



MALAYSIAN BUDGET 2021 TAX HIGHLIGHTS

Stand United, We Shall Prevail



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On 6 November 2020, the Minister of Finance of Malaysia presented Budget 2021 themed as “stand united, we shall prevail”. Key highlights of the said proposal are summarized as follows:

Individual Taxation

1. Review of income tax rates

It is proposed that the income tax rate for resident individuals with chargeable income ranging between RM50,001 to RM70,000 be reduced by 1% from 14% to 13% with effective from year of assessment (“YA”) 2021.

2. Increase in tax relief for medical treatment, special needs and parental care expenses

It is proposed that the income tax relief for medical treatment, special needs and parental care expenses be increased from RM5,000 to RM8,000 with effective from YA 2021.

3. Expansion of scope and increase in tax relief for medical expenses on serious diseases for self, spouse or child

It is proposed that the tax relief for medical expenses on serious diseases for self, spouse and child be increased from RM6,000 to RM8,000. The relief on complete medical examination which is limited to RM500 for self, spouse and child is now increased to RM1,000.

Further, the scope of medical expenses on serious diseases is now extended to include specific vaccination expense for self, spouse and child and the tax relief is limited to RM1,000.

The above proposal is effective from YA 2021.

4. Increase in tax relief for disabled spouse

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

5. Extension of tax relief period for contribution to Private Retirement Scheme

It is proposed that the tax relief of up to RM3,000 for contribution to Private Retirement Scheme is extended from YA 2022 to YA 2025.

6. Enhancement on lifestyle relief

It is proposed that the lifestyle relief of RM2,500 be increased to RM3,000 and the additional relief of RM500 relief is given for the purchase of sport equipment, entry or rental fees for sport facilities and participation in sport competition. In addition, the lifestyle relief is expanded to include subscription of electronic newspaper.

The above proposal is effective from YA 2021.

7. Extension of tax relief period on net annual savings in the National Education Savings Scheme (*Skim Simpanan Pendidikan Nasional*)

It is proposed that the tax relief on net annual savings in the National Education Savings Scheme of up to RM8,000 is extended for another 2 years, i.e. up to YA 2022.

8. Expansion of scope of tax relief on education fees

It is proposed that the scope of tax relief on education fees of RM7,000 is expanded to include course fee for attending up-skilling and self-enhancement courses in any field of skills recognized by the Department of Skills Development, Ministry of Human Resources. The course fee is restricted to RM1,000 per YA and it is effective for YA 2021 and 2022 only.

9. Increase in income tax exemption on compensation for loss of employment

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

10. Extension of tax incentive for Returning Expert Programme

It is proposed that the application period for Returning Expert Programme incentive with Talent Corporation Malaysia Berhad be extended from 1 January 2021 until 31 December 2023. The Malaysian citizen working abroad which undertake such incentive programme is eligible for flat income tax rate of 15% on employment income for a period of 5 consecutive YA and exemption on import duty and excise duty on purchase of Complete Built-Up vehicle or excise duty exemption for purchase of Complete Knock Down vehicle limited to RM100,000.

Investment Incentives

1. Extension of period of tax deduction for employment of senior citizens, ex-convicts, parolees, supervised persons and ex-drug dependants

It is proposed that the incentive period for further tax deduction on remuneration paid by employer for employing senior citizens, ex-convicts, parolees, supervised persons and ex-drug dependants be extended for a period of 5 years effective from YA 2021 until 2025.

2. Review of Principal Hub tax incentive

It is proposed that the conditions for renewal of Principal Hub tax incentive for second 5 years be relaxed in terms of number of high value job, annual operating expenditure and number of key positions. It is further announced that the application for Principal Hub incentive for companies undertaking qualifying services activities be extended for another 2 years until 31 December 2022.

3. Tax incentive for Global Trading Centre

It is proposed that a new tax incentive is introduced for trading activities with a concessionary income tax rate of 10% for a 5 years period and it is renewable for another 5 years period. This incentive is for application received by Malaysian Investment Development Authority ("MIDA") from 1 January 2021 to 31 December 2022.

4. Special income tax rate for non-resident individuals holding key positions in companies investing in new strategic investments

It is proposed that a flat tax rate of 15% be given to non-residents holding key positions / C-Suite positions for a period of 5 consecutive years. This proposed tax incentive is limited to 5 non-residents employed in each company that has been granted relocation tax incentive under the PENJANA initiative. Individuals that enjoy the flat tax rate of 15% must receive a monthly salary of not less than RM25,000 and must be a Malaysian tax resident for each year of assessment throughout the tax incentive period. This incentive is for applications received by the MIDA from 7 November 2020 to 31 December 2021.

5. Review of tax incentives for companies relocating their operations to Malaysia and undertaking new investments

It is proposed that the application period for tax incentives to be extended for another 1 year for companies relocating their operations to Malaysia. Further, the scope of tax incentives is proposed to be expanded to companies in selected services sector including companies adapting Industrial Revolution 4.0 and digitilisation technology with investment that contribute to significant multiplier effect in various technology services and other services as determined by the Minister of Finance. It is proposed that an income tax rate of 0% to 10% is given to New Company for a period up to 10 years and an income tax rate of 10% is given to Existing Company with new services segment. For manufacturing sector, applications received by the MIDA until 31 December 2022. For selected services sectors, applications received by the MIDA from 7 November 2020 to 31 December 2022.

