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2023 Budget Expectations



Deloitte's Panel of Partners - From left to right - Julie Tan, Business Process Solutions Leader; Mark Chan, Financial Services Industry Tax Leader; Senthuran Elalingam, Tax Technology Consulting Leader; Ang Weina, Global Employer Services Leader; Subhabrata Dasgupta, Transfer Pricing Leader; Sim Kwang Gek, Country Tax Leader; Choy Mei Won, Business Tax Executive Director; Chow Kuo Seng, Business Tax Audit & Investigation Leader and Chee Pei Pei, Deloitte Private Malaysia Leader.

1 Flexible Working Arrangement (FWA) may increase employees' personal expenses. Will a complementary tax policy be introduced to mitigate such expenses?

With the updated Employment Act coming into effect early next year, the introduction of a FWA tax policy would be timely to help defray additional expenses incurred by employees.

In line with what has been introduced in other countries (e.g. Australia and Ireland), the Government may consider options to align tax policies with employment structures. One possibility is the introduction of a pre-fixed FWA tax relief in respect of incremental costs arising from the FWA. Another option is to allow a tax deduction on actual expenses incurred against employment income or a tax exemption on FWA allowance received by the employee.

2 With higher life expectancy among Malaysians and reportedly only 3% of EPF contributors can afford retirement, would there be more tax measures to assist Malaysians in building a safe nest for retirement?

Currently, EPF allows additional voluntary contributions of up to RM60,000 a year for an individual or their dependents, subject to certain conditions. There is however no corresponding increased tax relief accorded. To encourage savings and replenishment of EPF savings (following early withdrawals made during the pandemic), the Government can introduce a one-time special tax relief equivalent to any top-up of EPF savings made in Year 2023. The one-time special tax relief would be in addition to the current EPF relief of up to RM4,000 per year.

3 Climate change is no longer a distant threat. Can we expect more tax measures or incentives to address this issue as we move towards a sustainable nation?

Currently, tax incentives are offered to companies purchasing green technology assets and green technology service providers. These incentives are set to expire next year and we are hopeful for an extension of another 3 years to accelerate transition into a low carbon nation. Specific tax reliefs should also be considered for individuals who adopt a green mindset such as purchase of solar panels and rainwater harvesting system for own consumption.

4 Would you foresee an extension of the PENJANA Stimulus Tax incentive?

The PENJANA tax incentive was primarily aimed at attracting strategic foreign corporations to relocate their manufacturing operations to Malaysia following disruptions in global supply chains brought by the global economic crisis. In our view, the rollout period for PENJANA tax incentives (which applies to applications submitted to the Malaysian Investment Development Authority from 1 July 2020 to 31 December 2022) is relatively short since the world is still in its initial recovery phase and businesses need time to plan for such investment decisions. An extension of another 2 years would give businesses the opportunity to consider Malaysia as the manufacturing location of choice.

5 Are there any amendments or new compliance requirements expected on transfer pricing matters?

We do not expect any major amendments on transfer pricing in this Budget as the Inland Revenue Board (IRB) is gearing up for a major overhaul of the tax system in line with Pillar 1 and Pillar 2, which certainly would have transfer pricing implications. In the interim, we hope that the IRB addresses the issue of complexity in the interpretation of definition of related party transactions by introducing specific definition of related party transactions in the legislation. Furthermore, the introduction of a cooperative compliance program (to provide certainty to the taxpayers) and transfer pricing guidelines on financial transactions (to provide clarity on the complex transfer pricing issues for such transactions) would be a welcomed move and will keep Malaysia transfer pricing regime on par with the global standards.

6 What are some of the initiatives that could be introduced to drive the property market towards pre-pandemic levels?

The Home Ownership Campaign (HOC) which ended in 2021 should be re-introduced with some enhanced benefits and offers. The previous HOC only applied to the primary markets, i.e. new properties registered under the campaign from specific developers. The Government could consider extending this campaign to the secondary markets. With this, there will be a wider range of properties for homebuyers to choose from.

To further spur growth in the residential property market, the rules surrounding Malaysia My Second Home Program should be reviewed. Relaxing certain conditions such as the minimum fixed deposit sum of RM1 million, liquid asset amount (between RM500,000 and RM1.5 million) and minimum monthly offshore income of RM40,000 would increase foreign interest in local properties and inevitably improve the performance of the property market.

7 Would there be more relaxation on the penalty regime to encourage cooperative compliance by taxpayers?

The new Tax Audit Framework issued by the IRB which took effect from 1 May 2022 imposes a 15% penalty on tax undercharged in cases where taxpayers come forward on a voluntary disclosure basis. The penalty can be reduced to 10% if the voluntary disclosure is made within 6 months from the tax return submission deadline. To further encourage stronger compliance among taxpayers, the IRB may consider non-imposition of penalties for voluntary disclosures made within a stipulated period of time, e.g. within 1 year from the tax return submission deadline. This provides an attractive platform for taxpayers to come forward and rectify the errors.

8 What do you think will be the Government's direction for indirect taxes in this Budget?

The Government has in the past indicated the need to broaden the scope of indirect taxes to enhance revenue collection. However, in the current economic conditions, we are unlikely to see major announcements but rather some targeted measures to achieve specific policy goals.

Based on the good response received from the one-off Customs Voluntary Disclosure and Amnesty Program (VA Program) ending 30 September, it would be good if the Government introduces a more permanent voluntary disclosure program similar to that adopted by the IRB. This would encourage more self-compliance among businesses and enhance revenue collection by the Government. Parallel to that, the Royal Malaysian Customs Department is also likely to enhance enforcement activities based on the learnings from non-compliance areas disclosed during the VA Program. The focus should also be on implementation of measures announced in the last Budget. Notable examples include service tax on

delivery services which was to commence from 1 July 2022 and the imposition of 10% sales tax on low value goods imported from 1 January 2023 where no detailed guidelines has been issued to date.

9 Will Malaysia implement the Global Minimum Tax (GMT) rule and if so, why should taxpayers gear up early?

Malaysia is part the OECD's Inclusive Framework which has agreed to support GMT. This has been affirmed in the Pre-Budget 2023 Statement coupled with the recent public consultation on GMT. Therefore, it is a matter of time and we expect this to be implemented in 2024. The in-scope taxpayers must prepare early given the potential impact on cash flows, including the ability to pay dividend due to top-up tax and existing incentives. The disclosure requirement, system readiness, data availability, and sufficiency of resources in respect of GMT are equally crucial.

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