



2023 Budget Snapshots

Membangun Malaysia MADANI

February 2023 update



Overview and commentary



Friday, 24 February 2023 witness the re-tableting of Malaysia's Budget 2023 by our Prime Minister cum Finance Minister, Dato' Seri Anwar bin Ibrahim with the theme of "Membangun Malaysia MADANI".

The MADANI Budget reflects the Government drive for a reform agenda focusing on fair, equitable, sustainable and people-led economic growth and development.

Records are broken yet again with the RM388.1 billion MADANI Budget (surpassing even last year's un-tabled record-breaking budget of RM372.3 billion) being earmarked for Operating Expenditure (74.5%) and Development Expenditure (25.5%).

Although the global economic growth is expected to slow to 2.9%, the Government is buoyant that Malaysia will achieve a GDP of 4.5% for 2023 whilst the fiscal deficit is projected at 5% of GDP (2022: 5.8%).

A decline in the 2023 government revenue to RM291 billion (2022: RM294 billion) is expected due to the lower crude oil prices. Nonetheless, the Government is optimistic in achieving a record tax revenue collection of RM218.3 billion (2022: RM208.8 billion).

Usually overlooked, the M40 group can now rejoice as they are set to enjoy a reduction of personal income tax rate by 2% while the T20 group will be contributing more with an increase in their personal income tax rate by 0.5% - 2% as part of the MADANI key drivers under *Care and Compassion (Ihsan)* where the vulnerable groups are supported.

The plight of local businesses are not forgotten as well with a proposed reduced tax rate for micro, small and medium enterprises (MSME) from 17% to 15%. This signals the Government commitment towards achieving *Prosperity (Kesejahteraan)* under the MADANI principle.

It is comforting to note that the Government is in touch with the current and real hardship faced by the Rakyat and has no plans to reintroduce a consumption tax. However, in the effort for achieving *Sustainability (Kemampanan)*, it is proposed that a luxury goods tax and capital gains tax would be introduced upon further studies and deliberation.

The re-introduction of the successful Special Voluntary Disclosure Program with a full penalty waiver for taxpayers further exemplify the Government commitment in fostering *Trust (keyakinan)* with the Rakyat in the nation building process.

Overall, the MADANI Budget sends a clear and undistorted message that the Government is together with the Rakyat in achieving a progressive and inclusive economy.

The following pages set out some economic statistics and a quick snapshot of the key changes announced in this year's Budget.

Should you have any queries relating to this snapshot or any other tax matters, please contact your KPMG consultants or send us an email at info@kpmg.com.my.

Happy reading!

Soh Lian Seng

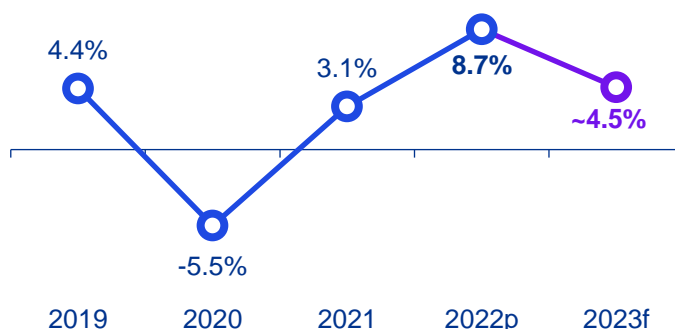
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State of our economy

GDP growth

- Malaysia's economy recorded a stellar performance in 2022 and is forecast to achieve moderate growth of approximately 4.5% to RM1.57 trillion in 2023.
- This projection is supported by stable domestic demand, labor market recovery, as well as robust growth in private investment and external demand.
- Additionally, the contribution from tourism-related sectors is also expected to improve the economy in 2023.

