifications and guidelines are needed on how the GTC incentive is distinguishable from the existing PH incentive in terms of qualifying activities and conditions. This would be especially relevant to companies that carry out both PH services and trading activities but are unable to meet the minimum annual sales value (RM500m). It would also be interesting to see how the GTC and the Labuan Global Incentives for Trading (GIFT) regime (which offers an attractive 3% tax rate) are distinguished by commodity traders.

The GTC is comparable to Singapore's Global Trader Programme (GTP). The GTP provides a concessionary tax rate of 5% or 10% on income derived by approved global trading companies from qualifying transactions in qualifying commodities. Although Singapore's GTP incentive may allow a 5% tax rate, the GTC could still be competitive, for example, due to Malaysia's cost-competitiveness or the conditions and scope of the GTC.

2 Ongoing review of Malaysia's incentive framework

As announced during Budget 2020, the Government has embarked on a comprehensive review and revamp of its incentive framework, comprising the Promotion of Investments Act 1986, pre-packaged incentives and other incentives under the Income Tax Act 1967. It was announced then that this new framework would be ready by 1 January 2021. This initiative is ongoing and seems to be more extensive than earlier expected. To provide time for the study to be completed and for uniformity, the Government has announced that existing tax incentives for the PH, MRO activities for aerospace, building and repair of ships, BioNexus status and economic corridor developments which are expiring this year will be extended until 2022. It is hoped that there will be considerable and timely consultations with interested parties on the proposed changes to Malaysia's incentives. It is expected the Government will also use this opportunity to discontinue incentives which no longer bring the desired benefits to the country. Companies with existing incentives which will end after 2022 will appreciate being able to manage transitional issues and see the Government continuing to demonstrate consistency in its investment policies.

3 Targeted incentives in key sectors

The Government recognizes the need for increasingly targeted incentives to encourage investments in key sectors in Malaysia. Targeted incentives for manufacturers of pharmaceutical products, including vaccines, have been proposed in the form of a preferential income tax rate of 0% to 10% for the first 10 years and 10% for the next 10 years.

4 Moving away from a 0% tax rate for incentivized companies

This Budget reinforces the view that the Government is trying to move away from offering a 0% tax rate to attract high value investments with the GTC, the incentive for pharmaceutical companies and the proposed incentives for relocated service activities all potentially having tax rates of up to 10%. This is a very strategic move by the Government as it encourages foreign investment while still maintaining a stream of tax revenue for the country. A 10% tax rate may also be in line with international trends, with the Organisation for Economic Cooperation and Development (OECD) proposing a minimum (yet to be determined) global tax rate as part of its BEPS 2.0 Project.

5 Implementation

The incentives introduced in the Budget are a welcome move to attract more supply chain hubs to Malaysia and will be viewed with interest by companies around the world. To capitalize on investment opportunities, it is crucial that detailed and clear guidelines are issued as soon as possible. Malaysia's investment agencies should mobilize to educate and support prospective investors and the application process should be as straightforward as possible. Other points to consider include:

- ▶ Malaysia should continue to monitor global developments such as the BEPS 2.0 Project and incentives offered by her neighbors to ensure that our incentive regime remains best-in-class.
- ▶ At the moment, it appears that the incentives proposed are focused heavily on providing corporate tax concessions. The relocation or establishment of regional hubs and trading centers in Malaysia would undoubtedly have both direct and indirect tax implications for companies. That being said, the proposed increase in the value of additional services that can be provided in a Free Industrial Zone and Licensed Manufacturing Warehouse, from 10% to 40% of annual sales value, is a welcome move.
- ▶ These incentives will need to be accompanied by a holistic view of investor needs such as available skills in sufficient numbers.

Budget 2021

Budget 2021, themed “Resilient as one, together we triumph” with three integral goals, namely:

- ▶ *Rakyat’s* well-being
- ▶ Business continuity
- ▶ Economic resilience

Various strategies and measures were outlined in respect of each integral goal.

Goals and strategies

Goal 1: *Rakyat’s* well-being

- ▶ COVID-19 pandemic and public health
- ▶ Safeguarding the welfare of vulnerable groups
- ▶ Generating and retaining jobs
- ▶ Prioritizing the inclusiveness agenda
- ▶ Ensuring the well-being of the *rakyat*

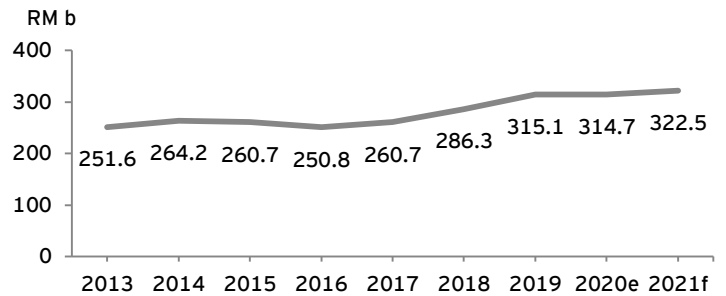
Goal 2: Business continuity

- ▶ Driving investments
- ▶ Strengthening key sectors
- ▶ Prioritizing automation and digitalization
- ▶ Enhancing access to financing

