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Budget 2021: Key Highlights

The COVID-19 pandemic has pulled the global community through an unprecedented crisis and the ripples of the consequential economic repercussions are still felt by all layers of society. Thus, it is safe to say that the tabling of Budget 2021 was one of the most anticipated Budget Speeches ever, where a record amount of RM322.5 billion has been allocated for year 2021.

The key highlights of the tax initiatives proposed in Budget 2021 are:

(A) Personal Income Tax

Review of tax rate

The income tax rate for the tax bracket of RM50,000 to RM70,000 will be reduced by 1% from 14% to 13% beginning from the year of assessment (**YA**) 2021. This is estimated to benefit 1.4 million taxpayers.

Tax Relief for Parental Care

Tax relief limit on a parent's medical treatments, special needs, and care expenses is increased from RM5,000 to RM8,000.

Tax Relief for Medical Expenses (self, spouse, and children)

- (i) Total tax relief limit on medical expenses for serious diseases and fertility treatments is increased from RM6,000 to RM8,000.
- (ii) Tax relief limit for health screenings and full medical check-ups is increased from RM500 to RM1,000.
- (iii) The scope of the tax relief for medical expenses is expanded to include vaccination expenses incurred for self, spouse, and child up to RM1,000. Vaccines that qualify for this relief include those for HPV, influenza, pneumococcal and COVID-19 (subject to availability).



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Tax Relief for Individuals with Disabled Spouse

Tax relief limit for individuals with a disabled spouse is increased from RM3,500 to RM5,000.

Tax Relief for Private Retirement Scheme (PRR)

Tax relief of RM3,000 for PRS contributions will be extended from YA 2021 until YA 2025.

Tax Relief Limit for Lifestyle

Tax relief of RM2,500 for lifestyle expenses is increased to RM3,000, where the additional RM500 increase is specifically provided for sports-related expenditure, including participation fees in competitions and rental/entrance fees of sports facilities. The scope of the relief is also expanded to include electronic newspaper subscriptions.

Tax Relief for Children's Tertiary Education

Tax relief up to RM8,000 for annual savings in Skim Simpanan Pendidikan Nasional will be extended until the YA 2022.

Tax Relief for Tuition Fees

The scope of tax relief for tuition fees will be expanded to include expenditures incurred to attend up-skilling or self-enhancement courses in any field provided by bodies recognised by the Department of Skills Development, Ministry of Human Resources. The tax relief for this expanded scope is provided for YAs 2021 and 2022 and capped at RM1,000 for each YA.

Tax Exemption for Compensation for Loss of Employment

Under Paragraph 15(1) of Schedule 6 of the Income Tax Act 1967, compensation received for loss of employment is exempted for an amount up to RM10,000 for each year of completed service with the same employer or companies in the same group. The tax exemption limit of RM10,000 is increased to RM20,000 for each year of completed service for YAs 2020 and 2021.

Tax Deduction for Wakaf Endowments

It is proposed that Permodalan Nasional Berhad, through Amanah Saham Nasional Berhad (**ASNB**), introduce *wakaf* services to all ASNB unit trust holders. Endowments made into the ASNB wakaf fund should be eligible for an income tax deduction.

Returning Expert Programme

To further encourage skilled Malaysian individuals working abroad to return, it is proposed that the tax incentive period for the Specialist Return Programme be extended for three years. The tax incentive is applicable for applications between 1 January 2021 and 31 December 2023.

(B) Corporate Tax

Tax Incentive for Industrialised Building System (IBS)

Prior to this, companies involved in the manufacturing of IBS basic components, i.e. columns, beams, slabs, wall and roof trusses and producing IBS systems using IBS basic components such as precast concrete system, formwork system, steel framing system, block work system, timber framing system, innovative system, and modular system were eligible for:

- (i) income tax exemption between 70% to 100% of its statutory income for a period of five years; or
- (ii) investment tax allowance of 60% on the qualifying capital expenditure incurred for five years, beginning from the date the qualifying capital expenditure was incurred. This allowance can be offset against 70% to 100% of the statutory income for each YA.

The rate of the income tax exemption and the amount of offset allowable is dependent on the number of IBS basic components or systems produced.

