Belanjawan 2023 MALAYSIA MADANI

A PRAGMATIC RATHER THAN FEEL-GOOD BUDGET

BY **KAMARUL AZHAR**

After 26 years, Datuk Seri Anwar Ibrahim returned to the Dewan Rakyat to table the federal government's budget, after last doing so back in 1997 when he was deputy prime minister and finance minister.

Since then, much has happened to the country and to the man himself. His turn as the 10th prime minister as well as the finance minister of Malaysia comes at a time when the country is beset with a plethora of challenges and structural issues. (Although some may argue that the situation was not that different in 1997.)

However, Anwar seems focused on his mission to address the challenges faced by the man in the street, rather than the big corporations of the country. While there are similarities and the broad measures are more or less the same as the one tabled last October, one can't help but feel that the thinking behind it is different.

"I think the prime minister hits the critical points of addressing poverty issues, vulnerable members of society, and how we should devise strategies that the wealth pie can actually be equally distributed," says Dr Zokhri Idris, CEO of Policy and Economic Affairs Centre of Malaysia Foundation (PEACE).

Anwar started the budget announcement by saying that the budget needed to address two main factors — transparency, honesty and accountability in saving and spending, as well as responsiveness to address the people's needs.

"In this crisis [that the world economy is going to be growing much slower than last year], the question that must be addressed is the number of people who are living in poverty. Are the funds being channelled in a transparent manner to avoid leakages and wastages?

"Responsiveness based on understanding the needs of the people — how do we act in a responsive, smart and cautious manner in managing the budget of the country," he said when presenting the revised budget for the government's spending this year.

Budget 2023 is the largest on record, with a total allocation of RM388.1 billion, of which RM289.1 billion is tapped for operating expenditure and RM99 billion for development expenditure, including a RM2 billion allocation for contingency savings.

In contrast, the preliminary development expenditure for 2022 amounted to RM71.6 billion (versus a budgeted RM75.6 billion). The higher development expenditure will be focused on poverty eradication programmes, improving public infrastructure, as well as rural facilities, said Anwar.

The budget will be funded by RM291.5 billion of revenue and the rest by debt, for a projected fiscal deficit of 5% of the country's gross domestic product (GDP). The fiscal deficit is expected to decline to 3.2% in 2025. The revenue assumption is only less than 1% lower than the revenue of RM294.4 billion (budgeted RM234 billion) in 2022.

"Overall, Budget 2023 was the most comprehensive one addressing all segments of society. The commitment to narrow the fiscal deficit in 2023 is necessary and what we hope to see in the next budget are clear strategies to repurpose Malaysia's attractiveness as an investment destination based on our comparative advantage," says Veerinderjeet Singh, non-executive chairman of Tricor Malaysia.

But with the global economy expected to slow this year, is it rational for the government to assume that revenue will only be 1% lower from the previous year? Lee Heng Guie, executive director of the Socio-Economic Research Centre (SERC), doubts it.

"I doubt that revenue will only decline by less than 1%. The tax restructuring measures that were introduced come to a net revenue loss of RM753 million, based on our calculations. Where will the rest of the revenue come from?

"If the government is going to depend on Petronas' dividends, that depends on the oil price," he says, adding that if the decline in revenue is much higher than projected in the budget, the government will not be able to meet the 5% fiscal deficit target.

Nevertheless, Anwar said in his speech that new borrowings must be lower than before, and the funds raised through debt should only be used for programmes that will have a direct impact on the people.

The government will also table the Fiscal Responsibility Act this year, he added.

Concern over tax restructuring

To be clear, the budget also introduced new taxes aimed at those with higher incomes than the majority of the population. Meanwhile, middle-income earners will benefit from lower taxes.

In the budget, the government proposed a Luxury Goods Tax (LGT) starting this year, and said it would be studying a Capital Gains Tax (CGT), to be implemented next year. The CGT will be imposed on gains arising from the disposal of shares in private companies.

On this, Wong Muh Rong, founder and managing director of Astramina Advisory Sdn Bhd, says the introduction of CGT on unlisted entities will encourage more companies to list on Bursa Malaysia.

"But it needs clarity whether divestments of unlisted shares within a listed entity group will also attract capital gains [tax]. The public or capital market at large will need more clarity on this and it is best to wait for the details," says Wong.

Farah Rosley, Malaysia tax leader at Ernst & Young Tax Consultants Sdn Bhd, says the proposed CGT is a fundamental departure from the current Malaysian tax framework where capital gains are not taxed except by way of the Real Property Gains Tax (RPGT).

"While this may increase future revenue collections, the projected benefits will need to be balanced with the impact on Malaysia's attractiveness as an investment destination," says Farah in a statement.

She adds that a CGT of this nature may discourage group restructuring exercises, which are typically undertaken to streamline group structures and to bring about efficiencies.

"It is encouraging that the government has indicated that it will hold consultation sessions with the relevant stakeholders to study this proposal in greater detail. We hope this consultation will be robust and the feedback will be considered prior to any implementation decisions being made," she says.

Veerinderjeet says the fact that an LGT and the possibility of a limited form of CGT have been announced does signal that the tax structure is being reformed and that future budgets may have more measures included. "The Goods and Services Tax also has not been fully discounted as well and this could well see some development in a year or so," he adds.

In the proposal to increase the income tax rate of higher-income earners, starting from the year of assessment 2023, those in the chargeable income bracket of more than RM100,001 a year to RM1 million will be charged a higher income tax rate, by between 0.5 and two percentage points.

Again, SERC's Lee is concerned that the increase in income tax rate on the highest income earners could lead to a brain drain as this group comprises the professionals and talents that the country needs.

What's in it for the M40?

BY **INTAN FARHANA ZAINUL**

The revised 2023 Budget made a special mention of the M40, a relative rarity given that most of the attention tends to centre on the B40 — the most vulnerable group, especially during an economic downturn.

But in his budget speech, Prime Minister Datuk Seri Anwar Ibrahim said: "The B40 group was often given various forms of assistance while the middle group, M40, showed their patience despite being squeezed by the gripping rise in the cost of living. As such, the government agreed to increase the disposable income of the M40 group through the reduction of individual income tax rates."

Taking a cue from the earlier Budget 2023 that was tabled last October by the previous administration, the revised budget has extended the two percentage point (ppt) tax reduction for those with a chargeable income of between RM35,000 and RM100,000 annually.

Those in the chargeable tax income bracket of between RM35,001 and RM50,000 will enjoy a reduced tax rate of 6%, from 8%; those in the RM50,001 to RM70,000 bracket will be taxed 11% from 13%; while those in the RM70,001 to RM100,000 bracket will be subject to a lower tax of 19%, from 21%.

The reduction in tax rates is expected to benefit some 2.4 million taxpayers, and provide them with RM1,300 in additional disposable income.

In total, Anwar said the initiative was expected to increase the people's income by RM900 million.

Under the original Budget 2023, a 2ppt tax rate cut was proposed for those in the RM50,000 to RM100,000 income bracket.

PwC Malaysia tax leader Jagdev Singh welcomes the tax cuts as they will provide much-needed relief to the middle-income group, who have been left out in previous budgets although they are not spared the impact of soaring inflation.

"The costs for the government are partially offset by the increase in tax rates of between 0.5ppt and 2ppt for individuals in the RM100,001 to RM1,000,000 tax brackets as well as the general increase in wages in the last year which results in increased taxes. The increase in tax rates is expected to impact less than 150,000 taxpayers," he says in a statement.

Although the 2ppt cut results in lower tax collection, the impact should be minimal since the money saved would be contributed back to the economy in the form of higher consumption, says Sim Kwang Gek, country tax leader at Deloitte Malaysia.

Other tax reliefs announced by Anwar for the M40 include increasing the tax relief on medical expenses to RM10,000 from RM8,000. Moreover, there will be an extension in the scope of income tax relief for life insurance premiums or life-takaful contributions to cover voluntary contributions to the Employees Provident Fund of up to RM3,000, to encourage retirement savings.