YoY GDP growth



Source: Ministry of Finance, Fiscal Outlook and Federal Government Revenue Estimates 2023

GDP growth by sectors

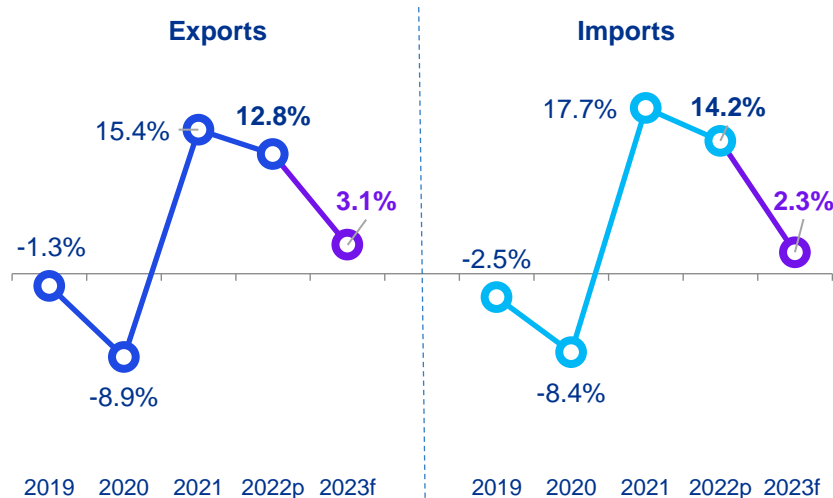
- The services and manufacturing sectors remain as the major contributors to the economy supported by external and domestic demand and expansion in all subsectors.
- Other sectors like agriculture, mining, and construction are expected to grow in tandem with the improvement in economic activities.
- However, geopolitical conflict, climate-related disasters, and high inflation will hamper economic growth.

YoY GDP growth (%)	2019	2020	2021	2022p	2023f
Manufacturing	3.8	-2.7	9.5	8.1	3.9
Agriculture	1.9	-2.4	-0.2	0.1	1.1
Services	6.2	-5.4	1.9	10.9	5.3
Mining	-0.6	-9.7	0.3	3.4	1.2
Construction	0.4	-19.3	-5.2	5.0	6.1

Source: Ministry of Finance, Fiscal Outlook and Federal Government Revenue Estimates 2023

Trade

- Total trade rose to 27.8% to RM2.848 trillion in 2022 and grow by 1.4% to RM2.887 trillion in 2023.
- Rebound in gross exports and imports are due to strong external demand, and vigorous economic activities, despite geopolitical conflicts and COVID-19 containment measures in China.
- Modest growth in trade performance is expected in 2023 as global uncertainties persist and ease in global commodity prices.



Note: p - Preliminary data f - Forecast data

Source: Ministry of Finance, Fiscal Outlook and Federal Government Revenue Estimates 2023

Domestic demand

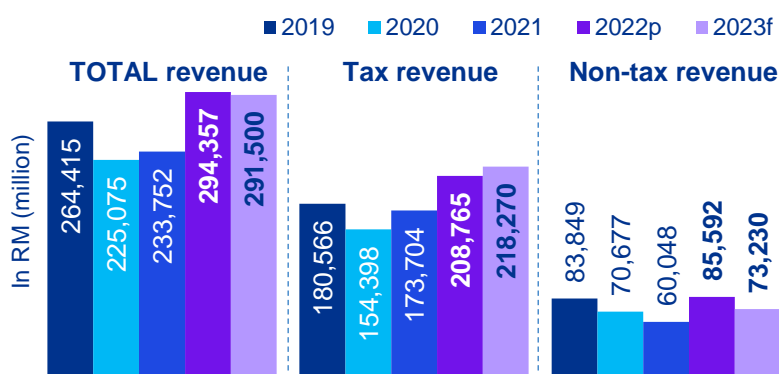
- Domestic demand is projected to expand by 5.4% in 2023, despite the anticipated challenging global environment.
- The expansion will be mainly driven by private sector and public sector expenditure, which is forecast to grow by 6.1% and 2.5% respectively.
- Various measures are being considered to enhance Malaysia's competitiveness including incentives to support wider adoption of digitalization, ESG practices as well as improving the capacity of MSMEs.