It is proposed through the Budget 2021 for this tax incentive to be further extended for five years. Further, the amount of tax incentive given will be in the form of investment tax allowance of 60% on the qualifying capital expenditure incurred for five years and this allowance can be offset against 70% of the statutory income for each YA. Companies only need to manufacture at least three IBS basic components or IBS systems using at least three IBS basic components.

This extended tax incentive will be available for applications received by the Malaysian Investment Development Authority between 1.1.2021 and 31.12.2025.

Additional Tax Deductions for Employment of Senior Citizens, Ex-Convicts and Former Drug Addicts

Tax deductions provided under the Income Tax (Deduction for Employment of Senior Citizen, Ex-Convict, Parolee, Supervised Person and Ex-Drug Dependant) Rules 2019 is proposed to be extended for another five years up to YA 2025.

The conditions for this relief include:

- (i) the employee is a full-time employee;
- (ii) the monthly salary of the employee does not exceed RM4,000;
- (iii) the employer and the employee are not the same person; and
- (iv) the employer and the employee do not have family relations.

Tax Incentive for Economic Development Regions (EDR)

The existing tax incentives for a few EDRs such as the East Coast Economic Region, the Iskandar Development Region and Sabah Development Corridor will be extended until 2022. It is not stated whether this extension will be applicable to other EDRs.

Green Sukuk Grant

To further encourage the issuance of Sustainable and Responsible Investment (SRI) products and bonds that achieve green, social and sustainable standards in Malaysia, the existing income tax exemption for SRI green *Sukuk* grant is extended to grants for all types of SRI *Sukuk* and bonds that meet Asean Green, Social and Sustainability Bond Standards approved by the Securities Commission Malaysia. The exemption is applicable for applications made between 1 January 2021 and 31 December 2025.

Relocation of Businesses to Malaysia

Through Pelan Jana Semula Ekonomi Negara (PENJANA), the government has offered special tax rates to selected manufacturing companies which relocated their businesses to Malaysia and bring in new investments. The application for the tax incentive will be extended for one more year until 31 December 2022 and the scope of tax incentives will also be extended to companies in the selected services sector which have significant multiplier effect by providing an income tax rate of 0 to 10% for a period of 10 years.

Manufacturers of Pharmaceutical Products Including Vaccines

To encourage manufacturers of pharmaceutical products including vaccines to invest in Malaysia, it is proposed that incentives including a preferential tax rate of 0 to 10% for 10 years and tax rate of 10% for the subsequent 10 years be given. The tax incentive is for applications received by the Ministry of International Trade and Industry (MITI) from 7 November 2020 until 31 December 2022.

Non-resource-based R&D products

To create a more competitive R&D ecosystem, tax incentives for non-resource-based R&D product commercialisation activities will be reintroduced and tax incentives for commercialisation of R&D products by public research institutions will be extended to private higher education institutions. The tax incentive is for the application received by MITI from 7 November 2020 until 31 December 2025.

Global Trading Centre

New tax incentive for the establishment of a Global Trading

Centre at a concessionary rate of 10% for five years and renewable for another five years. The tax incentive can be applied from 1 January 2021 until 31 December 2022.

Value-Added Activities and Additional Activities

Currently, the approval of value-added activities and additional activities is subject to the condition that sales value from value-added activities and additional activities shall not exceed 10% of a company's annual sales value. The limit on the sales value for value-added and additional activities carried out in the Free Industrial Zone and Licensed Manufacturing Warehouse is proposed to be increased from 10% to 40% from the total annual sales value.

Non-Malaysian Citizens

Special income tax treatment at a flat rate of 15% for a period of five years to non-Malaysian citizens holding key positions for strategic new investment by companies relocating their operations to Malaysia under the PENJANA incentive package. The application for the incentive can be made from 7 November 2020 until 31 December 2021.

Relaxation of Tax Incentive Conditions for Principal Hub

Companies using Malaysia as a base for their regional or global operations are eligible for Principal Hub incentives. It is proposed that the conditions for Principal Hub be relaxed and the application for relaxation of tax incentive conditions for Principal Hub will be extended for two years until 31 December 2022.

