

## Post-budget 2024 Q&A

**Deloitte Malaysia's Panel of Partners - Clockwise from left to right:** Toh Hong Peir, Energy and Chemicals Sector Leader; Ang Weina, Global Employer Services Leader; Philip Yeoh, Transfer Pricing Executive Director; Choy Mei Won, Business Tax Executive Director; Julie Tan, Business Process Solutions Leader; Gagan Deep Nagpal, Transfer Pricing Executive Director; Tan Hooi Beng, Deputy Tax Leader; Tan Eng Yew, Indirect Tax Leader; Chee Pei Pei, Deloitte Private Leader.



### 1 Do you expect any challenges arising from maintaining the 6% service tax rate on food and beverage and telecommunication services?

Introducing multiple rates into the service tax will create additional complexity. For example, the relevant sections of the service tax law do not include detailed definitions of what telecommunication services cover. A telecommunication provider's business has expanded far beyond standard services such as fixed lines and mobile, into areas such as digital content, video streaming, and other forms of digital services. It is unclear whether non-traditional telecommunication services would attract a 6% or 8% rate. While there are some guidelines issued by the Royal Malaysian Customs Department, these can be subject to change.

We also see differences impacting the food and beverage sectors. For example, since hotel accommodation is subject to an 8% service tax, a restaurant that is operating within a hotel would most likely have to impose the same rate of 8%, while a restaurant operating in an adjoining building (e.g., a mall attached to the hotel) would only impose a 6% service tax. Such examples are possible scenarios that could create confusion for both service providers and consumers.

### 2 What are the new tax measures that may impact individual taxpayers?

The government will introduce the Luxury Goods Tax at a rate of 5% to 10% on certain high value items such as jewellery and watches. Raising taxes on luxury items may rebalance the tax system by shifting more of the tax burden towards high earning individuals.

In a welcome move, the current scope of medical expenses relief for parents is expanded to include full medical examination of up to RM1,000. The scope of medical expenses relief for self, spouse and children is also expanded to cover dental examination and treatment from registered dentists up to RM1,000.

For parents with children under 12 years of age who receive childcare allowances from their employers, the current tax exemption of RM2,400 on the childcare allowance provided by employer to employee will be increased to RM3,000.

### 3 What are the changes to the lifestyle relief announced in Budget 2024?

The current lifestyle relief allows a claim of up to RM2,500 for expenses related to reading materials, smartphones, tablets, laptops, internet subscriptions, as well as sports equipment and gymnasium membership fees. Effective

Year of Assessment 2024, the scope will be expanded to include fees on self-skills enhancement courses while purchase of sports equipment and gymnasium membership fees will be excluded. Instead, expenses incurred on the purchase of sports equipment, rental or entry fees to sports facilities, registration fees for participating in sports competitions and gymnasium membership fees, as well as sports training fees to certain sports clubs/associations/companies will be given a relief of up to RM1,000 as "Sports Equipment and Activities tax relief".

### 4 Budget 2024 announced the incentive for Global Services Hub. How is this different from the Principal Hub incentive?

While no extensions have been announced for the Principal Hub incentive, a similar incentive has been introduced until 31 December 2027 to maintain Malaysia's regional competitiveness as a key player in the global services sector.

Under the proposed Global Services Hub tax incentive, companies establishing Malaysia as a global service centre will benefit from income tax rates of 5% or 10% based on outcome for a period of up to 10 years. Additionally, a 15% income tax rate for 3 years will be provided to a maximum of 3 non-citizens holding key positions in a new company.

Although the scope of both incentives are largely similar, it is worth noting that the conditions listed includes the introduction of ESG elements. This is in line with the Government's aim to promote environmental and social sustainability while transforming Malaysia into a global business hub for high-value activities.

### 5 What are the tax measures to support Malaysia's aspiration to be carbon neutral by 2050?

The government has proposed a revamp of the existing green technology incentives, specifically the Green Investment Tax Allowance (GITA) and Green Income Tax Exemption (GITE), which are set to expire by the end of this year, by introducing a tiered-incentive system that commensurate with the type of qualifying activities undertaken. Green hydrogen has been added as a qualifying activity under Tier 1 which enjoys a longer incentive period compared to qualifying activities under Tier 2 and Tier 3. The current GITE will no longer be available for application starting from 1 January 2024 except for solar leasing activity.

We welcome the proposal to encourage participation in the Voluntary Carbon Market where a further tax deduction of up to RM300,000 is proposed for costs incurred on the Development and Measurement, Reporting and Verification relating to development of carbon projects. The further tax deduction is deductible from the carbon credits income traded on the Bursa Carbon Exchange.

### 6 Are foreigners subject to higher stamp duty next year?

As a measure to control property prices, Budget 2024 proposes to introduce a flat stamp duty rate of 4% on purchase of properties by non-Malaysian citizen individuals (except permanent residents) and foreign-owned companies.

For a property that costs more than RM1,000,000, the additional stamp duty costs would be RM16,000 compared to the current ad valorem rates. Whether this measure would seek to cool down property prices remains unclear as the percentage of foreign ownership of properties in Malaysia may not be very high. Meanwhile, more clarity is needed on the definition of foreign-owned companies.

By comparison with Singapore, the proposed stamp duty rate of 4% is relatively low. For example, foreigners purchasing residential properties in Singapore are subject to additional buyer's stamp duty of 60% on top of the usual stamp duty of 1% to 6%.

### 7 Are there any tax incentives for existing companies to scale up their operations?

Currently, manufacturing and agricultural companies can claim reinvestment allowance (RA) for 15 consecutive years of assessment in respect of an expansion, diversification, automation, and modernisation projects.

For companies that have exhausted their RA eligibility period and are planning to increase their capacity and investment in high-value activities in line with the New Industrial Master Plan 2030, a 2-tier tax incentive is available, depending on the type of qualifying capital expenditure incurred and achievement of certain agreed outcomes. Applications have to be made to the Malaysian Investment Development Authority from 1 January 2024 until 31 December 2028.

### 8 Can my company claim tax deduction on costs incurred on implementation of e-invoicing?

It is proposed that a tax deduction of up to RM50,000 be given to businesses that incur ESG related expenditure such as ESG reporting, as well as compliance with transfer pricing and tax corporate governance requirements. E-invoicing implementation costs is covered under the RM50,000 tax deduction but it is only applicable for micro, small and medium enterprises. As ESG compliance is crucial for businesses to remain competitive, full tax deduction should be given to such costs across all types of businesses as these costs are necessary expenses incurred in generating business income.

### 9 I am a major shareholder of a Malaysian investment holding company (IHC) that owns a factory located in Shah Alam, shares in another Malaysian private limited company and shares in an Indonesian company. The Malaysian IHC is planning to dispose all the said assets. Would the newly announced capital gains tax (CGT) apply to these disposals?

Assuming the disposals take place after 1 March 2024, the proposed CGT will apply to the sale of shares in the Malaysian private limited company. It is unclear whether the sale of shares in the Indonesian company is within the ambit of the CGT. This could well be the case but could only be ascertained once the Finance Bill is issued. In the meantime, the present real property gains tax will continue to apply to the sale of the factory. However, if you were to dispose of shares in the Malaysian IHC, the proposed CGT does not apply to your disposal as the scope of chargeable person excludes individuals.

Deloitte was recognised as the Malaysia Tax Firm of the Year and Malaysia Transfer Pricing Firm of the Year 2023 by the International Tax Review. Join us at the 49th Deloitte TaxMax on 16 November where we will unpack the 2024 National Budget and more. Scan to find out more.