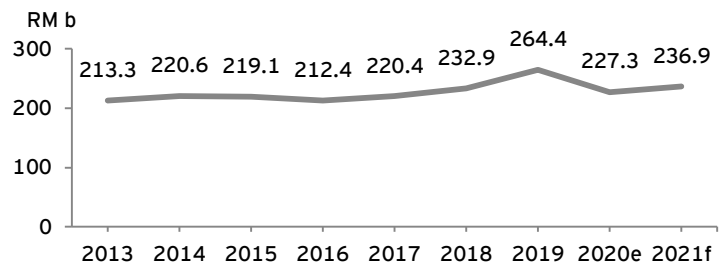
Goal 3: Economic resilience

- ▶ Expansionary budget
- ▶ Development agenda under the 12th Malaysia Plan
- ▶ Enhancing the role of GLCs and civil society
- ▶ Ensuring resource sustainability
- ▶ Civil service

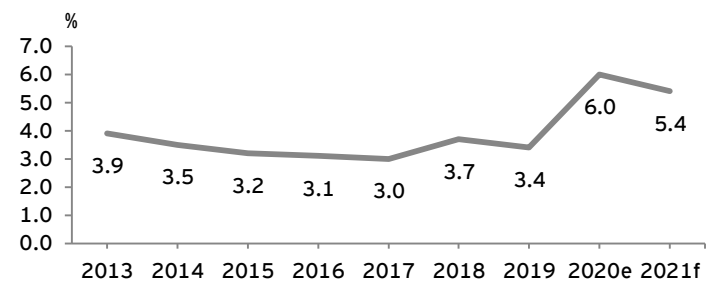
1 Budget allocation¹



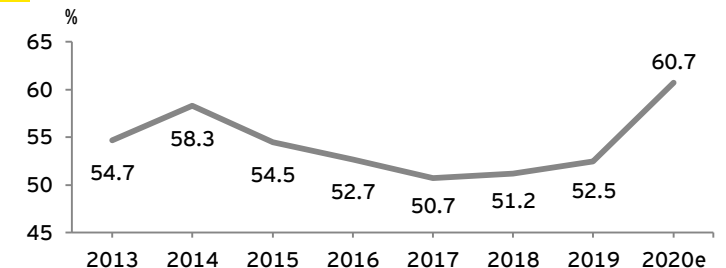
2 Government revenue



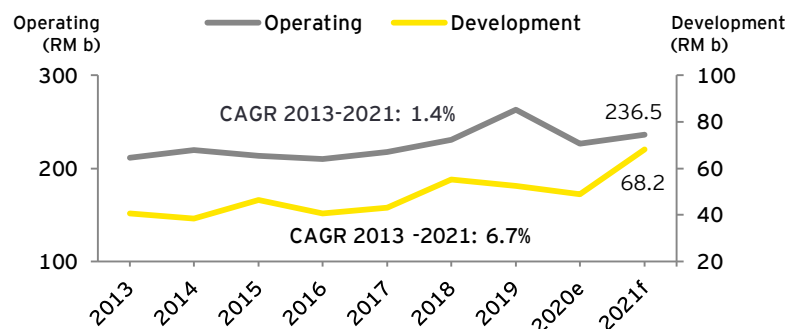
3 Budget deficit



4 Government debt/GDP ratio



5 Operating and development expenditure

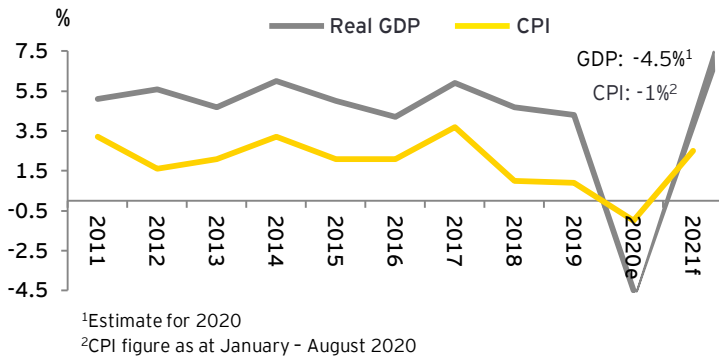


Notes:
¹ Budget allocation includes operating expenditure and development expenditure, but excludes contingency reserves
 *Numbers may not add up due to rounding
 e = Estimate
 f = Forecast

Sources:
 ▶ Budget speeches from 2013 to 2021, Ministry of Finance (MoF)
 ▶ MoF economic reports

Economic indicators

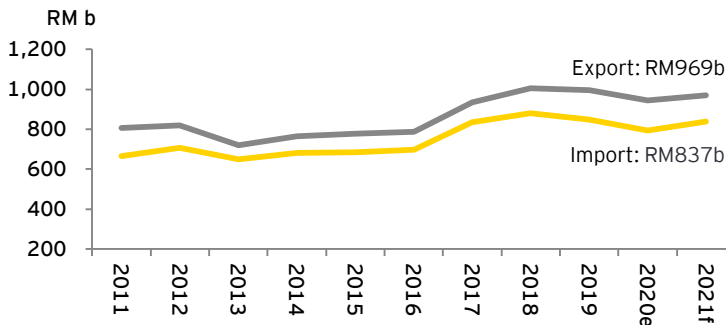
Real GDP versus CPI



Between January and August 2020, Malaysia's CPI declined by 1%, due to weaker global crude oil prices and discounts on electricity bills as part of the COVID-19-related economic stimulus measures.

The Malaysian economy is projected to contract by 4.5% in 2020 due to the impact of the COVID-19 pandemic. In 2021, the economy is expected to recover with GDP growth of between 6.5 and 7.5%, driven by the stimulus packages, Budget 2021 initiatives and the expected recovery of the global economy.

