Malaysia: Budget 2021

Overview

On 6 November 2020, Malaysia’s minister of finance announced the 2021 national budget. Below are the relevant issues from the individual tax, as well as an employer’s and employee’s perspectives.

What is the change?

Review of income tax rate for individuals: Currently, individuals who are tax residents with a chargeable income of between RM50,001 to RM70,000 are taxed at a rate of 14%.

To increase the disposable income of individuals from the middle-income group who may have been affected by the current economic situation, the 2021 budget proposes that the tax rate for this chargeable income band to be reduced by 1 percentage point.

<table>
<thead>
<tr>
<th>Chargeable Income (RM)</th>
<th>Current Tax Rates (%)</th>
<th>2021 Tax Rates (%)</th>
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<tbody>
<tr>
<td>0–5,000</td>
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<tr>
<td>5,001–20,000</td>
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<td>Chargeable Income (RM)</td>
<td>Current Tax Rates (%)</td>
<td>2021 Tax Rates (%)</td>
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<td>50,001–70,000</td>
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<td>70,001–100,000</td>
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<td>100,001–250,000</td>
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<td>Exceeding 2,000,000</td>
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**Effective date:** From year of assessment 2021

**Increase of tax relief for parents’ medical expenses:** The limit of tax relief on expenses for medical treatment, special needs, and parental care will be increased from RM5,000 to RM8,000. This will help reduce the financial burden of taxpayers in caring for their aged parents.

**Effective date:** From year of assessment 2021

**Expansion of scope and increase of tax relief for medical expenses for self, spouse, and children:** To alleviate the cost of medical treatment as well as to encourage more Malaysians to be vaccinated, it is proposed that the limit and scope for the above relief will be increased as follows.

Medical expenses on serious diseases, including fertility treatment, will increase from RM6,000 to RM8,000. This includes:

- Expenses for a full medical check-up will increase from RM500 to RM1,000; and
- The relief will now cover vaccination expenses up to RM1,000 for the taxpayer, spouse, and child. Examples of approved vaccines include pneumococcal, influenza, rotavirus, and any forthcoming COVID-19 vaccine.

**Effective date:** From year of assessment 2021

**Increase of tax relief for disabled spouse:** It is proposed that the additional tax relief for a disabled spouse increases from RM3,500 to RM5,000.

**Effective date:** From year of assessment 2021

**Extension of period for tax relief in respect of contributions to a private retirement scheme (PRS):** To further encourage old-age savings through a PRS, individual income tax relief of up to RM3,000 on PRS contributions will be extended for another four years (i.e., until year of assessment 2025).

**Effective date:** From year of assessment 2022 to 2025

**Review of lifestyle relief:** The relief limit for the above will increase from RM2,500 to RM3,000, where the additional RM500 is specifically provided for sports-related expenditures, such as the cost of purchasing sports equipment, entry/rental fees for sports facilities, and participation fees in sports competitions.

The scope of the lifestyle relief will also expand to include subscriptions to electronic newspapers.

**Effective date:** From year of assessment 2021
Extension of period for tax relief in respect of net annual contributions to the national education savings scheme (Skim Simpanan Pendidikan Nasional): To further encourage parents to save for the costs of their children’s higher education fees, the tax relief of up to RM8,000 will be extended until year assessment year 2022.

**Effective date:** Current to year of assessment 2022

Expansion of scope of tax relief for tertiary or postgraduate-level education fees: Currently, an individual taxpayer who pursues tertiary (certificate/diploma/degree) or postgraduate (master or doctorate)-level education in selected fields of studies is eligible to claim a tax relief of up to RM7,000 in respect of the education fees incurred.

To encourage Malaysian citizens affected by the COVID-19 pandemic to upskill, reskill, or acquire a new skill, it is proposed that the scope of this relief be expanded to cover the fees to attend approved upskilling and self-enhancement courses. The relief in respect of such fees is limited to RM1,000 per year of assessment.

**Effective date:** For year of assessment 2021 to 2022 only

Increase of tax relief on compensation for loss of employment: To assist individuals who have lost their jobs due to the current economic condition arising from the COVID-19 pandemic, it is proposed that the income tax-exemption limit for compensation for loss of employment increase from RM10,000 to RM20,000 for each completed year of service for two years (i.e., year of assessment 2020 and 2021).

This would be applicable to those who have been prematurely terminated or underwent a voluntary separation scheme where reemployment was not expressly stated or implied.