Equity Crowdfunding

Equity Crowdfunding (**ECF**) is one of the alternative financing methods, especially for technology start-ups. To encourage more individual investors to take part in financing through the ECF platform, income tax exemption of 50% of the amount invested is to be given and this is limited to RM50,000 for each year of assessment. The income tax exemption applies for investment between 1 January 2021 and 31 December 2023.

Export of Healthcare Services

To encourage the export of private healthcare services in Malaysia as well as attracting high-value health tourists, it is proposed that the income tax exemption be given on 100% of the value of increased service exports and it can be deducted up to 70% of the statutory income extended for a period of two years until YA 2022.

(C) Stamp Duty

First Residential Home

To further promote home ownership, it is proposed that the

100% stamp duty exemption on instruments of transfer and loan agreements for the purchase of first residential houses be increased from RM300,000 to RM500,000. This exemption is effective for sale and purchase agreements executed from 1 January 2021 to 31 December 2025.

Abandoned House Projects

Stamp duty exemption on loan agreements and instruments of transfer given to rescuing contractors and the original house purchasers is extended for another five years. This exemption is effective for loan agreements and instruments of transfer executed from 1 January 2021 to 31 December 2025 for abandoned housing projects certified by the Ministry of Housing and Local Government (KPKT).

Exchange Traded Fund

Stamp duty exemption on contract notes for Exchange Traded Fund trading transactions is extended for five years from 1 January 2021 until 31 December 2025.

Perlindungan Tenang Product

It is proposed that the stamp duty exemption period on all Perlindungan Tenang products with an annual premium or contribution value not exceeding RM100 be extended for another five years until 31 December 2025.

(D) Indirect Tax

Electronic Cigarettes Excise Duty

Currently, electronic cigarettes and vape are not subjected to excise duty, unlike cigarettes and other tobacco products regulated under the Control of Tobacco Product Regulations 2004.

The imposition of 10% *ad valorem* excise duty on all electronic and non-electronic cigarettes devices including vape has been proposed. Excise duty at the rate of RM0.40 per millilitre will also be imposed on liquids or gels used in electronic cigarettes. This new *vape tax* will be effective from 1.1.2021 onwards.

Revision of Tax and Policies for Tobacco Products

In an effort to curb smuggling of high-duty goods, implementation of the following measures has been proposed:

- (i) The issuance of new cigarette import licences will be frozen;
- (ii) Conditions for renewal of import licences for cigarettes will be tightened, including the imposition of import quota;

- (iii) Transshipment of cigarettes to dedicated ports will be limited;
- (iv) Transshipment and re-export of cigarettes will only be allowed in ISO containers and not by small boats;
- (v) Imposition of tax on the importation of cigarettes with drawback facilities for re-export;
- (vi) Cigarette and tobacco products will be taxable goods in all Duty-Free Islands and any free zones that have previously been allowed to sell duty-free cigarettes.

Tourism Tax

Tentatively, the imposition of tourism tax has been exempted beginning from 1.7.2020 to 30.1.2021. However, for the purpose of having equal treatment between tourists making a direct reservation with a registered accommodation premise operator and those making reservations through an online platform, it is proposed that the imposition of tourism tax include accommodation premises reserved through online platforms.

Sales Tax Exemption for Locally Assembled Bus

It is proposed that the sales tax exemption for purchase of locally assembled completed bus be extended for two years until 31.12.2022.

Human Resources Development Fund (HRDF) Levy

The tourism sector and companies still affected by the COVID-19 pandemic will enjoy an exemption from HRDF levies for six months effective from 1.1.2021.

Concluding remark

As of the date of the Budget 2021 announcement, our government projects year 2020's direct tax revenue to be at around RM115 billion, which is almost RM20 billion less compared to RM134 billion collected in year 2019. However, our government is anticipating an improvement in tax revenue collection and the overall revenue performance in year 2021 to return to the pre-COVID crisis level.

This can be seen as the government is projecting a direct tax revenue collection of RM131 billion for year 2021, of which RM64 billion is projected to be collected from corporate income tax. The projection of RM64 billion for corporate income tax in 2021 is in fact higher than the RM63 billion collected in 2019, i.e. during pre-COVID era.

As most companies are expected to lower their tax

estimates in 2021, this projection could be far-fetched, unless the Inland Revenue Board carries out aggressive retrospective audits on companies for past-year profits.

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