Another initiative to encourage higher savings among the M40 group is the increase in the maximum individual limit for Amanah Saham Bumiputera (ASB) and Amanah Saham Bumiputera 2 (ASB2) to RM300,000 from RM200,000.

The size of Amanah Saham Malaysia's fund will also be expanded by RM5 billion.

Individuals with ASB savings of less than RM30,000 will receive a higher payout of 5.1% annually, while those with more than RM30,000 will receive 4.6% annually.

In addition, the government pledged to introduce a targeted subsidy mechanism that will benefit the lower-to-middle income group. ■


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TONG'S PORTFOLIO

Will this government return the favour to the M40?

BY TONG KOOI ONG · ASIA ANALYTICA

Mention cost of living and we bet everybody has something to say about it, most likely to complain that the price of almost everything is rising at a dizzying speed. The government of Prime Minister Datuk Seri Anwar Ibrahim has made tackling the rising cost of living its immediate priority. Too often though, discussions on lowering living costs, inevitably, centre on helping the lower-income households, the B40. We are not disputing that the poor require help. But as we wrote last week, these households are already receiving substantial cash transfers and aid benefits from various assistance programmes, public and private. Many of their necessities or staples are currently being subsidised or under price control. They likely do not pay any taxes. Additionally, a good percentage of them live in states where the cost of living is lower, compared with that in major urban cities and towns (see Chart 1).

We would argue that the urban middle-income households (M40) are strug-

Malaysian Portfolio

	QUANTITY	AVERAGE COST (RM)	COST OF INVESTMENT (RM)	CURRENT PRICE (RM)	CURRENT VALUE (RM)	GAIN/(LOSS) (RM)	GAI[illegible]
SHARES HELD							
CCK Consolidated Holdings Bhd	81,000	0.62	50,139.0	0.735	59,535.0	9,396.0	18.7
Deleum Bhd	69,800	0.72	49,907.0	0.97	67,706.0	17,799.0	35.7
Mega First Corporation Bhd	15,100	3.31	50,026.3	3.56	53,756.0	3,729.7	7.5
RCE Capital Bhd	28,900	1.49	43,176.6	1.84	53,176.0	9,999.4	23.2
Velesto Energy Bhd	357,100	0.14	49,994.0	0.23	82,133.0	32,139.0	64.3
Total			243,242.9		316,306.0	73,063.1	30.0
Cash balance (as a % of portfolio)					197,381.9		38.4
Realised profits/(losses)					240,624.8		
Change since last update							
Portfolio							0.8
FBM KLCI							(0.9)
Portfolio returns since inception			200,000.0		513,687.9	313,687.9	156.8
Portfolio returns (annualised)							18.5
Portfolio beta							1.1
Risk-adjusted returns since inception							136.7

PERFORMANCE COMPARISON	AT PORTFOLIO START	CURRENT	CHANGE (%)	RELATIVE PORTFOLIO OUTPERFORMANCE (%)
FBM KLCI	1,829.7	1,485.5	(18.8)	175.2

MINISTRY OF FINANCE

New individual income tax structure under revised Budget 2023

Chargable Income	Current tax rate (%)	Proposed tax rate (%)
0 - 5,000	0	0
5,001 - 20,000	1	1
20,001 - 35,000	3	3
35,001 - 50,000	8	6
50,001 - 70,000	13	11
70,001 - 100,000	21	19
100,001 - 250,000	24	25
250,001 - 400,000	24.5	25
400,001 - 600,000	25	26
600,001 - 1,000,000	26	28
1,000,001 - 2,000,000	28	28
More than 2,000,000	30	30

"And if they decided to migrate because the tax rate is just too high, that would be a loss to the country. The highest income bracket is now taxed at 30% of their annual income. Just next door, Singapore is taxing 15%," he points out.

Nevertheless, PEACE's Zokhri opines that just because high-income earners are being taxed more, it will not necessarily lead to them migrating.

"I don't think that will be a good calculation [for high-income earners]. The priority right now is that the wealth needs to be distributed. The T20, or the privileged ones, have been enjoying the privileges of living in this country all this while," he says.

"At the same time, the government is giving more incentives to increase the competitiveness of local industries and attracting higher-quality foreign direct investments, which will end up benefiting high-income earners through better job creation and higher income."

Meanwhile, those with taxable incomes of between RM35,001 and RM100,000 will see their income tax rate reduced by two percentage points. According to Anwar, this will lead to disposable income of up to RM1,300 for about 2.4 million taxpayers.

As a stop-gap measure, the government has restarted the special voluntary disclosure programme (SVDP), which the previous Pakatan Harapan government introduced in 2018. There will be no penalty on disclosures made between June 1, 2023, and May 31, 2024.

According to Soh Lian Seng, head of tax at KPMG in Malaysia, the reintroduction of the programme is a smart move as a means of collecting additional tax revenue. He adds that the programme could net the government more than RM10 billion in tax revenue.

"A total of 286,482 taxpayers participated in SVDP 1.0, bringing in an additional RM7.877 billion in taxes for the government's coffers at that time. With SVDP 2.0 providing a full penalty waiver to voluntary participants [compared to a 15% to 30% penalty in SVDP 1.0], the take-up rate should far exceed that of SVDP 1.0, and we can expect SVDP 2.0 to collect more than RM10 billion," says Soh.

He adds that this is conditional on the full mechanism yet to be revealed. For example, will participants of SVDP 2.0 reap the same benefits, whereby the Inland Revenue Board will not carry out audits and investigations into their companies for the years involved?

Reform in investment incentives

The budget cannot be said to be for the people if it doesn't address the need to revive the economy. On this, the government is committed to improving the country's ease of doing business, as well as continuing with proposed infrastructure projects.

At the same time, it is reforming the incentives that are offered to foreign direct investments. This is based on the findings of Bank Negara Malaysia, which showed that the benefits from FDIs are shrinking due to the availability of high incentives as well as low value-added investments.

On this, Anwar said, "Investment incentives will be restructured towards tiered tax rates, based on whether the investments are creating high-value jobs, deepening the industries' value chains with local firms, as well as creating new industrial clusters."

The government will also strengthen the monitoring of investments that receive incentives to ensure that the benefits are gained by the country and its people.

Despite relooking at the incentives being offered to FDIs, the government has proposed several improvements on the incentives. For example, for manufacturing companies in the electrical and electronics sector as well as the aerospace manufacturing sector, the government will extend the tax incentives offered to those that relocate their operations to Malaysia, as well as a 15% income tax rate on the C-suite until 2024. Specifically for the aerospace industry, the government will extend the corporate income tax as well as investment tax allowance until Dec 31, 2025.

MIDF Research says the efforts to increase high-impact investments and FDI via various incentives such as relocation incentives to attract affected electrical and electronics sector investors and incentives for the aerospace industry are commendable. "Measures focusing on science, technology and innovation can be seen as necessary to ensure Malaysia's economy remains competitive," says the research firm.

Budget 2023 could be seen as setting the tone of the unity government on what it considers important for the country. While the budgetary measures can be construed as having the same intentions as the previous budgets, a statement on the redistribution of wealth made by the PM resonates the most.

"Considering the income and the wealth of the country that are concentrated in the upper class or super-rich elites, it is rational for the distribution of the country's revenue to focus on those in the low- and middle-income groups," Anwar said.

However, Veerinderjeet says that what is lacking in this budget is a clear roadmap on the tax reform framework that the Ministry of Finance is considering, as well as the lack of any announcement on the reform of the tax incentive framework that had been alluded to in the past three budgets.