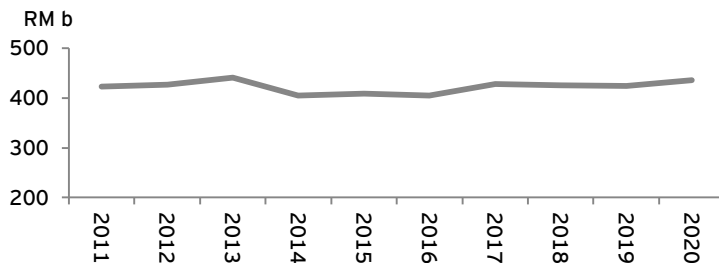
Trade (goods and services)



In 2020, total trade declined by 5.7% to RM1.74t and is expected to improve by 4% to RM1.81t in 2021.

The anticipated recovery in global trade is projected to support Malaysia's export growth in 2021.

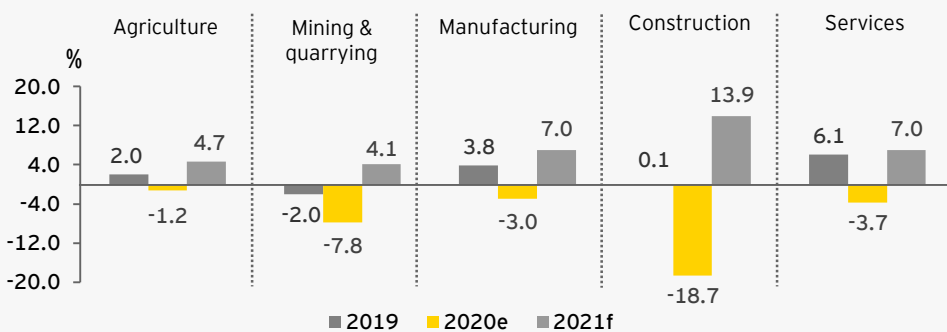
Net international reserves⁴



⁴As at 30 September 2020

As of 30 September 2020, Malaysia's total net international reserves amounted to RM436.5b, equivalent to 8.4 months of retained imports and 1.1 times external short-term debt.

Growth by sectors



In 2020, all sectors are estimated to contract, impacted by the COVID-19 pandemic.

In 2021, all sectors are expected to recover, propelled by the recovery of global demand as well as the resumption of domestic economic activities.

Sources:
► MoF economic reports

COVID-19 and public health

- ▶ RM3b to acquire COVID-19 vaccines, including through participation in the COVID-19 Vaccine Global Access (COVAX) Programme
- ▶ RM1b to stem the third wave of COVID-19:
 - ▶ RM475m to purchase reagents, test kits and consumables for the Ministry of Health (MOH)
 - ▶ RM318m to provide PPE and hand sanitizers to MOH frontliners
 - ▶ RM150m to the National Disaster Management Agency for COVID-19 coordination efforts
 - ▶ RM50m for purchase of equipment, laboratory test supplies and medicine for university teaching hospitals
- ▶ RM400m to be contributed by the four major glove companies, namely Top Glove, Hartalega, Supermax and Kossan, to fight COVID-19. This includes partially covering the cost of the COVID-19 vaccine as well as expenses for health equipment
- ▶ RM28m to implement the MyFit Programme, National Sports Day and Inspire Programme for the disabled community
- ▶ RM25m allocation for home-based Peritoneal Dialysis treatment program
- ▶ RM24m to address mental health issues
- ▶ RM19m to implement the Malaysia National Healthy Agenda to reduce risk of diabetes, hypertension and obesity
- ▶ RM6m for procurement of biologic medicine for various rheumatology illnesses such as Rheumatoid Arthritis

Skills development, employment and workforce

- ▶ RM3.7b to implement the Skim Jaminan Penajaan Pekerjaan (JanaKerja) to provide 500,000 new job opportunities
- ▶ RM2b allocated for PenjanaKerjaya incentives to increase employment opportunities for 200,000 job-seekers
- ▶ RM1b for reskilling and upskilling programs benefiting 200,000 trainees as follows:
 - ▶ RM150m for KPT-PACE, providing vouchers worth RM3,000 to fresh graduates to pursue a professional certification course
 - ▶ RM100m to the Human Resources Development Fund (HRDF) for employment training
 - ▶ RM100m to MDEC for the transition of existing workforce to the ICT industry
 - ▶ RM100m to regional corridor authorities to provide new skills training to workers affected by the closure of international borders
 - ▶ RM30m to PERHEBAT for entrepreneurship training programs for veterans of the Malaysian Armed Forces, benefiting 12,000
- ▶ Introduction of the Short-term Employment Programme (MySTEP) with an allocation of RM700m to offer 50,000 contract basis jobs in the public sector and with GLCs
- ▶ HRDF fund levy exemption for six months effective 1 January 2021
- ▶ Formation of a National Employment Council to coordinate various initiatives to create job opportunities, enhance skills and provide training for employees