6. Extension of tax incentives due to expire

A comprehensive study of the existing tax incentive structure is currently in progress. Therefore, the existing tax incentives due to expire in year 2020 will be extended until year 2022. The extension includes tax incentives for MRO activities for aerospace, shipbuilding and repair of ships, Bionexus Status and economic corridor developments.

7. Review and expansion of scope of tax incentive for commercialization of research and development (R&D) findings

Tax incentives for commercialisation of non-resources based R&D findings will be reintroduced and tax incentives for commercialisation of public research institutions R&D findings will be extended to include private higher learning institutions. This incentive is for application received by the MIDA from 7 November 2020 to 31 December 2025.

8. Tax incentives for companies manufacturing pharmaceutical products including vaccines

It is proposed that an income tax rate of 0% up to 10% for the first 10 years and 10% for the subsequent 10 years be given to manufacturers of pharmaceutical products including vaccines especially COVID-19 vaccines. In addition, strategic investments by such companies may be considered for other facilities including grants, import duty / sales tax exemption for machinery and equipment as well as raw materials. This incentive is for applications received by MIDA from 7 November 2020 to 31 December 2022.

9. Extension of period of tax incentives for export of private healthcare services

It is proposed that tax exemption equivalent to 100% of the value of the increased in exports of services and can be offset against 70% of the statutory income derived from the export of healthcare services be extended for another 2 years, i.e. YA 2021 and 2022.

10. Review of tax incentive for manufacturers of Industrialised Building System (IBS) components

It is proposed that the IBS tax incentive be extended for a period of 5 years and relaxation is given where companies are required to produce at least 3 basic IBS components or IBS system that use at least 3 basic IBS components to be given Investment Tax Allowance (ITA) of 60% on qualifying capital expenditure incurred within 5 years. This ITA can be set off against 70% of statutory income for each year of assessment. This incentive is for applications received by MIDA from 1 January 2021 to 31 December 2025.

11. Tax incentive for investment in equity crowdfunding

It is proposed that individual investors be given an income tax exemption on aggregate income equivalent to 50% of the investment amount made through equity crowdfunding platform approved by the Security Commission Malaysia (SC). The eligible amount for this tax exemption is limited to RM50,000 for each year of assessment and deductible amount is capped at 10% of the aggregate income for that year of assessment with other conditions to be fulfilled. This exemption is applicable to investment made from 1 January 2021 to 31 December 2023.

12. Review of income tax exemption on SRI Sukuk Grant

It is proposed that the existing income tax exemption on the grant for Green SRI sukuk will be expanded to all SRI sukuk and bonds that meet ASEAN Green, Social and Sustainability Bond Standards approved by the SC. This exemption will be given for a period of 5 years for applications received by the SC from 1 January 2021 to 31 December 2025.

Stamp Duty

1. Stamp duty exemption on instrument of transfer and loan agreement

It is proposed that 100% stamp duty exemption on instruments of transfer and loan agreement for purchase of first residential home by Malaysian citizens is extended until 31 December 2025. Further, the limit of the property value is increased from RM300,000 to RM500,000. This exemption is for sale and purchase agreement executed from 1 January 2021 to 31 December 2025.

2. Stamp duty exemption for rescuing contractors/original house purchases on abandoned housing projects

It is proposed that stamp duty exemption on loan agreements and instruments of transfer given to rescuing contractors/developer and the original house purchasers of abandoned housing projects is extended for another 5 years. The exemption is given for loan agreements and instruments of transfer executed from 1 January 2021 to 31 December 2025 for abandoned housing projects certified by Ministry of Housing and Local Government.

3. Extension of stamp duty for “*Perlindungan Tenang*” products

It is proposed that the stamp duty exemption on “*Perlindungan Tenang*” products with an annual premium or contribution value not exceeding RM100 is extended for another 5 years. The exemption is for insurance policies and takaful certificates issued from 1 January 2021 to 31 December 2025.

4. Extension of stamp duty exemption for Exchange Traded Funds (ETF)

It is proposed that the exemption of stamp duty on contract notes for trading of ETF is extended for another 5 years. The exemption is for trading of ETF executed from 1 January 2021 to 31 December 2025.

Indirect Tax

1. Sales tax exemption for locally assembled bus

It is proposed that the purchase of locally assembled bus including air conditioner will be exempted and extended for a period of two years from 1 January 2021 until 31 December 2022.

2. Excise duty on electronic and non-electronic cigarettes

It is proposed that 10 percent on devices for all types of electronic and non-electronic cigarettes including vane; Liquid used in electronic cigarettes will be imposed an excise duty at a rate of 40 cents per milliliter effective from 1 January 2021.

3. Increase of sales limit for value-added and additional activities carried out in the Free Industrial Zone and Licensed Manufacturing Warehouse

It is proposed that 10% limit on the sales value from value added and additional activities be increased to not exceed 40% of the company's annual sales value. Effective Date For new applications and applications to increase the sales value limit received by the Royal Malaysian Customs Department from 7 November 2020.

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