In %	2019	2020	2021	2022p	2023f
Public consumption	2.0	3.9	5.3	3.9	1.0
Public investment	10.8	-21.3	-11.3	5.3	7.0
Private consumption	7.6	-4.3	1.9	11.3	6.1
Private investment	1.6	-11.9	2.6	7.2	5.8

Source: Ministry of Finance, Fiscal Outlook and Federal Government Revenue Estimates 2023

Federal government revenue

- Revenue in 2022 recorded RM294.4 billion with a significant growth of 25.9%.
- Tax revenue remains as the major contributor to the overall revenue collection constituting 70.9% of total revenue (11.7% of GDP) while non-tax revenue is 29.1% (4.8% of GDP).
- Direct tax surged to RM153.5 billion (18%), primarily contributed by higher companies' income tax (CITA) and petroleum income tax (PITA).
- Indirect tax spiked to RM55.3 billion (26.8%) contributed by higher SST collection amounting to RM31.4 billion.



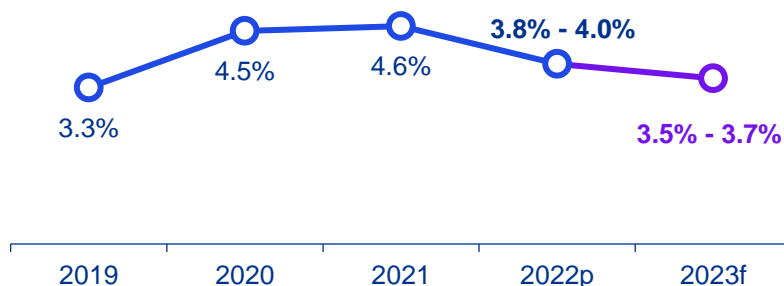
in RM million	2019	2020	2021	2022p	2023f
Direct tax	134,723	112,511	130,116	153,476	164,140
Indirect tax	45,843	41,887	43,588	55,289	54,130

Source: Ministry of Finance, Fiscal Outlook and Federal Government Revenue Estimates 2023

Labor market

- The labor market is anticipated to sustain the recovery momentum in 2023, with the total employment is forecast to record 15.6 million persons.
- Unemployment rate continues to trend lower due to stronger demand for workers by business and industries in meeting both domestic and external expansion.

