

## Economic stimulus packages and movement control order

The RM35 billion National Economic Recovery Plan (Penjana) is aimed at protecting jobs, empowering businesses especially the small and medium enterprises (SMEs) and ensuring Malaysia gets its fair share of foreign investments as companies seek to relocate a part of their business arising from the impact of the Coronavirus Disease 2019 (Covid-19), (extracted from The Borneo Post online).

Here are the summary of tax incentives in the form of reliefs, deductions and exemptions including cash handouts for the covid19 pandemic. Many of incentives listed below are awaiting approval by lawmakers in the forthcoming July parliamentary session. There are likely to be changes pending clarity on final details and government gazette.

### A. Companies

- 1) To spur the setting up of new businesses, newly established SMEs (defined in footnote) between July 1, 2020, and December 31, 2021, will be given an income tax rebate of up to RM20,000 per year for three years of assessments. It follows that, the rebate of RM20,000 is deducted from each year tax payable for the next 3 years for new companies. In addition SME companies would also enjoy an existing preferential tax rate of 17% on the first RM600,000 of income chargeable to tax and 24% for the subsequent amount in the year of assessment 2020.
- 2) Companies operating in Malaysia and wish to further invest above RM 300 million in Malaysia will receive a 100 per cent Investment Tax Allowance for five years for relocating their overseas facilities into Malaysia. Investment Tax allowances are deduction allowed for capital expenditure, usually on plant and machinery used in manufacturing.
- 3) Special Reinvestment Allowance (extension of time for those companies where the Reinvestment Allowance (RA) has expired) from 2020 to 2021 for manufacturing and selected agriculture activities. RA are capital expenditure on plant and machinery mainly for the automation, modernization, expansion and diversification of manufacturing facilities.
- 4) Stamp duty exemption given to SMEs on any instruments (e.g agreements or transfers of shares etc) executed between July 1, 2020, and June 30, 2021, for mergers and acquisitions (M&As) will encourage SMEs to build scale and capacity.

- 5) The initial wage subsidy program of RM1200 per employee from April to June 2020, for employers hiring workers earning RM4,000 or below is further extended for another 3 months fixed at RM600 per employee for a maximum of 200 employees, and employers who are not allowed to operate during the conditional movement control order (CMCO) are eligible to apply. No details on the revised conditions for the application on the further extension are available at this moment.
- 6) Effective from 1<sup>st</sup> July 2020 onwards, facilities such as handphones, notebooks and tablets provided for by an employer to an employee are exempted from tax at the hand of an employee so as to encourage him to work from home during the MCO period.
- 7) The initial special tax deduction provided in the earlier stimulus package for 3 months from April to June 2020 is extended up to Sept 30, 2020, for the landlord who allowed monthly rental reduction of 30 per cent or more for properties leased to SMEs. (The guide on rental deduction for business premises from the Malaysian Inland Revenue Board is attached.)
- 8) Incentive for companies relocating large operations to Malaysia. A full tax exemption is granted for 10 years at nil tax rate for companies who invested between RM300 millions to RM500 millions and 15 years at 15% tax for companies above RM500 millions of fixed assets. The investment amount involved must be made within three years.
- 9) Allowable tax deduction of up to RM300,000 for renovation and refurbishment expenses of business premises from 1<sup>st</sup> March 2020 to 31st December 2020 (Extended to 31 December 2021)
- 10) Tax instalment payments for tourism industry allowed to defer for 6 months from 1st April 2020 to 30th September 2020 (extended till 31st<sup>th</sup> December 2020).
- 11) Accelerated capital allowance (ACA) of 40% in respect of qualifying capital expenditure incurred on machinery and equipment, including IT and communication technology equipment incurred from 1 March 2020 to 31 December 2020. (Extended to 31 December 2021.)
- 12) Deduction / Capital Allowance on Covid-19 Related Expenses  
Tax deductions or capital allowances allowed on expenses incurred on Covid-19 testing, personal protective equipment (“PPE”) and thermal scanners. The above would be a follow up on the earlier Economic Stimulus Package 2020 (“ESP 2020”) where companies are entitled to claim tax deductions on expenses for provision of disposable PPE e.g. face mask and protective clothings and capital allowance on PPE capital expenditures.
- 13) Tax Deduction for Employers which Adopt Flexible Work Arrangements (“FWAs”)  
No details on what type of expenses are given tax deductions, pending announcements by the IRB.