Social welfare

- ▶ RM2.2b for financial assistance to enhance the welfare of vulnerable groups
- ▶ RM1.5b to implement the Jaringan PRIHATIN Programme to subsidize cost of internet services for the B40 group. This will be matched by RM1.5b in benefits such as free data to be provided by telecommunications companies.
- ▶ RM250m to provide an incentive of RM1,000 per month up to 3 months to private employers for each new graduate who participates in the apprenticeship program:
 - ▶ RM4,000 grant for employers providing training programs for the apprentices
- ▶ RM177m for the Chinese community for programs to improve educational facilities, housing and development of new villages and financing facilities through Bank Simpanan Nasional (BSN)
- ▶ RM158m for Orang Asli community, including implementation of social assistance programs and the Integrated Development Programme for Orang Asli Villages
- ▶ RM103m for building, upgrading and maintaining sports facilities nationwide
- ▶ RM100m for the Indian community under the Malaysian Indian Transformation Unit (MiTRA) to elevate the socio-economic status of the Indian community
- ▶ RM100m allocated to the Community Rehabilitation Organization (PDK)
- ▶ RM75m for youths aged 18 to 20 years under the eBelia Programme to embrace cashless society via credit of RM50 (one off payment) into e-wallet accounts
- ▶ RM20m as soft loan through the TEKUN Sports scheme in ensuring the continuity of sports facility operators
- ▶ RM20m to establish the community centers as transit centers for children to attend after school for urban B40 Groups
- ▶ Mobile banking services in Sabah and Sarawak to be broadened

Supporting women

- ▶ RM95m micro credit financing through TEKUN, MARA and Agrobank to empower women entrepreneurs
- ▶ RM50m to the Islamic Economic Development Foundation (YaPEIM) to support Islamic Pawnbroking through Ar-Rahnu BizNita
- ▶ RM21m to establish a One-Stop Social Support Centre to provide social protection for and moral support to women facing domestic problems with divorce and abuse
- ▶ RM20m matching grant to the private sector for provision of childcare centers for employees
- ▶ RM10m for cervical cancer screening and subsidy incentives for mammograms to women who are at high risk of breast cancer
- ▶ Training programs for more than 2,000 women entrepreneurs through the Micro Entrepreneurs Business Development Programme (BizMe)

<p>Education</p>	<ul style="list-style-type: none"> ▶ RM6b allocated to strengthen Technical and Vocational Education and Training (TVET) ▶ RM800m for the maintenance and repair of government schools and government-aided schools ▶ RM725m to upgrade buildings and infrastructure in 50 dilapidated schools ▶ RM420m to supply milk under the Supplementary Meal Plan for students from low-income families ▶ RM300m provided through Skills Development Fund Corporation (PTPK) for 24,000 trainees to pursue TVET programs in public and private training institutions ▶ RM170m for early childhood education programs by the Community Development Department or KEMAS to fund Supplementary Food Assistance, Per Capita Grant and repair TABIKA and TASKA ▶ RM120m for construction projects and installation of tube well water supply for schools in Sabah and Sarawak ▶ RM100m to finance the BSN MyRinggit-i COMSIS Scheme, a laptop loan scheme for PTPTN loan holders from institutions of higher learning ▶ RM50m to upgrade the Malaysian Research & Education Network access line to 10Gbps ▶ RM45m for special needs children in schools ▶ RM30m for the establishment of childcare centers or TASKA in Government buildings, especially in hospitals to enhance the support system for frontliners and working women ▶ RM29m to implement TVET programs under the Ministry of Higher Education including Islamic education and lifelong learning initiatives for students in <i>tahfiz</i> institutions and <i>pondok</i> schools
<p>Science, technology and innovation Initiatives</p>	<ul style="list-style-type: none"> ▶ RM1b special incentive package for high value-added technology, including supporting R&D in aerospace and electronic clusters ▶ RM500m High Technology Fund by Bank Negara Malaysia (BNM) to support high technology and innovative companies ▶ RM400m to several ministries and agencies for R&D purposes in an effort to support the development of Science and Technology ▶ RM20m for the Malaysia Techlympics and Science Space programs ▶ RM20m allocated to the Malaysian Global Innovation and Creativity Centre (MaGIC) and selected agencies for social enterprise development programs
<p>Investment in key sectors</p>	<ul style="list-style-type: none"> ▶ RM3.7b under the Maritime Development and Logistics Scheme, Sustainable Development Financing Scheme, Tourism Infrastructure Scheme and Public Transport Fund extended until 31 December 2023 ▶ RM1.4b National Development Scheme introduced to support the implementation and development of domestic supply chains and increase the production of local products such as medical devices

Economic measures

Automation and digitalization	<ul style="list-style-type: none"> ▶ Malaysian Communications and Multimedia Commission (MCMC) will allocate RM7.4b in 2021 and 2022 to build and upgrade broadband services ▶ RM1b for the Industrial Digitalization Transformation Scheme with the availability of these funds extended until 31 December 2023 ▶ RM500m to implement the National Digital Network initiative (JENDELA) to ensure connectivity of 430 schools throughout Malaysia covering all states ▶ RM150m contribution from GLCs and GLICs into the Tabung CERDIK to provide laptops to 150,000 students ▶ RM150m to support automation and modernization under the SME Digitization Grant Scheme and the Automation Grant. The eligibility conditions will be relaxed for micro-SMEs and start-ups that have been operating for at least six months.
Construction	<ul style="list-style-type: none"> ▶ RM2.5b allocated to contractors in Class G1 to G4 to carry out small and medium projects including: <ul style="list-style-type: none"> ▶ RM200m for maintenance projects for Federal roads ▶ RM50m for PPR houses ▶ Flexibilities accorded on procurement procedures will be extended until December 2021 to expedite the implementation of development projects ▶ RM50m allocated as financing for construction contractors under Skim Pembiayaan Kontrak Ekspres (SPIKE) through MARA
Environment and Natural resources	<ul style="list-style-type: none"> ▶ RM400m to all State Governments under TAHAP: <ul style="list-style-type: none"> ▶ RM70m for the purpose of Ecological Fiscal Transfer activities ▶ RM50m to address waste and solid waste trapped in rivers ▶ RM40m provided over five years to strengthen environmental quality monitoring enforcement activities ▶ RM30m provided for SAVE 2.0 program ▶ RM20m allocated to the Biodiversity Protection and Patrol Program for recruitment of 500 Orang Asli and former military and police personnel for patrolling activities ▶ RM10m to implement the Integrated Island Waste Management Project around the islands of Johor and Terengganu, to reduce the effects of coral reef destruction on marine life
Sustainable finance	<ul style="list-style-type: none"> ▶ RM2b to Green Technology Financing Scheme 3.0 for two years up to 2022 ▶ The Government will issue its first Sustainability Bond for environmental and social initiatives in 2021.
Sukuk PRIHATIN	<ul style="list-style-type: none"> ▶ RM100m from the proceeds of the Sukuk PRIHATIN will be allocated to conduct research relating to infectious diseases covering vaccine development as well as treatment research and diagnostics