"We also hope that all the allocations or funds announced will have clear guidelines, simpler rules and actually end up in the businesses that really need them so that there will be a positive contribution to the economy," he adds. ■

SME-friendly but more can be done; execution still key

BY **LIEW JIA TENG**

The revised Budget 2023, tabled by Prime Minister and Finance Minister Datuk Seri Anwar Ibrahim last Friday, is widely seen as one friendly to small and medium enterprises (SMEs), the backbone of the local economy that makes up over 95% of business establishments in the country and employs about 70% of its labour force.

Notably Anwar retained the proposed tax cut for micro, small and medium enterprises (MSMEs) in the revised budget. The measure was first mooted by former finance minister Tengku Datuk Seri Zafrul Abdul Aziz in the original Budget 2023 tabled in October last year.

Under that budget, Zafrul proposed to reduce the income tax rate for MSMEs from 17% to 15% for the first RM100,000 taxable income, with effect from the year of assessment 2023. This was set to benefit 150,000 MSME taxpayers, with tax savings of up to RM2,000 each.

Anwar enhanced that by expanding the taxable income threshold to the first RM150,000 earned, from the initially proposed RM100,000. As a result, MSME taxpayers are expected to save up to RM3,000 each.

SMEs' present tax rate for the first RM600,000 is 17%. Under the newly announced measure, the tax rate for SMEs for their first RM150,000 taxable income will be 15%, with the next RM450,000 at 17%; anything above RM600,000 will be taxed at 24%.

Baker Tilly Malaysia managing partner and Asia-Pacific leader for tax services Anand Chelliah says the proposed tax cut, coupled with the threshold expansion, will be welcomed by MSMEs, as the savings could help defray the increase in raw material and wage costs. It may even spur productivity for some.

But more could have been done, especially for SMEs still struggling to turn a profit amid heightened inflationary pressures and a challenging business environment, Chelliah says.

"It could have taken the opportunity to increase the third threshold from RM600,000 to, say, RM1 million and introduce another band of taxable income, say at 20%, before taxing the excess at 24%," he suggests.

Apart from lowering taxes, thought could have gone to pragmatic measures to help SMEs defray a higher cost of raw materials, electricity tariffs and labour costs, as these are what SMEs are struggling with, he notes.

"As much as relief at the taxable income level is most welcome, the presumption is that they are in a position to pay tax on taxable income. This may not be the case in these difficult times," he says.

Johor South SME Association adviser and founding president Teh Kee Sin described the proposed tax cut as "a good and friendly gesture" to SMEs. "But frankly, it may not help much. After all, the tax savings will only be up to RM3,000. If your company is not profitable, how do you even get tax savings?" he asks.

Still, the RM40 billion set aside for financing facilities is timely, says Teh, who hopes the money will reach SMEs as soon as possible. "We hope that government agencies can simplify the processes because SMEs really need that money urgently."

YYC group CEO Datin Yap Shin Siang also concurs that the proposed tax cut for MSMEs is a good measure for private limited companies and limited liability partnerships. "This leaves more profit after tax that can be used for business growth, which will indirectly help economic growth," she says.

And given that MSMEs will always need funds to grow their businesses, the RM40 billion allocation for funding and financing guarantees is also expected to benefit them. In addition, there is RM1.7 billion in loan facilities that will be allocated for businesses under Bank Negara Malaysia, Bank Simpanan Nasional (BSN) and TEKUN.

But execution, as always, is key, says Yap. "The application process may involve paying a visit to many government agencies. From the application to obtaining the funds, the duration may be lengthy and dragged out, not to mention the process may sometimes be very complex," adds Yap.

Bear in mind that MSMEs do not have sufficient time and manpower to monitor and follow up on tedious application processes. This may result in supposedly good fiscal assistance measures falling short in terms of execution.

"The application process may vary for different governmental agencies. Whether or not an SME can benefit from the government's goodwill depends on the smoothness and transparency of the application process for grants, loans and incentives," she adds.

At a glance — how the two Budgets differ, in terms of measures for MSMEs

Revised Budget 2023 tabled by Datuk Seri Anwar Ibrahim on Feb 24, 2023	Budget 2023 tabled by Tengku Datuk Seri Zafrul Abdul Aziz on Oct 7, 2022
For YA2023, tax rate on taxable income of SMEs for first RM150,000 to be reduced to 15% from 17% — a saving of up to RM3,000 for 150,000 SME taxpayers	Income tax rate to be reduced from 17% to 15% for first RM100,000
Allocation of RM100 million under Digitization Grant Scheme for SMEs and small vendors to support business automation and digitisation	RM1 billion grant for one-off RM1,000 aid to all registered MSMEs and registered taxi drivers, to benefit one million recipients
RM1 billion facility under Bank Negara aimed at incentivising SMEs to automate processes and digitalise operations	Bank Negara to allocate RM10 billion funding for SMEs for automation, digitalisation, tourism and agriculture
Government agencies to continue providing various financing facilities to SMEs with a total value of up to RM40 billion	Guarantee limit of up to RM9 billion via Business Financing Guarantee Company to make it easier for SMEs to get financing
Bank Negara to provide financing of up to RM2 billion to support green technology start-ups and help SMEs implement low-carbon practices	Government plans to introduce carbon tax and study the feasibility of a carbon pricing mechanism. To support the implementation of this mechanism, the government will provide RM10 million as matching grant to help SMEs prepare for carbon assessments.
Loan facility from BSN, Bank Negara and TEKUN worth RM1.7 billion to help micro entrepreneurs, women and youth	To encourage more young people to do business, RM305 million will be made available as a special loan facility for youth through SME Bank, TEKUN, MARA, BSN and Agrobank
	RM100 million allocation to Domestic Investment Strategic Fund (DISF) to support the development of domestic tech-based companies
	For 2023, RM1.7 billion is to be made available as micro-loan funds and business facilities for the benefit of small businesses
	RM1 billion allocation for Bank Negara Malaysia Agrofood Financing Scheme to help SMEs increase agro-food production

'No bad news means good news for investors'

BY **LEE WENG KHUEN**

The revised budget is a good start for the new government as it is creating a business-friendly environment with no major shocks, analysts say, which is a major step in drawing more foreign investors to the local bourse.

Loui Low, head of research at Malacca Securities, is of the view that the budget could provide more certainty to the investing fraternity.

"The negative performance in the FBM KLCI lately was due to the speculation of implementation of sin tax and capital gains tax. Since these two things are not seen in the budget, we can say that it is a positive budget," he tells *The Edge*.

He agrees with Prime Minister Datuk Seri Anwar Ibrahim's move to tackle more immediate issues such as high inflation, before looking at external matters such as bringing in more investment, which will be in the pipeline over the next few years.

"I think [Anwar] has thought about this quite thoroughly. So, at least it is not detrimental to the capital market at this juncture, given the volatility seen earlier because of the capital gains tax speculation."

The benchmark FBM KLCI is down 2.6% year to date, underperforming its regional peers.

Areca Capital Sdn Bhd CEO Danny Wong shares the same view, noting that market uncertainty over concerns such as the extension of the prosperity tax, has been removed.

"Overall, I feel no bad news means good news. As long as there are no adverse policies, then I think it is a good start. I believe more pro-business policies will be coming up next," says Wong, who thinks a clear takeaway from Anwar's budget speech is that the government is trying to help the people as well as companies.

"Right now, the new government needs to stabilise the situation without giving signals that they will simply give out cash. That the government is also pro-business, without taxing more people. So, these are good signs.

"The target to cut the fiscal deficit to 3.2% over the medium term is good in the eyes of foreign investors," he adds.

Wong also lauds the government's plan to allow the listing of dual-class shares on Bursa Malaysia. Dual-class shares refer to the issuance of two classes of shares, one of which could have superior voting rights, often allowing founders or top executives to have control over the company even with ownership of a lower stake.

"With dual-class shares, funds can be raised without having to dilute the owner's shares," Wong observes.

Meanwhile, a research head who declined to be named foresees muted impact from the revised budget, but was of the view that the extension of tax exemption for companies listed on the ACE Market and LEAP Market, as well as tech stocks on the Main Market, will encourage more listings on the local stock market.