- 14) Withdrawal of tourism tax from July 1, 2020 to June 30, 2021. Royal Malaysia Customs will also extend a service tax (ST) exemption for hotels and other accommodation companies from Sept 1, 2020 to June 30, 2021.
- 15) A tax deduction for COVID-19 was announced by the IRB recently. A tax deduction for donors (that may include individuals) who donate cash or goods to address the spread of COVID-19 and help affected people. The incentive is for donations to:

COVID-19 Fund (Ministry of Health Malaysia) - Cash and Goods;  
COVID-19 Fund (National Disaster Management, Prime Minister's Department) - Cash only; and Institutions/organizations approved under subsection 44 (6) of Income Tax Act (ITA) 1967.

For donations in the form of equipment/goods, donors must obtain a letter from the recipient along with an official stamp according to the format to be issued by the Ministry of Finance, before submitting the tax deduction request. Taxpayers are also advised to maintain records evidencing their donations when claiming a deduction for the Y/A 2020.

#### Small And Medium Size Enterprises (SME) definition.

Income Tax Act 1967, (ITA) provide for various preferential tax treatments to SMEs where companies with paid-up capital in respect of ordinary shares of not more than RM2.5 million at the beginning of a basis period. However, effective from year of assessment (YA) 2020, the IRB has imposed an additional restrictive condition, that is, the taxpayer must also have gross income from business sources where the turnover must not exceed RM50 million for the basis period for that YA.

#### **B. Individuals**

- i) Individual (Malaysian citizens) taxpayers who dispose of their residential homes from June 1, 2020, to Dec 31, 2021 would enjoy RPGT ( Real Property Gains Tax) exemption limited to the disposal of three units of residential home per individual. It is uncertain whether the non citizen permanent residents are eligible for the mentioned exemption.
- ii) Tax exemption of up to RM5,000 to employees provided with handphone, notebook and tablet by their employer with effect from 1 July 2020. Presently, employees who received benefit of fixed line telephone, mobile phone, pager or Personal Digital Assistant (PDA) from the employer is fully exempted from tax. Further clarification is required from the IRB whether this is in addition to the existing or a new relief.

- iii) Personal income tax relief of RM1,000 given on travel expenses incurred from 1 March 2020 to 31 August 2020 (extended till 31/12/2021.) Expenses eligible for the tax relief are accommodation charges on tourist accommodation premises registered with the Ministry of Tourism, Arts and Culture Malaysia; and entrance fees to tourist attractions.
- iv) Personal tax relief of up to RM2,500 to individuals who purchase handphone, notebook and tablets. Presently, individuals who are tax resident can claim a lifestyle relief of up to RM2,500 for the purchase of personal computer, smartphone or tablet which is for his or her personal usage. Further clarification is required from the IRB whether this is in addition to the existing or a separate relief.
- v) Relief for Child Care. From the year of assessment 2020, tax relief of up to RM2,000 is given to resident individuals who enrolled their children aged 6 years and below in child care centers or kindergartens registered with the Department of Social Welfare or the Ministry of Education. To ease the transition to the new norm, the above tax relief will be increased to RM3,000 effective for Y/A 2020 and 2021
- vi) The stamp duty exemption on the property transfer of ownership is limited to the first RM1 million on the transacted price of residential premise while full stamp duty exemption is given on loan agreement, and stipulated sale and purchase agreements signed between June 1, 2020 and May 31, 2021.

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