SWTYT CLIENT ALERT 1/2020

SPECIAL ALERT TO ALL OUR CLIENTS
The Tax-Related Measures of the Economic Stimulus Package 2020

Malaysia's Economic Stimulus Package 2020 was launched by our Prime Minister on 27 February 2020 to counter the economic effects to the country due to the ongoing COVID-19 outbreak. In the Stimulus Package, numerous initiatives were introduced to help affected businesses and taxpayers.

Below is a summary of the major tax-related measures of the stimulus package:

1. **Special personal income tax relief on domestic travel**

   Currently, traveling expenses either locally or overseas are not allowed deductions in the calculation of individual income tax.

   To promote domestic tourism, it is proposed that a special income tax relief of up to RM1,000 will be provided to resident individuals for expenses incurred on domestic travel between 1 March 2020 and 31 August 2020.

   Special income tax relief of up to RM1,000 is given to resident individuals for domestic travel expenses incurred between March 1, 2020 and August 31, 2020. The expenses eligible for tax relief are as follows:
   i. Payment for accommodation in tourist accommodation premises registered with the Ministry of Tourism, Arts and Culture Malaysia; and
   ii. Entrance fees to tourist attractions.

   Effective: YA 2020 only.

2. **Deferment of income tax instalment payments for tourism industry**

   Businesses in the tourism industry such as travel agencies, hoteliers and airlines will be given a deferment of their monthly tax instalment payments for six (6) months from 1 April 2020 to 30 September 2020.

   This will affect instalment payments from 1 April 2020 to 30 September 2020 and the Inland Revenue Board (IRB) clarified in their media release dated 9 March 2020, that an application for the deferment has to be made via a manual form to the Tax Operations Department of the IRB.

3. Revision of income tax estimate

Currently a company may in the sixth month or the ninth month, or in both months of the basis period for a year of assessment (YA) furnish to the IRB a revised estimate of its tax payable for that YA.

It is proposed that other businesses affected by current economic developments, will be be allowed to revise their tax estimates in the third month of instalment, should the third instalment fall in the year 2020.

Through a clarification sought on the FAQ issued by the IRB on tax matters during the Movement Control Order period, the IRB has confirmed that companies with accounting period ending on 31 December 2020 and their third month of instalment falling on March which are unable to submit application forms for deferment of monthly tax instalments and revision of their tax estimate in the third month by 31 March 2020, will be granted an extension of time up to 30th April 2020 to do so. Revised instalment payment for the third month will also be extended until 30 April 2020.

This concession is effective 1 March 2020 and in their media release dated 9 March 2020, the IRB that an application for the revision has to be made via a manual form to the Tax Operations Department of the IRB.

4. Stamp duty exemption on loan restructuring and rescheduling agreements

Currently, stamp duty is charged at RM10 on the loan agreement for the purpose of restructuring or rescheduling the loan (limited to existing loans) if the original loan agreement has been duly charged and has been properly stamped.

To ease the financial strain and facilitate the restructuring and rescheduling business loans, a 100% stamp duty exemption will be given on loan agreements arising from such loan restructuring and rescheduling between borrowers and financial institutions, provided the original loan agreement has been duly stamped.

Effective: Loan restructuring and rescheduling agreements executed from 1 March 2020 to 31 December 2020.

5. ACA for machinery and equipment including ICT equipment

Currently, qualifying capital expenditure incurred on machinery and equipment including ICT equipment, is entitled to capital allowance at the following rates:

- initial allowance of 20%, and
- annual allowance of between 10% to 20%.

In order to encourage and accelerate investment by businesses as well as assist cash flow of companies, Accelerated Capital Allowance (ACA) will be given for qualifying capital expenditure incurred on machinery and equipment, including Information and Communications Technology (ICT) incurred during the period from March 1, 2020 to December 31, 2020. This allowance can be claimed within two years as follows:

i. Initial allowance of 20%; and
ii. Annual allowance of 40%.

Effective: Qualifying capital expenditure incurred from 1 March 2020 to 31 December 2020.

6. Special tax deduction on costs of renovation and refurbishment

Currently, renovation and refurbishment expenses of business premises are not allowed as tax deductions.

To encourage businesses to undertake renovation and refurbishment in readiness of the subsequent upturn in the economy, it is proposed that a business that renovates and renovates a premises for business purposes is given a tax deduction on eligible expenses incurred on its business premises, up to a limit of RM300,000.

This tax deduction will not apply if such expenditure has been claimed as capital allowance under Schedule 2 or Schedule 3 of the Income Tax Act 1967.

Effective: Expenditure incurred from 1 March 2020 to 31 December 2020.

7. Double deduction for establishment of regional office by international shipping companies

Generally, expenditure incurred prior to commencement of business operations is not tax deductible. It is proposed a double deduction be given on pre-commencement expenditure incurred by an international shipping company setting up a regional office in Malaysia.