He is also positive on the construction sector in view of the increase in development expenditure, despite the lack of new mega projects.

Although the government is reducing individual income tax by two percentage points for those in the taxable income bracket of RM35,000-RM100,000, he thinks that the projected reduction of RM900 million in personal income tax collected from the M40 group may not have a significant impact on the consumer sector.

Low concurs, saying that people are likely to buy necessities with the extra income, as the multiple rounds of Employees Provident Fund withdrawals have reflected the pressures of high living costs.

However, he believes the planned upgrade of the Penang and Subang airports will benefit the tourism sector.

Ensuring food security and welfare of farmers

BY **INTAN FARHANA ZAINUL**

It is no surprise that food security was a major component among the measures taken to lighten the burden of the higher cost of living in the revised Budget 2023, given Malaysia's massive food import bill.

Food security has been a hot topic in the last few years, and more so over the past year when the country had to deal with the double whammy of a weaker ringgit against a strong US dollar and wild swings in commodity prices brought on by the war in Ukraine.

"Many countries have increased their focus on food security. There are actually a lot of people interested in the agriculture sector, but the main issue is the availability of land. A lengthening of the temporary occupation licence (ToL) will provide certainty and encourage investors to commit to agriculture investment," says Lee Heng Guie, executive director of the Associated Chinese Chambers of Commerce and Industry of Malaysia's (ACCCIM) Socio-Economic Research Centre.

"Some government agencies should open up their unutilised land bank for collaboration with the private sector to undertake agricultural activities. Meanwhile, the government should look into the supply chain and the distribution of agricultural products, trading and stockpiling to further enhance the sector."

The government points out that land use for the purpose of growing food had declined to only 1.2 million hectares, compared with seven million hectares for growing oil palm and rubber trees. As such, under the revised Budget 2023, the government has proposed that the Federal Land Development Authority (FELDA), Felcra, Risda and other agencies under the Ministry of Agriculture and Food Security to allocate up to 800 acres of land for food production.

In addition, the government is roping in the private sector to take part in large-scale agriculture and to improve the use of technology in the sector with 100% income tax exemption on capital expenditure.

This includes getting Lembaga Tabung Angkatan Tentera (LTAT) to collaborate with the Ministry of Agriculture and Food Security to allocate 70 acres of land owned by the group's investee company to pilot a large-scale domestic grain corn farming project, while concurrently facilitating the second career programme for veterans of the Malaysian Armed Forces.

In a statement, LTAT says it welcomes the government's efforts in the revised Budget 2023 on the national food security agenda.

"We view the budget initiatives as significant contributors to economic growth as they address the country's national agenda on food security as well as increase employment opportunities. Overall, this will improve the country's competitiveness towards becoming a developed nation. LTAT and its group of companies will remain steadfast in discharging our duties and delivering added value to our stakeholders," says LTAT chief executive Datuk Ahmad Nazim Abd Rahman.

The Federation of Malaysian Consumers Associations (Fomca) president Datuk Marimuthu Nadason says the government is on the right track in not only addressing food security issues, but also ensuring sustainable economic growth.

"The government's initiative to highlight food security is timely, and it's getting many of its agencies and other ministries involved, especially to secure more land and large-scale farming to maximise land usage for agriculture. The government also wants to encourage modern farming practices by providing subsidies and incentives to farmers," he tells *The Edge*, adding that Malaysia has about 600,000ha to 700,000ha of idle agriculture land.

In addition, Prime Minister and Finance Minister Datuk Seri Anwar Ibrahim announced that Padiberas Nasional Bhd (Bernas) has agreed to share 30% of its net profit with paddy farmers, on top of its RM60 million allocation to rice smallholders in December last year.

Just how much is this 30% share? In FY2021, Bernas reported a profit after tax of RM182 million. Assuming that Bernas continues to report higher profits this year and beyond, it will contribute at least RM50 million to the country's paddy farmers annually. This will elevate the welfare of paddy farmers.

In his budget speech, Anwar also said the government will continue to distribute various subsidies and incentives to paddy farmers through an allocation of RM1.6 billion and additional RM228 million in the form of RM200 cash payment per month to 240,000 rice farmers for a period of three months.

Apart from production, the government is putting emphasis on increasing productivity as part of its plan to reform the sector through automation and digitalisation. Towards this end, Bank Negara Malaysia will set up a RM1 billion fund to drive the Malaysia Agrofood Financing Scheme, focused on facilitating productivity improvement for entrepreneurs.

Meanwhile, the Digital AgTech programme under the Malaysia Digital Economy Corporation (MDEC) will be expanded to train more smallholder farmers to adopt technology with an allocation of RM10 million.

The government also wants to promote productivity through the agriculture sector, especially among prisoners under the "Program Agro Penjara" for them to engage in agricultural activities on 70ha of prison land, with an allocation of RM10 million. ■

Vape players say aye to regulations but fret over excise duty amount, GEG policy

BY **KANG SIEW LI**

The revised Budget 2023 has finally addressed calls by vape players for the government to regulate the industry.

However, a new concern has cropped up relating to the excise duty to be imposed on the liquids or gel that contain nicotine used in electronic cigarettes or vape.

In the retabling of Budget 2023 last Friday, Prime Minister and Finance Minister Datuk Seri Anwar Ibrahim did not reveal the amount of the excise tax to be imposed nor the commencement date, except to state that his administration would look into taxing vape products. There were also no details on the regulations.

Anwar, however, indicated support for the tobacco generational endgame (GEG) policy that was mooted by former health minister Khairy Jamaluddin. Ridhwan Rosli, secretary-general of the Malaysian Vape Chamber of Commerce (MVCC), is urging the government to have consultations with the industry on the regulatory and taxation framework as well as the GEG policy before making a final decision.

"MVCC believes the government is taking the right steps to introduce a regulatory and taxation framework on the vape industry. However, regulations and the tax rate need to be balanced given that it will have an impact on local industry players," he says in a statement.

Ridhwan says MVCC disagrees with the GEG proposal, which would see the use, possession and sale of cigarettes and vape products banned to those born after a certain year. "This proposed policy would impact the vape industry, which is estimated to be worth RM2.49 billion."

Non-governmental organisation Advanced Centre for Addiction Treatment Advocacy (ACATA) and non-profit advocacy group Malaysian Vapers Alliance (MVA) want the government to conduct more studies on the GEG proposal before making any decision on the matter.

ACATA and MVA believe that a prohibitive policy like GEG on harm-reduced products such as vape, would be counterproductive.

"Multiple independent scientific evidence [produced] globally has proved that while vaping has health risks, those risks are significantly less than smoking cigarettes. In addition, vape has successfully aided many smokers to stop smoking cigarettes. Countries such as the UK and New Zealand have also supported vape as a less harmful product compared to cigarettes. All this science and evidence cannot be ignored," says MVA.

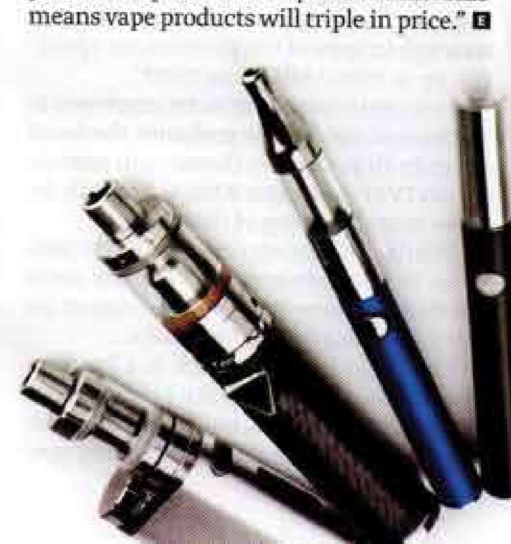
In a separate statement, Azrul Mohd Khalib, chief executive of the Galen Centre for Health and Social Policy, says the not-for-profit organisation has been a strong advocate of earmarking revenue from tobacco and alcohol excise duties for the purposes of health.