Unemployment rate



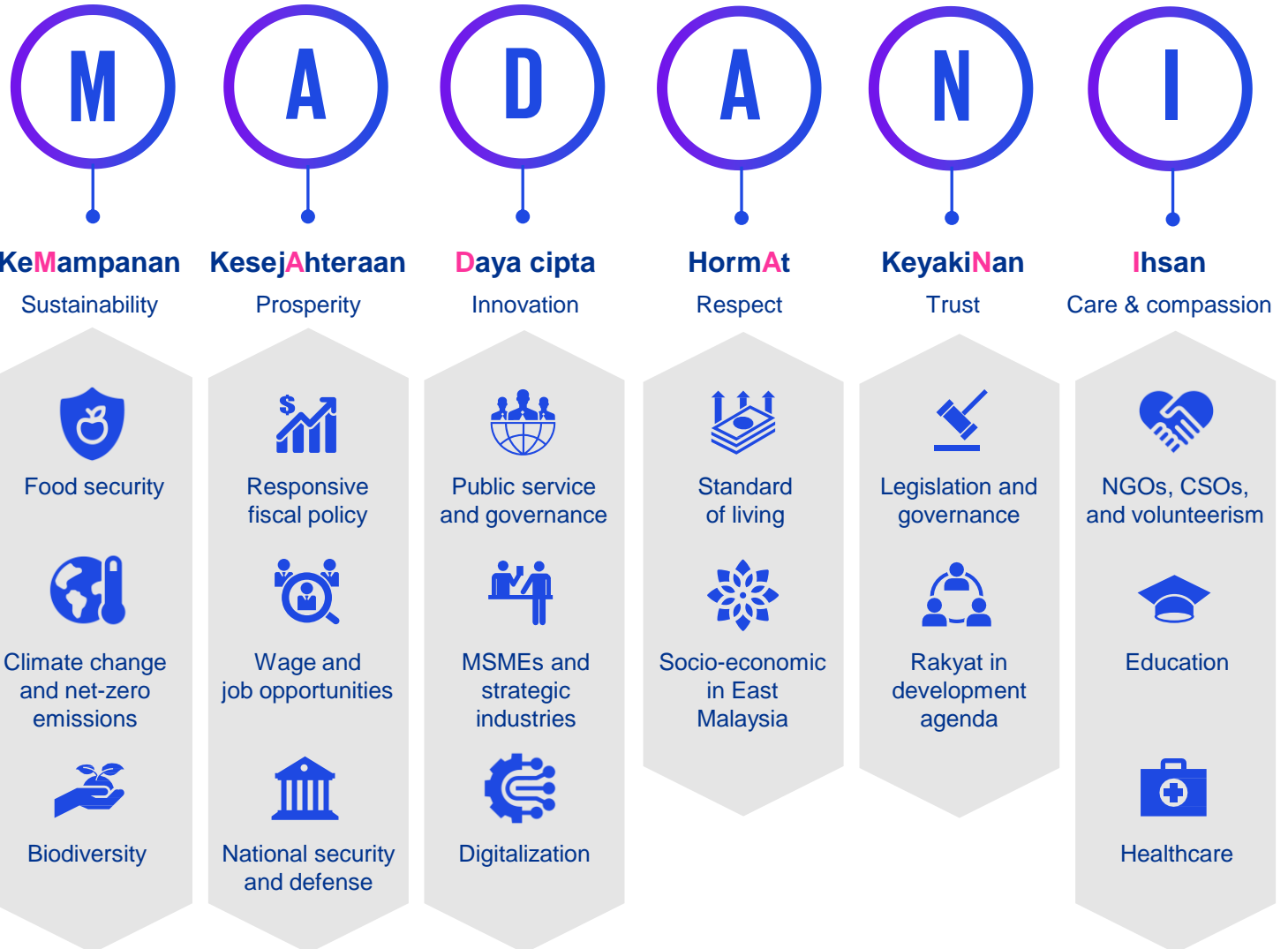
Note: p - Preliminary data f - Forecast data

Source: Ministry of Finance, Fiscal Outlook and Federal Government Revenue Estimates 2023

Malaysia MADANI

Introduced by Prime Minister Datuk Seri Anwar Ibrahim in January 2023. The Budget 2023 strategies guided by the MADANI policy framework.

Core values



Agenda



Source: Prime Minister's Office of Malaysia, Ministry of Finance, Fiscal Outlook and Federal Government Revenue Estimates 2023

2023 budget highlights

Key announcements

1 Capital Gains Tax

- The Government will study the introduction of Capital Gains Tax on chargeable gains on disposal of unlisted shares by companies from year 2024 onwards.
- The Government will carry out consultation with the relevant parties to examine the proposal in greater detail.
- Details such as taxation scope and rate of tax have yet to be released.

2 Introduction of Luxury Goods Tax

- A new tax called Luxury Goods Tax to be introduced in year 2023 on luxury goods of a certain value and/or type. For example, luxury watches and fashion items.
- A form of progressive tax on high value goods which aims to widen the tax base by primarily targeting high-income earners. Hence, this tax should impact the wealthy as opposed to the vast majority of the population.
- Further details including the mechanism and effective date have yet to be announced.

3 Special Voluntary Disclosure Program (SVDP)

100% Waiver of penalty

- Inland Revenue Board (IRB) and Royal Malaysian Customs Department (RMCD) will reintroduce SVDP.
- A 100% waiver of penalty for voluntary disclosure made from 1 June 2023 to 31 May 2024.
- Details of the proposed implementation have yet to be announced.

For individuals

4

Changes to Income Tax Rates for Resident Individual from Year of Assessment (YA) 2023

↓ 2%

- **8% to 6%** for the chargeable income band of RM35,001 to RM50,000.
- **13% to 11%** for the chargeable income band of RM50,001 to RM70,000.
- **21% to 19%** for the chargeable income band of RM70,001 to RM100,000.