Effective: Applications received by the Malaysian Investment Development Authority (MIDA) by 31 December 2021.

8. Relaxation of the conditions for purchase of duty-free goods for persons entering Malaysia

Currently, any foreign traveller who enters and remain in Malaysia for not less than 72 hours or any Malaysian citizen entering Malaysia after being abroad for 72 hours shall be eligible to purchase duty-free goods subject to certain thresholds and conditions.

For persons entering Malaysia via international airports, it is proposed that the conditions for the purchase of duty-free goods are reviewed as follows:

i. Eligibility for purchase of duty-free goods is reduced from 72 hours to 48 hours; and
ii. The threshold for duty-free goods is raised from RM500 to RM1,000. The threshold value is for goods other than goods that are already eligible for tax exemption under specified limits such as liquor, cigarettes, clothing, shoes, food and personal electrical appliances.

Effective: 1 April 2020 for duty-free shops located at the international airports.

9. Expansion of value-added activities carried out in LMW and FIZ

Currently, the value-added activities that are permitted to be carried out in a Licensed Manufacturing Warehouse (LMW) and Free Industrial Zone (FIZ) include research and development, design, marketing (for companies with International Procurement Centre status), distribution (for companies with Regional Distribution Centre status), quality control, testing and commissioning including calibration and configuration, labelling and packaging, remanufacturing, repairing and servicing. These value-added activities must be approved by either the Headquarters of Royal Malaysian Customs Department (RMCD) or the Ministry of Finance (MOF).

It is proposed that the scope of the value-added activities be expanded to include supply chain management, strategic procurement operation and total support solutions.

It has also been proposed that the approval process for all value-added activities carried out by the manufacturers in LMW and FIZ be coordinated and approved by the RMCD at State or Zone level only.

Effective: 1 April 2020.

10. Import duty and sales tax exemption on equipment and machinery for port operators

Import duty and sales tax exemption on equipment and machinery is provided to port operators which are granted Approved Services Projects (ASPs) incentives. Port operators which said tax incentives have expired are no longer entitled to import duty or sales tax exemption.

To encourage the continuing investment by expired ASP port operators, import duty and sales tax exemptions are granted on the import and purchase of local machinery and equipment used directly for port operations, subject to the following criteria:

i. Basic machinery and equipment used directly in port operations; and
ii. These import duty and sales tax exemptions are not available for spare parts and consumables including those used for maintenance purposes.

Effective: Application for exemption submitted to MOF between 1 April 2020 and 31 March 2023.

11. Service tax exemption for hotels

Currently, provision of accommodation services by accommodation premises operators (including hotels, inns, lodging house, service apartment, homestay and any other similar establishment) and other related services provided within the accommodation premises are taxable services under Group A of First Schedule of the Service Tax Regulations 2018 and subject to service tax.

Any person operating accommodation premises (including hotels, inns, lodging house, service apartment, homestay and any other similar establishment) and providing accommodation services and other services within the accommodation premises are taxable under Group A, First Schedule of the Service Tax Regulations 2018.

It is proposed that the above operators of accommodation premises are exempted from charging service tax on their accommodation and related services provided for a period of six (6) months from 1 March 2020 until 31 August 2020.

Effective: 1 March 2020 to 31 August 2020.

12. Tax deduction on PPE provided to employees

Expenses incurred by companies in providing employees with disposable Personal Protective Equipment (PPE) such as face masks are eligible for tax deduction under subsection 33(1) of Income Tax Act 1967, while expenditure incurred for non-disposable PPE products can qualify for capital allowance.

To contain the outbreak of COVID-19, companies are encouraged to provide their employees with Personal Protective Equipment (PPE). A disposable PPE such as face masks are eligible for tax deduction under subsection 33(1) of Income Tax Act 1967 (ITA). Whereas, expenses for non-disposable PPE products can be claimed as capital allowance.

Effective: Not stated in the Economic Stimulus Package 2020.

13. Further deduction to hotel operators for training expenses

Companies are encouraged to send employees for training in courses relating to tourism industry and it is proposed that hotel operators or tour operating business approved by the Ministry of Tourism, Arts and Culture (MOTAC) can claim. double deduction on expenses incurred on approved training provided to employees.

Effective: Not stated in the Economic Stimulus Package 2020.

14. Employees' EPF contribution

The current Employees Provident Fund (EPF) contribution rate for employees who are Malaysian citizens or permanent residents is 11%.

To help increase employees' take home pay, a reduction in the minimum EPF contribution rate by 4% (i.e. from 11% to 7%) is proposed. However, employees can still make an election to continue at the higher rate of EPF deduction.
[Effective from 1 April 2020 to 31 December 2020]

To increase the cash in the hands of households, the minimum employee contribution to the EPF will be reduced by 4% percent from 11% to 7% for the period of nine months from 1 April to 31 December 2020,. However, EPF members have the option to elect to continue deduction at a higher rate.

Effective: 1 April 2020 to 31 December 2020.