"However, we note that this proposal does not include vape without nicotine. The Malaysian vape industry, which is estimated to be worth more than RM2 billion, is largely made up of no-nicotine vape. Regulating and taxing only nicotine vape and e-cigarettes will produce less than what the government expects. All vape and e-cigarette products should be taxed," he says.

He also asked when the revised version of the Control of Tobacco Product and Smoking Bill, which was worked on by a Parliamentary Select Committee last year, would be tabled. "We hope that with this declared intent to tax vape, it will be followed by the passing of the legislation. It is overdue."

In October 2021, the Ministry of Finance — during the tabling of Budget 2022 — had proposed to increase the excise tax for vape liquids from 40 sen per ml to RM1.20 per ml. This taxation framework has yet to be implemented pending regulations.

Malaysian Retail Electronic Cigarette Association president Datuk Adzwan Ab Manas had earlier estimated that at RM1.20 per ml, an additional RM36 would be imposed on each bottle of 30ml liquid while the retail price of the product is only half of this. "This means vape products will triple in price." ■



Capital gains tax may affect M&A, PE, restructuring activities

BY **ADELINE PAUL RAJ**

Malaysia's plan to impose Capital Gains Tax (CGT) on the disposal of unlisted shares from 2024 could affect merger and acquisition (M&A), private equity (PE) and restructuring activities, experts say.

Yvonne Beh, a partner in the tax, trade and wealth management practice at Wong & Partners, tells *The Edge*: "This will definitely be something that companies will need to look at if they plan to do any disposal of unlisted shares as part of M&A, or even group restructuring or PE deals. But, of course, we don't know the details yet on things like rates and exemptions. For example, will share transfers in an internal group restructuring be exempted? It will all really depend on how the government crafts the provisions and the ambit and scope of the CGT."

Prime Minister and Finance Minister Datuk Seri Anwar Ibrahim, in tabling a revised budget for 2023, said that, in line with international best practices, the government is mulling imposing such a tax, at a low rate, from 2024. It plans to have engagement sessions with relevant parties to study the plan in detail.

It is worth noting that two of the largest financial markets close to home — Singapore and Hong Kong — do not impose a CGT. Thailand, Vietnam, Indonesia, Japan, India, China and Australia have some form of CGT in relation to the disposal of shares.

PWC

Lavindran: The government could potentially collect sizeable sums from the CGT

On what the possible "low rate" could be, Beh says: "We've never had a history of CGT in Malaysia, apart from the Real Property Gains Tax (RPGT). It is likely to depend on how much revenue the government is targeting from CGT."

The fact that the government is considering CGT only on the disposal of unlisted shares and not a full-blown CGT is interesting, Deloitte Malaysia tax leader Sim Kwang Gek points out.

"This indicates that the government is taking a phased approach, before embarking on a full-blown CGT. Considerations such as impact on M&A activities in Malaysia, Malaysia's attractiveness for inbound M&A, costs of doing business and tax treatment on losses arising from disposal of unlisted shares must be given weight," she says.

"It is also common for companies to undertake restructuring of businesses for operational efficiency purposes, where share transfers may take place within the group. Will CGT be imposed on such transactions? It is important to assess the additional tax revenue that will be generated from the imposition of a CGT vis-à-vis the downside effects on businesses.

"Another important factor is the interaction between CGT and RPGT. Currently, disposal of shares of a real property company (RPC) is subject to RPGT. The imposition of CGT on the disposal of unlisted shares will raise questions on whether there will be different treatment on disposal of shares of an RPC and a non-RPC."

Lavindran Sandragasu, a tax partner at PwC Malaysia, says the government could potentially collect sizeable sums from the CGT.

"There are actually several billion ringgit a year that change hands in relation to the sale of unlisted shares. You can even sell a privately owned group. Some of these transactions have significant valuations. So, I think, one of the [reasons] the government is considering this CGT is to capture those gains," he tells *The Edge*.

He says the CGT rate that is imposed will depend on many factors. "In some countries, it is quite straightforward — they just follow the corporate income tax rate. So, if we take that position, then 24% is quite a hit. In other countries, even though their corporate tax rate is fairly high, they impose CGT of just 10% or 20%. Based on [Anwar's] statement, I think he is just trying to slowly introduce it without too much disruption."

Lavindran recalls that, as far back as 20 to 30 years ago, Malaysia had something called "estate duties" — which were later repealed — that had a similar effect as CGT. He believes Malaysia is looking to impose CGT on the disposal of unlisted shares, rather than listed shares, as imposing CGT on the latter would curb the development of financial markets.

Once CGT comes into effect, it will be tough to circumvent it. "As with most laws, there are likely to be anti-avoidance provisions for this. People can try to do their best to plan [around it]. But in some cases where they can't, they may be caught under the CGT regime," says Beh. ■

Emulating Penang skills centre's model, cash incentive do not resolve TVET dilemma – experts

BY **CHERYL POO**

Emulation of a Penang-based skills model and cash incentive for employers hiring Technical and Vocational Education and Training (TVET) workers as proposed reforms in the fine-tuned Budget 2023 on Feb 24 are a far cry from resolving Malaysia's TVET dilemma, say experts in the field and economists who stress that training must be industry driven to avoid the current huge mismatch in graduate skill and industry requirement.

Prime Minister-cum-Finance Minister Datuk Seri Anwar Ibrahim said his administration proposes to emulate the Penang Skills Development Centre (PSDC) model to foster public and private cooperation in the implementation of a TVET programme as a means to address underemployment among workers. Anwar said it was unacceptable that 90% of TVET graduates are able to find work but earn "low wages of only about RM2,000 a month in spite of the government spending up to RM6.7 billion on TVET".

To incentivise private sector employers to increase salaries of new graduates, the Social Security Organisation (Socso) will provide 17,000 TVET graduates RM600 a month for three months on top of their wages.

While cash incentives are always welcome in any industry, TVET experts point out that the three-month wage support for TVET is, at best, merely symbolic.

"Malaysia has been stuck in a low-productivity economy for quite some time. By emphasising on TVET, Budget 2023 is sending out a strong signal that the unity government is keen to skill up our workforce. But the issue really is about poor quality because TVET graduates lack soft skills," articulates Monash University Malaysia School of Business Prof Niaz Asadullah, who is also the Southeast Asia lead of the Global Labor Organization.

"We have struggled to scale quality TVET education. [We need] institutional reforms. Throwing more money will not solve it. The low wage of graduates from our TVET sector that benefits from RM6.7 billion of government investment only confirms poor returns on public investment. Replicating and scaling the PSDC model is not a budgetary issue alone," Niaz emphasises.

Dr Azizul Othman, president of the Federation of JPK Accredited Centers Malaysia, which represents private sector TVET, concurs.

"If a TVET graduate can perform to what is expected by the industries without further in-house training or coaching, then there is obviously no reason why they will be paid less. The issue here is the skill rather than the certificate," he remarks.

Azizul adds that collaboration between the industry and the training centre is crucial in ensuring that the actual skill required by the industry is being taught at the skill centres.

This will avoid the skill mismatch which is among reasons why TVET grads are being paid below the industry's average salary.

"Training must be industry driven," he stresses.

To PwC Malaysia tax leader Jagdev Singh, deepening collaboration with government-linked companies and multinational corporations to increase employment rates of TVET graduates and providing on-the-job training is a move in the right direction.

"The acknowledgement that our high reliance on foreign labour is due to low wages and unsatisfactory working conditions is important in helping us deal with the issue comprehensively. Measures which include automation and upskilling/reskilling graduates to ensure they are capable of securing employment in satisfactory working conditions are certainly pragmatic and aligned with the longer term objective of transforming into a high-income nation," Jagdev says.