↑ 1%

- **24% to 25%** for chargeable income band of RM100,001 to RM250,000.

↑ 0.5%

- **24.5% to 25%** for the chargeable income band of RM250,001 to RM400,000.

↑ 1%

- **25% to 26%** for chargeable income band of RM400,001 to RM600,000.

↑ 2%

- **26% to 28%** for the chargeable income band of RM600,001 to RM1,000,000.

5

Stamp Duty Exemption for Purchase of First Residential Home

100%

Current stamp duty exemption for the purchase of first residential property with value of RM500,000 and below.

50% → 75%

Stamp duty exemption increased from 50% to 75% for first residential property with value above RM500,000 to RM1 million.

- Applicable to instruments of transfer and loan agreements for the purchase of first residential property.
- Further details in relation to the effective date have yet to be announced.

6

Stamp Duty on Transfer of Property By Way of Love and Affection

Fully exempted

Limited to the first RM1 million of the property's value.

50% remission

on the remaining balance of the property's value.

- Applicable to instrument of transfer of property by way of love and affection between parents and children, grandparents and grandchildren executed from 1 April 2023.
- Recipient of property must be Malaysian citizens.

For corporates

7 Reduction of Income Tax Rate for Micro, Small and Medium Enterprises

Income tax rate for first RM150,000 chargeable income ↓ **2%**

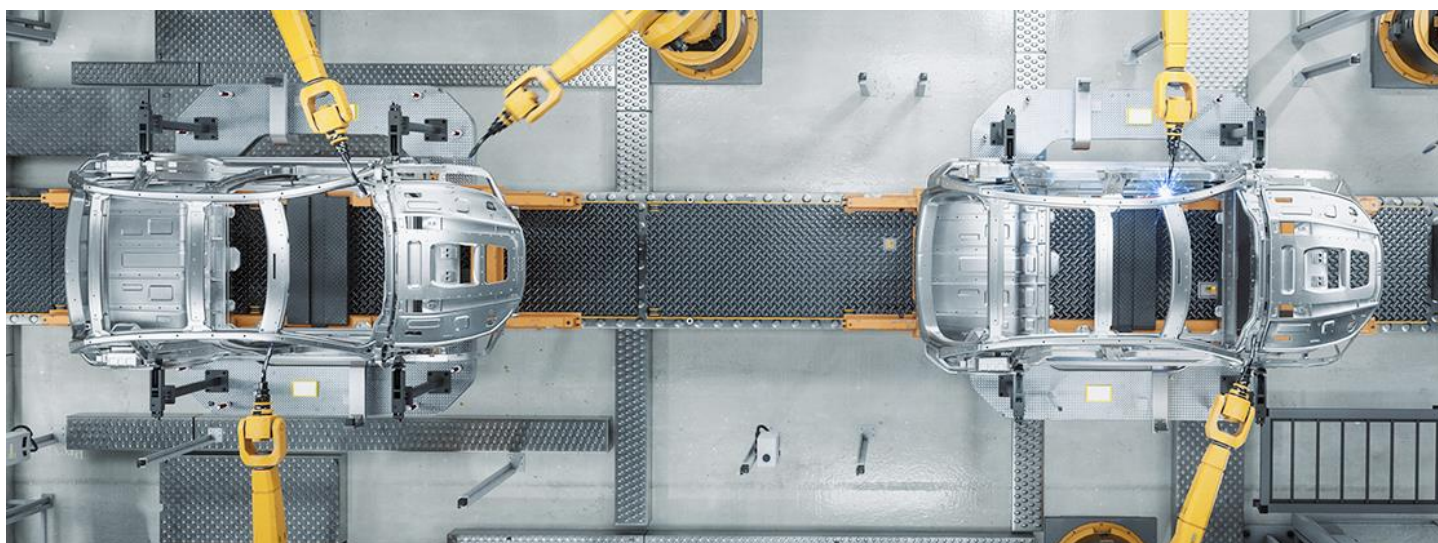
- Income tax rate to be reduced from 17% to 15% for the first RM150,000 of chargeable income from YA 2023 for resident companies with paid-up capital of RM2.5 million and below (or limited liability partnership resident in Malaysia which has a total contribution of capital of RM2.5 million or less) and annual sales turnover not exceeding RM50 million.
- Chargeable income of RM150,001 to RM600,000 remains to be taxed at 17%; excess shall be taxed at the prevailing rate of 24%.

