

Pre-budget 2024 Q&A

Deloitte's Panel of Partners - Top Row (From left to right): Senthuran Elalingam, Tax Technology Consulting Leader; Chee Ying Cheng, Global Employer Services Executive Director; Thin Siew Chi, Business Tax Executive Director; Vrushang Sheth, Transfer Pricing Executive Director; Mohd Fariz Mohd Faruk, Business Tax Executive Director.

Bottom Row (From left to right): Subhabrata Dasgupta, Transfer Pricing Leader; Sim Kwang Gek, Country Tax Leader; Tham Lih Jiun, Government Grants & Incentives Leader; Mark Chan, Financial Services Industry Tax Leader.

1 With the rising cost of living and the concern of whether Malaysians have sufficient funds to retire, what are some of the tax measures that could be taken?

At present, tax relief for voluntary EPF contribution is aggregated with life insurance and takaful contributions, which is limited to RM3,000. To further incentivise voluntary contribution to EPF, a special tax relief in respect of voluntary top-up made to EPF may be considered.

Likewise, tax relief of up to RM3,000 for contribution to the Private Retirement Scheme (PRS) could be further enhanced to encourage more savings. Reintroducing parental care relief of RM1,500 which allows for general care of old-aged individuals could alleviate the taxpayer's burden in caring for aged parents.

2 Would the T20 group be subject to another round of increase in tax rate?

In view that an increase in tax rate of 0.5% to 2% on annual chargeable income band between RM100,001 to RM1,000,000 was announced in Budget 2023, we do not expect any further increase for individuals within this band. However, the current tax rate of 30% applicable on chargeable income band above RM2,000,000 that was introduced in Budget 2020 may be subject to review. By regional comparison, the highest personal income tax rate is 35% in Indonesia, Thailand, Vietnam and Philippines, while in Singapore, it's at 24%.

3 What are your expectations on the proposed Luxury Goods Tax?

The introduction of a tax on luxury goods was proposed in Budget 2023 to broaden the tax base, targeting the affluent consumers in Malaysia. Details of the tax such as scope, value thresholds and refunds for tourists are being deliberated by the government. Based on similar taxes imposed in other countries, potential categories of luxury goods could include planes, helicopters, yachts and pleasure crafts, motor vehicles and bikes, fashion goods, watches and jewellery. The key issues on introducing the tax would be defining the scope clearly and setting the threshold high enough to target only the high-income group. The tax should also be simple to implement to not burden businesses with additional implementation and compliance costs.

4 Would you foresee an increase in enforcement activities by the Inland Revenue Board (IRB)?

While tax is an important component of the nation's revenue, it should not impose unnecessary burden on taxpayers. We believe that the Malaysian tax system will be heading towards "compliance by design" where tax compliance will be integrated into business processes and become part of taxpayers' daily operations. Initiatives such as the tax corporate governance framework and the upcoming e-Invoicing system will be the steps towards achieving this goal.

As tax compliance becomes more automated, the IRB will be able to focus on tax evaders and recalcitrant taxpayers to address the country's tax leakages and broaden its tax base. We expect tax investigations to be more focused on cases that involve willful tax evasion and fraud, while tax audit will be targeted on specific technical tax issues in the future.

5 What is the focus of the IRB's implementation of electronic invoicing in Malaysia and how will it impact businesses?

The driving intention behind the implementation of electronic invoicing in Malaysia is to bring about greater transparency in relation to all business and economic activity in Malaysia. Once fully implemented, the IRB would have visibility into every single business transaction that involves a Malaysian business, including detailed customer and vendor information. The level of data acquired would enable the IRB to undertake more sophisticated and detailed real-time audits, better equip it to target the shadow economy, and ultimately increase tax collections.

The impact to businesses will be significant as there will be a need to update processes, enhance systems and work with external advisors or vendors. It is not merely a tax project but one that impacts the overall business operation.

6 What measures can we expect in Budget 2024 to accelerate decarbonisation efforts?

We anticipate that the government will continue to offer tax incentives to encourage green investments. This could include extending the existing Green Investment Tax Allowance (GITA) and Green Income Tax Exemption (GITE) that are set to expire by the end of 2023. The government may also revamp the tax incentive structure by establishing a tiered-incentive system and expand the scope of qualifying green activities to encourage the adoption of green technology. We also expect other fiscal assistance such as green grants and government-subsidised green financing schemes to be included in Budget 2024.

7 Would we be seeing more measures in supporting domestic businesses?

Considering that more than 95% of total businesses in Malaysia are Micro, Small and Medium Enterprises (MSMEs), we anticipate that the government will continue to support the MSMEs through various means such as providing grants, subsidised financing schemes, and government guarantees for financing. In addition, we are hopeful for a reduced corporate income tax rate for MSMEs through a simplified tax structure (e.g. a flat tax rate of 17% instead of a scaled tax rate) to further benefit the MSMEs and ease their tax compliance burdens.

8 Do you expect Malaysia to announce the implementation of Global Minimum Tax (GMT) in Budget 2024? What should affected taxpayers do?

Whether Malaysia decides 2024 or 2025 as a starting year for GMT, we expect some details to be announced in Budget 2024. While certain countries like Korea, Japan, Vietnam, Australia, New Zealand and members of the European Union have decided to implement GMT in 2024, other countries like Thailand, Singapore and Hong Kong are opting for 2025. Large nations such as China and India have not made any official announcements on GMT. Regardless of the starting year, affected groups would need to start preparing for this tax reform. They should begin the GMT impact assessment now to ensure a graceful transition into the GMT regime. Affected taxpayers may need to assess the implications of GMT on the group's cash flows, dividend payout, and tax incentives, as well as the potential need for additional resources or technological solutions. In addition, a proper disclosure in the financial statement in respect of GMT will be required. To the extent that such information is not known or reasonably estimable, an entity shall instead disclose a statement to that effect and disclose information about the entity's progress in assessing its exposure. Nonetheless, groups with public accountability would need to consider the impact on stakeholder confidence where such information is not known or reasonably estimable.

9 Are there any new provisions on transfer pricing (TP) expected in the finance bill?

While the finance bill may not contain proposed new provisions on TP, the revised TP guidelines are expected to be available by end of 2023. Although the obligation to comply with the arm's length principle under Section 140A will continue, it is anticipated that the revised guidelines may accord some relief from transfer pricing documentation (TPD) for domestic controlled transactions.

TP compliance obligation and audit will remain prevalent as more than 80% of the global trade is conducted between affiliate companies and several multinational enterprises are choosing Malaysia as the preferred investment destination. As the IRB is emphasising compliance-by-design and cooperative compliance, the eventual focus would likely be on cross-border controlled transactions of large businesses through issue-based audits.

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