Anwar also said that RM1 billion will be allocated to funding by HRDCorp to implement skill training programmes for employees and HRDCorp-registered employers, along with accumulated levies. The government will also provide a RM50 million matching grant to encourage the automation of the plantation sector through the use of robotics and artificial intelligence. This initiative seeks to employ skilled local workers.

"While the industry lauds those allocations, we are, however, disappointed that the government did not take up FMM's proposal to channel the foreign worker levy towards the setting up of a National TVET Apprenticeship Fund and National Automation Fund as a two-pronged approach towards reducing dependence on foreign workers," says Federation of Malaysian Manufacturers president Tan Sri Soh Thian Lai.

Former Klang MP Charles Santiago, who is an economist by training, urges the government to take a step back to re-evaluate the issues surrounding TVET in Malaysia.

"Firstly, the TVET syllabus is outdated. There is a serious mismatch between what students are being taught and what the industry needs.

Santiago, echoing what industry players and economists have long said, also stresses that the government should avoid fragmentation and possible duplication of TVET programmes over seven ministries.

"It must be streamlined and done by one agency. There must be careful deliberation of what employers and the country needs. Employers are thinking, 'Why would I employ someone who doesn't meet my company's digitalisation needs?'" he points out.

Santiago also believes that the PSDC model will not be easy to follow as it is done with "very strong employer contribution and micro-managed by the state government".

"Think nationally. In the digitalisation environment, artificial intelligence is key today. That's what we're heading towards. But our TVET is nowhere close to it. Set specific targets and goals. Reforming TVET cannot be achieved by these cash subsidies," Santiago says.

"This is the golden moment for Malaysia to close its technology gap. We can enhance our small and medium enterprise competitiveness via digitalisation — with TVET done in a way to help SMEs compete domestically and internationally. The longer we postpone the rethinking TVET needs, all the more everyone suffers." ■

Praises and brickbats for retabled Budget 2023

Jagdev Singh
TAX LEADER AT PWC MALAYSIA

The retabled Budget 2023 takes a very structured approach to addressing the challenges the nation is expected to face in view of continuing global economic uncertainty. In his budget speech, the finance minister proposed measures to address these challenges. This is a shift from previous budgets and adopts an approach that is more strategic and reformist in nature in dealing with issues faced by the nation as a whole.

The proposal to introduce the Luxury Goods Tax (LGT) effective this year, the commitment to study the introduction of Capital Gains Tax (CGT) on disposal of non-listed shares from 2024 onwards and the 0.5 to 2 percentage-point increase in the personal tax rate for the tax bracket between RM100,001 and RM1 million should not come as a surprise. Considering the finance minister's response in parliament recently, the government will not introduce a broad-based consumption tax in this budget, [as such] the options available to the government to increase tax revenues are limited.

Nevertheless, the study on the potential introduction of CGT should be done on a measured basis to ensure that the benefits (namely, the amount of tax revenue generated) far outweigh the costs (impact on the investment ecosystem and the administrative burden on tax authorities and taxpayers).

Although we see a reduced allocation to subsidies of RM64 billion compared with RM80 billion in 2022 and a commitment to move towards a targeted subsidy scheme, the budget does not provide details as to how subsidy rationalisation will unfold, other than the already increased electricity tariff for large corporations. The reduction in subsidy expenditure seems to be primarily attributable to the lower oil prices (as compared to 2022), but we hope to see further details on the proposed targeted subsidy scheme in the coming months.

Soh Lian Seng
HEAD OF TAX AT KPMG IN MALAYSIA

Generally, gains on capital assets are not subject to tax, except for gains arising from the disposal of real property situated in Malaysia, which is subject to Real Property Gains Tax of up to 30%. In Asia, only Malaysia, Singapore and Hong Kong have yet to impose CGT— for the main reason that most of the income is derived from trading. A CGT will have wide implications, pending details of the mechanism that will be in place. If imposed, this will be a significant revenue stream for the government.

The extension of the incentive period for Green Investment Tax Allowance (GITA) and Green Income Tax Exemption (GITE) until Dec 31, 2025 — plus an increase of the incentive period from three to five years for eligible green activities — is aligned with the government's continuous efforts to boost investments in green technology assets and activities that will bring Malaysia closer to realising our national carbon neutrality aspirations by 2050.

Sim Kwang Gek
TAX LEADER AT DELOITTE MALAYSIA

The proposal to introduce CGT on the disposal of unlisted shares from year 2024 should be carefully studied before implementation. Considerations such as impact on merger and acquisition (M & A) activities in Malaysia, Malaysia's attractiveness for in-bound M&A, the costs of doing business and tax treatment on losses arising from the disposal of unlisted shares must be given weight. It is also common for companies to undertake restructuring of its businesses for operational efficiency purposes, where share transfers may take place within the group. Will CGT be imposed on such transactions? It is important to assess the additional tax revenue that will be generated from the imposition of CGT vis-à-vis the downside effects on businesses.

Although the Budget 2023 speech was silent on the implementation of the Global Minimum Tax (GMT), reference was made to Touchpoints Belanjawan 2023, issued by the Ministry of Finance, where it was proposed that the GMT and Qualified Domestic Minimum Top Up Tax (QDMTT) would be introduced in 2024 as one of the ways to increase revenue. This is a welcome move as it would give Malaysia the right to collect the "top-up tax" that would otherwise be collected by other countries.

With an implementation timeline of 2024, companies that are affected by the GMT must prepare early to understand the impact of the tax on its business and financial position. In comparison with our regional peers, the Singapore government has decided to introduce the GMT in 2025 while Indonesia and Thailand are planning to implement it next year.

Tan Sri Soh Thian Lai
PRESIDENT OF THE FEDERATION OF MALAYSIAN MANUFACTURERS

FMM applauds the government for unveiling a caring budget with a larger allocation of RM388 billion by striking a fine balance between fiscal discipline and helping the rakyat to cope with the rising cost of living.

On the GST, FMM agrees with the assessment that the timing is not right for its reintroduction, given its inflationary implications and the likely burden on the lower-income groups. However, FMM urges the government to consider a reintroduction in 2024.

The industry commends the initiatives introduced to further empower the TVET (Technical and Vocational Education and Training) agenda via public-private partnership collaborations on pilot projects involving national TVET institutions with selected private sector companies, including government-linked companies. This initiative will be a fresh approach to driving the industry-led TVET agenda towards producing TVET graduates that meet the needs of the industry and improving graduate employability.

We are, however, disappointed that the government did not take up FMM's proposal for the government to channel the foreign worker levy towards the setting up of a National TVET Apprenticeship Fund and National Automation Fund as a two-pronged approach to reducing dependence on foreign workers.

Datuk Khairussaleh Ramli
GROUP PRESIDENT
AND CEO OF MALAYAN BANKING BHD

CHAIRMAN OF THE
ASSOCIATION OF BANKS IN MALAYSIA

At the outset, the retabled Budget 2023 commits to fiscal consolidation with a further reduction in the budget deficit-to-GDP ratio to 5% this year and to 3.2% by 2025. However, we believe the government will continue to remain steadfast in addressing issues like the high cost of living, better paying jobs and adequacy of retirement savings as well as implement measures for socio-economic uplifting of the poor and low-income group, tax cut for middle-income taxpayers, empower MSMEs (micro, small and medium enterprises), promote investment, boost tourism, enhance food security and improve basic public infrastructure and essential public services.

These are balanced with redistributive and progressive tax proposals such as increases in the tax rate of higher-income taxpayers, LGT, CGT on the disposal of unlisted shares and excise duties on vape products, coupled with strengthening governance and effectiveness of public spending.

We welcome the budget initiatives that are relevant to the financial sector, including tax incentives for ACE and LEAP Market listings and Bankruptcy Act reform, which will catalyse entrepreneurship, the renewed focus on Islamic finance and the proposed consumer credit act and monitoring authority to create a level regulatory playing field.