8 Tax Deduction for Sustainable and Responsible Investment (SRI) Linked Sukuk

- Tax deduction on the cost of issuing SRI-linked Sukuk from YA 2023 to YA 2027.

9 Tax Deduction on Listing Cost

- Extension of existing tax deduction on the cost of listing on the ACE and LEAP markets of up to RM1.5 million to YA 2025.
- Expanded to include the cost of listing of technology-based companies on the Main Market of Bursa Malaysia.



10 Income Tax Exemption for Charitable Hospitals

- Income tax exemption for Charitable Hospitals registered as a Company Limited By Guarantee equivalent to the amount of charitable expenditure incurred.
- Donors be given tax deduction of up to 10% of aggregate income.

11 Special Tax Deduction for Expenditure on Malaysian Handicraft

- Special tax deduction of up to RM150,000 on the purchase of qualified Malaysian-made handicraft products purchased from local handicraft entrepreneurs registered with Perbadanan Kemajuan Kraftangan Malaysia by hoteliers from 1 January 2023 until 31 December 2025.

ESG Tax Incentives

12 Tax Incentive for Manufacturer of Electric Vehicle (EV) Charging Equipment

100% or **100%**

Income tax exemption on statutory income commencing YA 2023 to YA 2032

Investment tax allowance for a period of 5 years to set off against 100% of statutory income

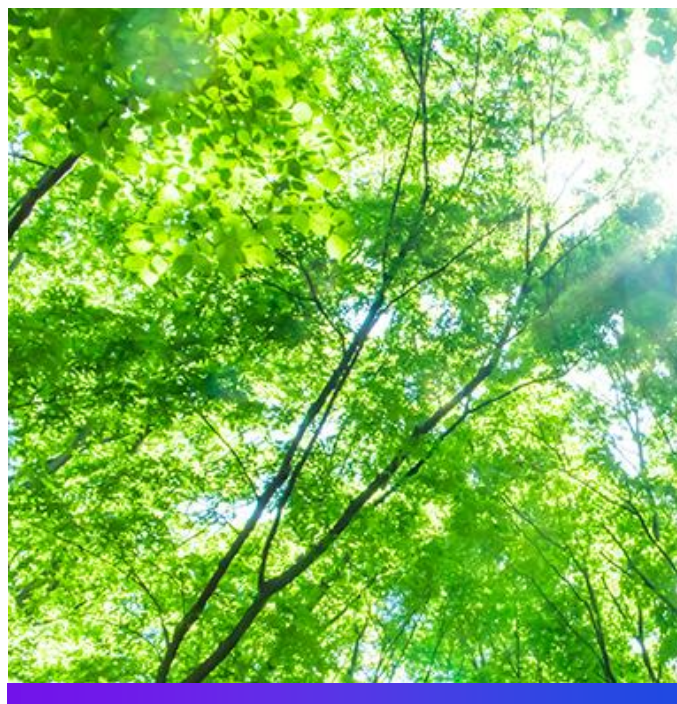
For applications received by Malaysian Investment Development Authority (MIDA) from 25 February 2023 until 31 December 2025.

13 Tax Incentive for Company Renting Non-commercial EV

- Tax deduction for company that rents non-commercial EV is increased to RM300,000 for YA 2023 to YA 2025.

14 Tax Deduction for Smart Artificial Intelligence (AI)-Driven Reverse Vending Machine

- Special tax deduction for donations or sponsorships of Smart AI-Driven Reverse Vending Machine.
- For contribution/sponsorship and applications received by Ministry of Finance (MOF) from 1 April 2023 until 31 December 2024.