Economic measures

<p>Commodities</p>	<ul style="list-style-type: none"> ▶ RM500m of revolving funds for the Forest Plantation Development Loan (PPLH) Programme ▶ RM30m of matching grants to encourage investments in mechanization and automation ▶ RM20m to continue Malaysian Sustainable Palm Oil Certification (MSPO) to boost growth and enhance competitiveness ▶ RM16m incentive for latex production
<p>SMEs and micro enterprises</p>	<ul style="list-style-type: none"> ▶ RM2b Targeted Assistance and Rehabilitation facility introduced through loans from banking institutions to assist SMEs ▶ RM1.2b worth of micro credit financing will be provided through TEKUN, PUNB, Agrobank, BSN and other financial institutions including RM110m to Micro Enterprises Facility under BNM to encourage entrepreneurship ▶ Initiatives to encourage the production and purchase of locally-made products: <ul style="list-style-type: none"> ▶ RM150m for training programs and sales assistance as well as digital equipment for 100,000 local entrepreneurs ▶ RM150m to implement the Shop Malaysia Online initiative together with e-commerce platforms ▶ RM35m to promote Malaysian-made products and services under the Trade and Investment Mission ▶ RM25m for the Micro Franchise Development and Affordable Franchise programs as well as Buy Made in Malaysia program ▶ RM300m provided to Bumiputera micro and small businesses under Lestari Bumi financing facility scheme ▶ RM300m for National Supply Chain Finance Platform, “Jana Niaga” to support the financial position of SMEs that supply the Government or GLCs under extended payment terms ▶ RM230m to SMEs for working capital, upgrading of automation systems and equipment and expenditure related to the implementation of COVID-19 SOP compliance ▶ RM50m allocated on a matching investment basis to support peer-to-peer financing platforms (P2P)
<p>Tourism (including health tourism)</p>	<ul style="list-style-type: none"> ▶ RM50m for training and placement programs for 8,000 airline employees ▶ RM50m for maintenance and repair of tourism facilities throughout the country ▶ RM35m allocated to Malaysia Healthcare Travel Council for initiatives to enhance competitiveness of the local health tourism industry ▶ RM20m to improve infrastructure and intensify promotion of Cultural Villages in Terengganu, Melaka, Sarawak and Negeri Sembilan ▶ RM10m for preservation of national heritage buildings

Infrastructure	<ul style="list-style-type: none">▶ RM15b to fund and implement critical transport infrastructure projects such as the Pan Borneo Highway, the Gemas-Johor Bahru Electrified Double-Tracking Project and Klang Valley Double-Tracking Project Phase One▶ RM5.1b and RM4.5b to Sabah and Sarawak respectively for Development Expenditure for the year 2021▶ RM2.7b for rural infrastructure improvement programs and projects▶ RM780m allocated for continuing development projects in the five regional economic corridors:<ul style="list-style-type: none">▶ Rapid Transit Bus Transport System at three High Capacity Routes and construction of busway at IRDA in Johor▶ Construction of the Palekbang Bridge to Kota Bahru, Kelantan under ECER▶ Construction of infrastructure and related components of the Special Development Zone project in Yan and Baling, Kedah under NCER▶ Infrastructure Project in the Samalaju Industrial Area, Sarawak under SCORE▶ Continuation of the Sapangar Bay Container Port Expansion Project, Sabah under SDC▶ RM150m allocated for the Raw Water Transfer Project from Sungai Kesang and Tasik Biru to the Jus Reservoir, Melaka▶ RM100m for the maintenance of industrial park infrastructure▶ RM45m to meet the water supply needs of the petrochemical sector in the Gebeng Industrial Zone▶ RM42m under JENDELA to improve internet connectivity in 25 industrial parks
Finance and capital markets	<ul style="list-style-type: none">▶ RM10b additional guarantee under Syarikat Jaminan Pembiayaan Perniagaan, with RM2b reserved for Bumiputera entrepreneurs▶ RM3b allocated for guarantees to companies involved in highly skilled industries, such as oil and gas and aerospace, under the Danajamin Prihatin Guarantee Scheme will be extended to 2021 with improved terms and conditions.▶ RM30m allocation via matching grant for investment in the Equity Crowd Funding (ECF) platform under the supervision of the Securities Commission (SC)