Equally important to note, the budget is not just about medium-term fiscal sustainability but also broader aspects of longer-term sustainability, including protecting biodiversity, preserving the environment, greening the economy and addressing climate change.

Datuk Abdul Rahman Ahmad
GROUP CEO OF CIMB GROUP HOLDINGS BHD

We are pleased to see the government's focus on driving sustainable economic growth through Malaysia Madani Budget 2023. As Malaysia's economy continues to recover, the prudent, targeted and inclusive approach taken provides an optimal balance in helping the rakyat and businesses alike to navigate the ongoing uncertain environment.

In driving economic recovery, we are encouraged to see financing support for start-ups as well as SMEs. The focus on sustainability as well as digitalisation will strengthen the growth and resilience of our SMEs, and ensure our economy is future-proofed.

We also welcome the focus on improving the vibrancy of Malaysia's capital market. In particular, we welcome the proposed tax cut on listing expenses for the ACE and LEAP Markets through 2025 and the listing expenses of technology-based companies on the Main Market of Bursa Malaysia, in addition to the easing of the secondary listing process for private market instruments to improve liquidity as well as the efficiency of price discovery. The introduction of dual class share listings is also an encouraging development in stimulating the listing of high-growth technology companies domestically.

Tan Sri Tay Ah Lek
MANAGING DIRECTOR
AND CEO OF PUBLIC BANK BHD

The coming year will continue to be fraught with challenges, as stubborn inflationary pressures and consequent monetary tightening globally will lead to weaker consumption spending and slower economic activity. To this end, however, all stakeholders of the nation must stand united as we work on driving Malaysia forward in this post-pandemic era towards a more sustainable period of stronger growth. We are most encouraged by the government's lead and refreshed vision in setting out a new course with this retabled Budget 2023 expenditure plan.

Equally important ... is the nation's future being safeguarded through the exercise of prudence over finances, and we are encouraged to note that the government is prioritising the lowering of its budget deficit on a path to sustainable growth with a lower expenditure bill of RM386.1 billion.

Government agencies' continued provision of financing and guarantees amounting to RM40 billion for the benefit of MSMEs, Bank Negara Malaysia's RM10 billion financing facility for SMEs and guarantees of up to RM20 billion provided by Syarikat Jaminan Pembiayaan Perniagaan (SJPP) will provide a much-needed lift to businesses.

Mohd Rashid Mohamad
GROUP MANAGING DIRECTOR
AND CEO OF RHB BANK BHD

We welcome the expansionary nature of Budget 2023, which provides much needed support in addressing the high cost of living, further strengthening the social safety net as well as enhancing the MSME ecosystem. The government remains steadfast in balancing the need to safeguard the well-being of the people and the nation while ensuring a sound and sustainable fiscal position.

Budget 2023 will increase the momentum for economic recovery with emphasis on structural reforms to strengthen economic resilience, measures to support the growth of MSMEs and priority sectors coupled with assistance to targeted groups.

As a financial services group, RHB will continue to play a significant role in supporting the nation's economic recovery and development, in particular vulnerable segments of the community, the growth of MSMEs, as well as promote sustainable development towards supporting the country's transition to a low-carbon economy

Datuk Sulaiman Mohd Tahir
GROUP CEO OF AMMB HOLDINGS BHD (AMBANK)

At AmBank, SMEs are the bedrock of our customer base and we are encouraged by the government's efforts to support this crucial pillar of our economy specifically as a result of the RM10 billion loan funds to be provided by Bank Negara Malaysia to ease the financial burden of SMEs as well as SJPP to provide guarantees of up to RM20 billion, focusing on sectors such as high technology, agriculture and manufacturing. This will certainly empower local SMEs.

We also laud the government's call to strengthen Islamic financing, which will most certainly bode well for Malaysia as an Islamic financing hub. On this note, AmIslamic looks forward to building on this momentum.

The forward thinking aspirations of the budget, particularly with regards to ESG (environmental, social and governance) in the form of loan funds of up to RM2 billion to support sustainable technology for start-ups and promoting SMEs towards embracing low carbon practices demonstrate the government's tangible commitment to ESG and we hope for SMEs and GLCs (government-linked companies) to build on this positive trajectory.

CONTINUES NEXT PAGE

Highlights of revised Budget 2023

New and restructured taxes

- No Goods and Services Tax but the government will tax those with the means to pay via:
  - Luxury tax on items such as watches and fashion goods; and
  - Excise duties on liquid nicotine used in e-cigarettes and vapes.
- The government may introduce a capital gains tax on the sale of shares in private companies in 2024
- Income tax on those earning more than RM100,000 to RM1 million will be raised by 0.5 to two percentage points, affecting fewer than 150,000 taxpayers
- Income tax on those earning between RM35,000 and RM100,000 will be lowered by two percentage points, resulting in additional disposable income of RM1,300 for about 2.4 million taxpayers
- Individuals or companies donating to non-profits undertaking grassroots sports development programmes will qualify for a tax cut of up to 10% on aggregate income
- Tax relief of up to RM3,000 for voluntary contributions to the Employees Provident Fund (EPF) account
- Under a special voluntary disclosure programme from June 1, 2023 to May 31, 2024, the government will provide 100% waiver on additional taxes for taxpayers who declare unreported taxes
- Tax relief on medical treatment raised to RM10,000 from RM8,000, including relief of up to RM4,000 on treatments for conditions such as autism, Down Syndrome and specific learning disabilities

Digitalisation and automation

- RM1 billion in funds under Bank Negara Malaysia to help micro, small and medium enterprises automate their processes to digitalise their businesses
- RM100 million under the SME digitalisation scheme will be used to fund matching grants of up to RM5,000 to SMEs subscribing to apps to digitalise their businesses such as point-of-sales systems, accounts or inventory management
- RM50 million in matching grants to be provided to encourage automation of plantation sector through use of robotics and artificial intelligence
- Government to accelerate implementation of Jendela project as a national effort to provide internet network facilities
- RM725 million to implement digital connectivity in 47 industrial areas and nearly 3,700 schools

Grants and incentives to drive domestic investments

- Syarikat Jaminan Pembiayaan Perniagaan to guarantee up to RM20 billion in loans from SMEs, with a government guarantee of up for 90% for companies in frontier tech, agriculture and manufacturing
- Investment incentives will be restructured towards tiered taxes based on outcomes, such as creating high-value jobs, including local firms in the supply chain and creating new industry clusters
- Khazanah Nasional and EPF to invest in innovative and high-growth local start-up companies with an investment value of RM1.5 billion
- Tax deduction of up to RM1.5 million for firms that list on Bursa Malaysia's ACE Market and LEAP Market until assessment year 2025. Tax rebate is also extended to tech companies that list on the Main Market.
- Allocation of RM100 million under Digitization Grant Scheme for SMEs and small vendors to support business automation and digitisation. Separately, there is a RM1 billion facility under Bank Negara aimed at incentivising SMEs to automate processes and digitalise operations.
- For Malaysia's electrical and electronics (E&E) and aerospace sectors, the government plans to:
  - Extend tax incentives to manufacturing companies that transfer their operations to Malaysia as well as a 15% tax rate for C-suite executives until 2024 to attract investment from companies affected by Covid-19; and
  - Extend income tax incentives as well as investment tax allowances to the aerospace sector until Dec 31, 2025 to encourage capacity expansion of existing companies and attract investment from new companies.
- Strengthen development of Iskandar Malaysia in Johor via creation of a special financial zone and competitive remuneration package to attract international investors and skilled workers to settle in Malaysia
- RM6 billion strategic financing by Bank Pembangunan Malaysia to promote sustainable and automation agenda

Alleviating the people's burden

- Government to give Aidilfitri Special Financial Assistance of up to RM700 to all civil servants Grade 56 and below, including those on contract, and RM350 to government retirees. Payment will be made in April 2023.
- Up to 20% discount for three months to be given on PTPTN loan repayment starting March 1
- Postponement of repayment to be granted to borrowers with a monthly income of RM1,800 and below for a six-month period. Application for this postponement can be made from March 1.
- Insolvency Act 1967 to be amended to enable bankruptcy cases to be discharged more quickly
- The amendment, combined with immediate release of cases owing less than RM50,000 starting March 1, will allow 130,000 people to be released from bankruptcy status. This will benefit the Malays, who make up the majority of the 260,000 bankruptcy cases as at January, and will allow them to contribute to the national economy.