**Effective date:** For year of assessment 2020 to 2021 only

Extension of tax incentive for the Returning Expert Programme (REP): To further encourage skilled Malaysian citizens working abroad to return and work in Malaysia, it is proposed that the application period for the REP incentive be extended for another three years with slight changes to the incentives given:

- Flat rate of 15% for a period of five consecutive years of assessment; and
- Exemption on import duty and excise duty for the purchase of a CBU vehicle or excise duty exemption for the purchase of a CKD vehicle, subject to the total duty exemption limited up to RM100,000

**Effective date:** For application received by Talent Corporation Malaysia Berhad from 1 January 2021 until 31 December 2023.

Special income-tax rate treatment for noncitizen individuals holding key positions in companies investing in new strategic investments: The Malaysian government, through the PENJANA initiative, had earlier this year announced a tax holiday of up to 15 years for manufacturing companies that relocate their operations to Malaysia.

To further enhance this incentive, it is proposed that up to five noncitizen individuals who hold key or C-suite positions in the company that has been granted the relocation tax incentive under the PENJANA initiative will be taxed at a flat rate of 15% for five consecutive years.

To qualify for the concessionary tax rate, such individuals must:

- Receive a monthly salary of no less than RM25,000; and
- Qualify as a Malaysian tax resident for each year of assessment he or she wishes to be taxed at the concessionary tax rate

**Effective date:** For applications received by the Malaysian Investment and Development Authority from 7 November 2020 until 31 December 2021

Reduction of employee’s contributions to the Employees’ Provident Fund (EPF): The government will leverage the EPF to increase the disposable income of the individuals as follows:
1. Reduction in rate of employee’s contribution to the EPF from 11% to 9% for a period of 12 months beginning January 2021.
   (Effective date: From 1 January 2021 to 31 December 2021)
2. Withdrawal of EPF savings of RM500 per month (RM6,000 per year) from Account 1 on a targeted basis. It is expected that this will be made available to EPF members who have lost their jobs.
   (Effective date: Applications can be made beginning January 2021)
3. Withdrawal of EPF savings from Account 2 to purchase approved insurance and takaful products relating to life and critical illnesses for EPF members and their family.
   (Effective date: To be confirmed)

**Introduction of wakaf services:** Permodalan Nasional Berhad through Amanah Saham Nasional Berhad (ASNB) will introduce wakaf services to all ASNB unit trust holders. Under this service, unit holders can endow some of their units into the ASNB wakaf fund and be eligible for an income tax deduction.

**Effective date:** To be confirmed

**Enhancement of the PenjanaKerjaya hiring incentive programme:** The government will enhance PenjanaKerjaya hiring incentive programme under the Social Security Organisation by offering higher hiring incentives up to 60% of an employee's monthly salary to encourage employment of unemployed, disabled, or retrenched workers as well as the hiring of locals to reduce reliance on foreign workers.

In addition to the above, employers can now claim a maximum of RM7,000 to enable their workers to take up high-skilled training and professional certifications.

**Human Resources Development Fund (HRDF) levy exemption:** An exemption from the HRDF levies will be given for six months. The exemption will cover the tourism sector and companies affected by the COVID-19 crisis.

**Effective date:** January 2021 – June 2021

**Deloitte’s view**

The 2021 national budget, themed “Stand United, We Shall Prevail,” was tabled amid an incredibly uncertain business landscape, locally and globally.

It is heartening to see that extensive measures have been proposed to take care of those who have suffered the worst effects of COVID-19 (i.e., those from the low-income (B40) and middle-income (M40) groups). While direct cash assistance has been provided to the B40 group, the government has employed tax policies to improve the cash flow position of M40 (i.e., by reducing tax rates and increasing and expanding the scope of specific tax relief).

Given how COVID-19 has altered the way we work, we note that government has struck a fine balance between protecting the local workforce and pushing for progress. The government has implemented policies for employees to adjust to the new normal (tax relief for attending upskilling/self-enhancement courses) while also attracting foreign talent via lower tax rates to facilitate skills and knowledge transfer to the local workforce.

This is probably one of the more cohesive budgets that has been announced by the government, as the measures and proposals provided in the budget are interlinked in some ways. COVID-19 has provided an easy goal—to protect and progress—and it has compelled the government to take notice of those who form the backbone of the Malaysian economy: employees and SMEs.

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