<p>Agriculture and Fishing</p>	<ul style="list-style-type: none"> ▶ RM 1.7b for subsidy, aid and incentive to farmers and fishermen ▶ RM300m for Rubber Production Incentive to assist 150,000 rubber smallholders, an increase from RM150m ▶ RM151m assistance to 40,000 fishermen commencing 2021 ▶ RM150m to finance fishermen under the Vessel Modernization and Capture Mechanization Programme by Agrobank ▶ RM100m for implementation of impactful and high-value farming projects, through collaboration with State governments ▶ RM60m to finance agricultural entrepreneurs under the Agrofood Value Chain Modernization Programme by Agrobank ▶ RM30m for the extension of the Community Farming Programme to provide equipment to the semi-urban and rural communities ▶ RM50m to implement the Organic Agriculture Project to benefit 1,000 communities ▶ RM10m for the implementation of the e-Satellite Farm Programme ▶ RM10m for implementation of the Aquaculture Development Programme
<p>Empowering Bumiputeras</p>	<ul style="list-style-type: none"> ▶ RM6.5b to enable Bumiputera institutions (such as MARA and UiTM) to provide quality education through specific programs ▶ RM4.6b to support Bumiputera entrepreneurs: <ul style="list-style-type: none"> ▶ RM2b to assist the financing of Bumiputera SMEs through Syarikat Jaminan Pembiayaan Perniagaan (SJPP) ▶ RM1.3b for various capacity building programs including Dana Kemakmuran Bumiputera and other Bumiputera specific projects ▶ RM800m for capacity building programs by Bank Pembangunan Malaysia and SME Bank ▶ RM510m to finance Bumiputera SMEs and micro SMEs through TEKUN and PUNB ▶ RM750m to Pelaburan Hartanah Berhad to increase the value of Bumiputera holdings in real estate, especially for commercial developments on Malay reserve land
<p>Real estate</p>	<ul style="list-style-type: none"> ▶ RM1.2b for housing: <ul style="list-style-type: none"> ▶ RM500m to build 14,000 low cost housing units under the Program Perumahan Rakyat ▶ RM315m for the construction of 3,000 units of Rumah Mesra Rakyat ▶ RM310m for the Malaysia Civil Servants Housing Programme (PPAM) ▶ RM125m for the repair and maintenance of low cost, medium-low stratified housing, dilapidated houses and houses damaged by natural disasters ▶ The Government will collaborate with selected financial institutions on a Rent-To-Own scheme involving 5,000 PR1MA houses with a total value of over RM1b reserved for first-time home buyers.

Tax measures

Individuals							
Reduction of individual income tax rates for middle income group	▶ Tax rate reduction of one percentage point for resident individuals with chargeable income between RM50,001 and RM70,000						
	<table border="1"> <thead> <tr> <th>Chargeable income bands (RM)</th> <th>Current tax rate (%)</th> <th>Proposed tax rate (%)</th> </tr> </thead> <tbody> <tr> <td>50,001 - 70,000</td> <td>14</td> <td>13</td> </tr> </tbody> </table>	Chargeable income bands (RM)	Current tax rate (%)	Proposed tax rate (%)	50,001 - 70,000	14	13
Chargeable income bands (RM)	Current tax rate (%)	Proposed tax rate (%)					
50,001 - 70,000	14	13					
	▶ This proposal is effective from year of assessment (YA) 2021.						
Special tax rate for non-Malaysian individuals holding key/C-suite positions in companies relocating their operations to Malaysia	▶ A special flat tax rate of 15% will apply to such individuals.						
	<ul style="list-style-type: none"> ▶ The qualifying conditions are as follows: <ul style="list-style-type: none"> ▶ The company is approved under the PENJANA tax incentive. ▶ The individual's monthly salary is not less than RM25,000. ▶ The individual is a Malaysian tax resident for each YA. ▶ The special tax rate will be effective for five consecutive years and is limited to five individuals for each approved company. ▶ Applicable for applications received by the Malaysian Investment Development Authority (MIDA) from 7 November 2020 to 31 December 2021 						
Extension of application for tax incentive under Returning Expert Programme (REP)	▶ The application period for the REP incentive has been extended for a further three years.						
	<ul style="list-style-type: none"> ▶ The tax incentives applicable for successful applicants are: <ul style="list-style-type: none"> ▶ 15% flat tax rate for five consecutive YA ▶ Exemption on import and excise duty for the purchase of a CBU vehicle or excise duty exemption for the purchase of a CKD vehicle, subject to a total duty exemption of up to RM100,000 (previously the exemption was up to RM150,000) ▶ Applicable for applications received by Talent Corporation Malaysia from 1 January 2021 to 31 December 2023 						
Real estate	▶ Stamp duty exemption on the first RM500,000 (previously RM300,000) of dutiable value in respect of the first residential property purchased by a Malaysian citizen. Its stamp duty exemption on instrument of transfer and loan agreement.						
	▶ Applicable for Sale and Purchase Agreement (SPA) executed from 1 January 2021 to 31 December 2025						