Sabah and Sarawak

- RM6.5 billion for Sabah's development; RM5.6 billion for Sarawak
- This includes developing cities bordering Kalimantan, Indonesia, such as Kalabakan, Sabah and Ba'kelalan, Sarawak with a cost of RM1 billion
- Separately, over RM2.5 billion is provided to implement projects mainly involving public infrastructure for the benefit of Sabah and Sarawak, road projects and street lights as well as water and electricity supply

Infrastructure

- Government to review MRT3 project cost, confident of reducing it to below RM45 billion
- Digital Nasional Bhd to be managed more transparently and inclusively to achieve full participation by telcos and provide comprehensive 5G coverage at a reasonable price. At end-2022, 5G coverage reached 50% of populated areas; targeted to reach 80% by end-2023.
- To relieve road congestion at tourist hotspots:
  - A new road to be built from Habu to Tanah Rata, Cameron Highlands, Pahang for RM480 million;
  - Jalan Tun Hamzah up to the intersection of Semabok Lebuh AMJ Daerah Melaka Tengah to be upgraded at a cost of RM300 million;
  - A road and a bridge over Sungai Sepang to be built to connect Bukit Pelandok, Port Dickson and Sungai Pelek, Sepang for RM160 million; and
  - An overtaking lane on Senai Desaru Expressway to be built, and Lebuhraya Utara Selatan from Yong Peng Utara to Senai Utara — Phase 1, Johor to be upgraded from four to six lanes, in phases, at a cost of RM525 million.
- Expansion and improvement of airport capacity in Penang and Subang to encourage entry of investors, businesses and tourists. The expansion will be led by Malaysia Airports Holdings Bhd and is expected to benefit economic growth at a much lower cost than building a new airport in Kulim, which was estimated at RM7 billion.
- RM1.2 billion to expedite repairs of 400 clinics and 380 schools that are dilapidated
- RM1.5 billion to develop new rural roads and village link roads

Encouraging investments & savings

- Total individual investment limit of Amanah Saham Bumiputera and Amanah Saham Bumiputera 2 will be increased to RM300,000 from RM200,000
- Size of Amanah Saham Malaysia fund will be increased to about RM5 billion
- 5.1% dividend for Amanah Saham Bumiputera members with savings of less than RM30,000, to benefit 87% of members
- Government to help those aged 40-54 with EPF savings of less than RM10,000 in their Account 1 by providing an additional contribution of RM500. This will benefit nearly two million EPF members, with an allocation of nearly RM1 billion.
- From 2024, shariah savings assets under EPF will be fully segregated to provide competitive returns to 1.25 million members holding shariah accounts

Agriculture and food security

- Government to promote private sector investment into large-scale agriculture by providing incentives, land, funds and technology grants
- Elaun Modal Dipercepatkan and 100% income tax exemption on capital expenditure will be available, and the tax incentive application period for food production projects will be extended until end-2025, with an expanded scope to include modern agriculture projects
- Bernas agrees to share 30% of its net profit from rice imports with rice farmers
- Government to give various subsidies and incentives amounting to RM1.6 billion to rice farmers. In addition, 240,000 rice farmers will receive RM200 cash per month for three months, or one season, for a total of RM228 million.
- Government to allocate RM80 million to improve sustainability of palm oil industry and intensify the fight against anti-palm oil campaigns

Strengthening oversight and institutional reforms, fight corruption

- Consumer Credit Act to be enacted and consumer credit monitoring board to be set up to regulate companies providing consumer credit such as "buy now, pay later" schemes this year
- Procurement Act to be tabled to boost transparency, and increase savings
- Compensation packages of chief executives and senior management of statutory bodies and companies to be reviewed to more reasonable levels
- Whistleblowers Protection Act to be amended to better protect informants
- New management of government agencies such as Tabung Haji, Felda and Felcra to study possibility of closing loss-making subsidiaries not aligned with their original functions, such as travel agencies, security companies, and IT firms. Government mulls banning companies and statutory bodies from this practice.
- All government agencies, including LHDN, MACC and police, are actively investigating corruption, including those named in the Pandora Papers. LHDN will also continue investigating "unusual wealth" to fight corruption rather than allow it to continue to fester.

Ending hardcore poverty

- RM30 million set aside to increase activities that support Sustainable Development Goals, including RM10 million to start community farm programmes at the parliamentary level to promote food security
- Government to implement Inisiatif Pendapatan Rakyat (IPR) through the economy ministry with RM750 million allocation in 2023 to empower the poor to increase their earning potential
- Loan facility from BSN, Bank Negara and TEKUN worth RM1.7 billion to help micro entrepreneurs, women and youth
- BSN to provide over RM1 billion with a focus on micro-entrepreneurs; TEKUN to provide RM330 million, including RM10 million to help youths from poor families

Disaster preparation, green initiatives

Six flood mitigation projects to be re-tendered by June, potentially saving RM2 billion out of RM15 billion previously allocated for such projects

- Bank Negara to provide financing of up to RM2 billion to support green tech start-ups, help SMEs implement low-carbon practices
- Khazanah to provide RM150 million to environmentally friendly project developments, including supporting the carbon market and reforestation
- Green Technology Financing Scheme (GTFS) to be implemented with increased allocation of RM3 billion until 2025. Scope of funding to be widened to cover electric vehicles (EV) with a guarantee limit of up to 60%

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Mak Joon Nien
CEO OF STANDARD CHARTERED MALAYSIA BHD

Budget 2023 is well curated, recognising the delicate balance between fiscal discipline and maintaining growth momentum into 2023.

As facilitators of cross-border trade, we strongly support the government's mandate of Tun Razak Exchange as an international financial hub and the designation of a special financial zone within Iskandar Malaysia to attract quality investments and skilled workers. With our roots in trade banking in Malaysia dating back over a century, initiatives such as the expansion of the Penang International Airport and Subang Airport, development of a port in Sanglang, Perlis, and the construction of a main port in Carey Island will cement the country's position as a key trading hub in Asean.

As a financial institution, we're proud to align ourselves with the national agenda to transition to net zero by delivering sustainable finance solutions to where it matters most, taking the lead from Bank Negara Malaysia, which is providing up to RM2 billion in financing facilities to support sustainable tech start-ups and help SMEs incorporate low-carbon practices.

Farah Rosley
MALAYSIA TAX LEADER AT ERNST & YOUNG TAX CONSULTANTS SDN BHD

The retabled Budget 2023 was inspired by Prime Minister Datuk Seri Anwar Ibrahim's "Malaysia Madani" vision and is framed around the core values of Sustainability, Prosperity, Innovation, Respect, Trust and Compassion. The proposed measures comprise those that were proposed in the previous tabling of Budget 2023 as well as new measures that represent the government's ambitious and progressive approach to accelerating economic recovery, spearheading sustainable growth and fostering an inclusive society, to ensure no one is left behind.

In lieu of not reintroducing a broad-based consumption tax such as the Goods and Services Tax (GST), there were various measures proposed to increase tax collections, including the Voluntary Disclosure Programme, CGT on the disposal of unlisted shares by companies, albeit at a low tax rate, and excise duty on e-cigarettes and vapes, with 50% of the collection to be earmarked for the Ministry of Health to improve the quality of healthcare services.

Overall, the measures appear to be cohesive, comprehensive and inclusive, and lay the foundation for a more sustainable future. However, certain measures such as the potential CGT on the sale of unlisted shares should be studied in further detail to avoid unintended adverse implications. E