15 Tax Incentives for Carbon Capture and Storage (CCS)

Companies undertaking CCS in-house activity

- Investment tax allowance of 100% for 10 years to set-off against 100% of statutory income.
- Full import duty and sales tax exemption on equipment for CCS technology from 1 January 2023 until 31 December 2027.
- Tax deduction for allowable pre-commencement expenses within 5 years prior to the date of commencement of operation.

Companies undertaking CCS services

100% or **70%**

Investment tax allowance for 10 years to set-off against 100% statutory income

Income tax exemption on statutory income for 10 years

- Full import duty and sales tax exemption on equipment used for CCS technology from 1 January 2023 until 31 December 2027.
- Tax deduction on fees incurred for use of CCS services for YA 2023 to YA 2027.

For applications received by MOF from 25 February 2023 until 31 December 2027.

Other Tax Incentives

16 Tax Incentive for Chicken Rearing in Closed House System

100% Accelerated capital allowance
+
100% Income tax exemption

on qualifying capital expenditure incurred from YA 2023 until YA 2025.

17 Tax Incentive for Automation in Manufacturing, Services and Agriculture Sector

100% Accelerated capital allowance

- Scope of automation to include the adaptation of Industry 4.0 elements.
- Scope of tax incentive is expanded to include agriculture sector.
- Capital expenditure threshold to be increased up to RM10 million.
- Application extended to 31 December 2027.

18 Extension of Existing Tax Incentives

Electrical and Electronic

- Extension of existing relocation incentives for manufacturing sector and details have yet to be announced.

Biotechnology and Food Production

- Existing tax exemption for BioNexus status companies is increased from 70% to 100% of statutory income is extended to 31 December 2024.
- Existing tax incentive for food production project is extended to 31 December 2025 and expanded to include agricultural projects based on Controlled Environment Agriculture.

Aerospace and Ship Building

- Existing income tax exemption and investment tax allowance for aerospace industry is extended to 31 December 2025.
- Existing tax incentives for ship building and ship repairing industry is extended to 31 December 2027.

Stamp Duty

- Extension of full stamp duty exemption on restructuring or rescheduling of loan/financing agreements executed from 1 January 2023 until 31 December 2024.



Indirect Tax



19 Extension of Exemptions on Purchase of EV

- Full import duty exemption on components for locally assembled EV
Until 31 December 2027
- Full excise duty and sales tax exemptions on locally assembled CKD EV
Until 31 December 2027
- Full import duty and excise duty exemptions on imported CBU EV
Until 31 December 2025

20 Expansion of Excise Duty and Sales Tax Exemptions on Sale, Transfer, Private Use or Disposal of Individually Owned Taxis and Hired Cars

- Excise duty and sales tax exemptions on the sale, transfer, private use or disposal of individually owned taxis and hired cars are expanded to include taxis (budget taxis, executive taxis and TEKS1M), airport taxis (budget and family) and hired cars.
- The vehicle age condition is relaxed to at least 5 years from the date of registration.
- For applications received by the RMCD from 1 March 2023.

21

Imposition of Excise Duty on Gel or Liquid Products containing Nicotine

- Excise duty to be imposed on gel or liquid products containing nicotine used for electronic cigarettes and vaping.
- Effective date and applicable rate yet to be announced.

22

Import Duty and Sales Tax Exemptions on Nicotine Replacement Therapy

- Import duty and sales tax exemptions on nicotine gum and nicotine patch for a period of 3 years.
- For applications received by the MOF from 1 April 2023 to 31 March 2026.



23

Import Duty and Sales Tax Exemptions on Studio and Filming Production Equipment

- Import duty and sales tax exemptions on studio and filming production equipment to providers of studio equipment, production and post-production services for a period of 3 years.
- For applications received by the MOF from 1 April 2023 to 31 March 2026.

24

Extension of Import Duty Exemption for BioNexus Status Company

- Import duty exemption on raw materials/ components and machinery/equipment for BioNexus Status Company to be extended for 2 years.
- For applications received by Malaysian Bioeconomy Development Corporation from 1 January 2023 until 31 December 2024.

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