Individuals

Exemptions, deductions and reliefs

- ▶ Enhancement of tax relief for medical expenses for serious diseases for self, spouse and child:
 - ▶ Increase of total tax relief from RM6,000 to RM8,000. The tax relief for full medical check-up expenses included in this amount is increased from RM500 to RM1,000.
 - ▶ Expansion of the scope of tax relief to include expenses incurred for specific vaccinations for:
 - ▶ Pneumococcal
 - ▶ Human Papillomavirus (HPV)
 - ▶ Influenza
 - ▶ Rotavirus
 - ▶ Varicella
 - ▶ Meningococcal
 - ▶ Combination of tetanus-diphtheria-acellular pertussis (Tdap)
 - ▶ COVID-19 (subject to the availability of the vaccine)
- ▶ Increase in tax relief for expenses (medical treatment, special needs and carer expenses) incurred for parents from RM5,000 to RM8,000
- ▶ Expansion of scope of tax relief for technical education fees of RM7,000 per YA to include RM1,000 of expenses incurred for up-skilling and self-enhancement courses in fields of study recognized by the Department of Skills Development, Ministry of Human Resources. This applies for YA2021 and YA2022.
- ▶ Extension of tax relief of RM3,000 for contribution to Private Retirement Schemes (PRS) up to YA2025
- ▶ Increase of tax relief for disabled spouse from RM3,500 to RM5,000
- ▶ Enhancement to lifestyle tax relief as follows:
 - ▶ Increase of total tax relief from RM2,500 to RM3,000. The additional tax relief of RM500 is for sports-related expenses (including cost of purchasing sports equipment, entry and rental fees for sports facilities and participation fees in sports competition)
 - ▶ The scope of relief for newspapers is expanded to include subscriptions to electronic newspapers.
- ▶ Extension of tax relief of RM8,000 for the net annual savings deposited into the National Education Savings Scheme (Skim Simpanan Pendidikan Nasional - SSPN) up to YA2022
- ▶ Increase in tax exemption for compensation for loss of employment with the same employer or companies within the same group, from RM10,000 to RM20,000 for each completed year of service [effective for YA2020 and YA2021]
- ▶ *Wakaf* services will be introduced by Amanah Saham Nasional Berhad (ASBN) to all ASBN unit holders. Unit holders will be eligible for tax deduction for the ASNB units endowed to Tabung Wakaf ASNB.

Note: All items above are effective from YA2021 unless otherwise stated.



Individuals	
Equity Crowd Funding (ECF)	<ul style="list-style-type: none"> ▶ Income tax exemption on aggregate income equal to 50% of amount invested, up to a maximum RM50,000 for each YA. The deduction is limited to 10% of aggregate income. This is applicable for investments made from 1 January 2021 until 31 December 2023 and is subject to relevant conditions being met.
EPF, social security and wage subsidy program	<ul style="list-style-type: none"> ▶ Reduction of employee's Employees Provident Fund (EPF) contributions from 11% to 9% for a period of 12 months effective January 2021 ▶ Facility for individuals to withdraw Account 1 EPF savings of RM500 per month for 12 months effective January 2021 ▶ Facility for individuals to withdraw Account 2 EPF savings to purchase insurance and takaful products approved by EPF. This applies only for life and critical illness coverage for individuals and their families. ▶ Enhancement of the Employment Insurance System (EIS) by PERKESO by extending the Job Search Allowance for an additional three months during the year 2021, up to a total of nine months. The allowance, subject to a cap, applies at the rate of 80% of a prescribed notional salary for the first month, 50% for the second to sixth month and 30% for the last three months. ▶ Extension of the Wage Subsidy Program (WSP) for an additional three months for the tourism sector at a rate of RM600 per month for employees with wages of RM4,000 and below. The employee limit is increased from 200 employees to 500 employees per employer.

Businesses - general

- | | |
|---|--|
| <p>Employment of senior citizens, ex-convicts, parolees, supervised persons and ex-drug dependants</p> | <ul style="list-style-type: none"> ▶ The further tax deduction given on the remuneration of senior citizens, ex-convicts, parolees, supervised persons and ex-drug dependants employed in a full-time capacity will be extended to YA2025. ▶ Monthly remuneration for employees in these categories cannot exceed RM4,000. |
|---|--|

Businesses - by sector

- | | |
|-----------------------------|--|
| <p>Real estate</p> | <ul style="list-style-type: none"> ▶ To revive abandoned housing projects, the existing stamp duty exemptions will be extended to 31 December 2025. The exemptions apply to all loan agreements and instruments of transfer executed by the original house purchasers and rescuing contractors or developers approved by the Minister of Housing and Local Government. |
| <p>Manufacturing</p> | <ul style="list-style-type: none"> ▶ To encourage manufacturers of pharmaceutical products (including vaccines) to invest in Malaysia, the following incentives have been proposed: <ul style="list-style-type: none"> ▶ 0% to 10% tax rate for the first 10 years ▶ 10% tax rate for the next 10 years <p>Such companies may be granted other facilities such as grants and import duty or sales tax exemptions on machinery, equipment and raw materials. This is applicable for applications received by MIDA from 7 November 2020 to 31 December 2022.</p> ▶ The application period for the following tax incentives will be extended to 31 December 2022: <ul style="list-style-type: none"> ▶ Concessionary tax rate for companies that establish new manufacturing operations in or relocate existing manufacturing operations to Malaysia, subject to conditions and minimum investment amounts. This applies to companies without existing operations in Malaysia. ▶ Investment tax allowance for companies with manufacturing operations in Malaysia, which relocate their foreign manufacturing facilities to Malaysia for new business segments, subject to conditions and minimum investment amounts ▶ To further enhance the adaptation of technology in the construction industry by using industrialized building system (IBS), the tax incentive on IBS will be extended to 31 December 2025. However, the incentive is now restricted to an Investment Tax Allowance of 60% on qualifying capital expenditure incurred within five years. This allowance can be set off against 70% of statutory income for each YA. <ul style="list-style-type: none"> ▶ Companies are required to produce at least three basic components of IBS or an IBS system that uses at least three basic IBS components. ▶ Applicable to applications received by MIDA from 1 January 2021 to 31 December 2025 |



Businesses - by sector

High-value service activities/trading

- ▶ 10% tax rate for five years (extendable for a further five years) for the establishment of a GTC. This is applicable to applications received by MIDA from 1 January 2021 to 31 December 2022.
- ▶ Relaxation of conditions (i.e. number of high value jobs, number of key positions and annual operating expenditure) to qualify for a renewal of the PH incentive for another five years (after expiry of the initial five years incentive period). The application period for the incentive will also be extended, to 31 December 2022.
- ▶ To spur economic recovery through investment activities, the following incentives have been proposed for companies in selected services sectors:
 - ▶ 0% to 10% tax rate for 10 years for new companies
 - ▶ 10% tax rate for 10 years for existing companies with new services segment

The selected services sectors include companies adopting Industrial Revolution 4.0 and digitalization, with investments that contribute to significant multiplier effects in the following services:

 - ▶ Provision of technology solutions
 - ▶ Provision of infrastructure and technology for cloud computing
 - ▶ Research and development or design and development activities
 - ▶ Medical devices testing laboratory and clinical trials
 - ▶ Any other services, including manufacturing related services, as determined by the Minister of Finance

This is applicable for applications received by MIDA from 7 November 2020 to 31 December 2022.

Research and development (R&D)

- ▶ To create a competitive R&D ecosystem and to encourage new R&D activities, tax incentives for non-resource based findings by public research institutions will be re-introduced. Further tax incentives for the commercialization of R&D findings by public research institutions will be extended to private higher education institutions. The proposed incentives are as follows:
 - ▶ Tax deduction equivalent to the amount of investment made in a subsidiary company that commercializes the R&D findings of public research institutions, including public and private higher learning
 - ▶ Income tax exemption for a period of 10 years on the statutory income of the subsidiary companies that commercialize the R&D findings

The resource and non-resource based findings are subject to the promoted products listed under the Promotion of Investment Act 1986. This is applicable for applications received by MIDA from 7 November 2020 to 31 December 2022.



Businesses - by sector	
Healthcare	<ul style="list-style-type: none"> ▶ The 100% income tax exemption equivalent to the value of increased exports of private healthcare services, to be set-off against 70% of statutory income, will be extended to YA2022.
Capital market	<ul style="list-style-type: none"> ▶ Stamp duty exemptions on contract notes executed between 1 January 2021 and 31 December 2025 for the trading of Exchange Traded Funds (ETF). ▶ To encourage the issuance of Sustainable and Responsible Investments (SRI) <i>sukuk</i> and bonds which meet the ASEAN Green, Social and Sustainability Bonds Standard, the existing income tax exemption for Green SRI Sukuk Grant will be expanded to all types of SRI <i>sukuk</i> and bonds approved by the SC. <ul style="list-style-type: none"> ▶ This income tax exemption will also be extended for five years. ▶ Applicable for applications received by the SC from 1 January 2021 to 31 December 2025
Various	<ul style="list-style-type: none"> ▶ The application period for the following tax incentives will be extended to 31 December 2022: <ul style="list-style-type: none"> ▶ Incentives relating to maintenance, repair and overhaul (MRO) activities for aerospace, construction and repair of ships, BioNexus status and the Economic Development Corridors ▶ Incentives (e.g. exemptions on income tax, stamp duty, withholding tax, real property gains tax etc.) for the East Coast Economic Region Development Corridor, Iskandar Malaysia and Sabah Development Corridor

Tax measures (cont'd)

Indirect tax	
Bus operators	<ul style="list-style-type: none"> ▶ Sales tax exemption for the purchase of locally assembled buses will be extended to 31 December 2022.
Cigarettes and other tobacco products (including vapes)	<ul style="list-style-type: none"> ▶ Issuance of new import licenses will be frozen and conditions for renewal of existing import licenses will be tightened. ▶ Transshipment of cigarettes will be limited to dedicated ports only. ▶ Taxes will be imposed on imported cigarettes, with the availability of drawback facility for those meant for transshipment and re-export. ▶ Transshipment and re-export of cigarettes by small boats will be banned. ▶ Cigarettes and tobacco products will be taxable in all Duty Free Islands and Free Zones. ▶ Excise duty will be imposed as follows: <ul style="list-style-type: none"> ▶ At the rate of 10% for all types of electronic and non-electronic cigarette devices (including vapes) ▶ At the rate of RM0.40 per millimeter on liquid or gel used in electronic cigarettes (including vapes) <p>Note: The above are effective from 1 January 2021.</p>
Value-added activities in Free Industrial Zones (FIZs) and Licensed Manufacturing Warehouses (LMWs)	<ul style="list-style-type: none"> ▶ The threshold for value-added activities performed in FIZs and LMWs will be increased from 10% to 40% of the total annual sales value effective 7 November 2020.
Authorized Economic Operator (AEO)	<ul style="list-style-type: none"> ▶ AEO facilities will be implemented nationally for facilitation of accreditation process. ▶ Eligibility will be expanded to include logistics services providers and approved warehouse operators. ▶ The AEO platform will bring together 43 permit and trade licensing agencies.
Tourism	<ul style="list-style-type: none"> ▶ To be consistent with the treatment for bookings made directly with registered accommodation premise operators, with effect from 1 July 2021, tourism tax will be imposed on accommodation premises booked via online platform operators.

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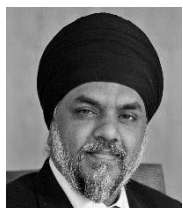
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