



# 2021 Budget Snapshots

**Stand United, We Shall Prevail**



KPMG in Malaysia

7 November 2020

# Overview and Commentary

**Friday, 6 November 2020** marks an important step in Malaysia's journey towards the revitalization of its economy as the Government announces Budget 2021 tabled by our Finance Minister, YB Senator Tengku Dato' Sri Zafrul Tengku Abdul Aziz.

Budget 2021 themed "Stand United, We Shall Prevail" focuses on the Rakyat's well-being, business continuity and economic resilience amid the COVID-19 pandemic.

In spite of the virus outbreak that has plunged the global economy, prospects for our nation remain hopeful as Malaysia's GDP is forecasted to experience a rebound of economic growth up to 7.5% from -4.5% in 2020 year-on-year, with a projected fiscal deficit of 5.4% of GDP.

The expansionary Budget 2021 is angled to spur the nation's economic activity as the country grapples with the pandemic's effects via a boost in allocation to RM322.5 billion, which has been earmarked for Operating Expenditure (73.30%), Development Expenditure (21.40%) and a special allocation for the Covid-19 fund (5.30%). However, this raises some concern that the debt ceiling may need to be increased further.

While borrowings are projected to make up about 26.5% of the proposed funding, the Government is optimistic in terms of the revenue collection as it has set a target of RM236.90 billion contrasting to RM227.27 billion anticipated for 2020.

Budget 2021 demonstrates the Government's effort to balance the wellbeing of the Rakyat, support the survival of businesses and at the same time, guide the nation towards gradual economic improvement and recovery after

being hit hard by this year's lockdown. The measures introduced in Budget 2021 extends the support provided earlier in the year in the form of RM305 billion worth of Stimulus Packages.

From a tax point of view, the Government continues to provide industry-centric support and tax measures targeted towards enhancing Malaysia's position as the destination for foreign investments especially with the review of current tax incentives. The local manufacturing sector did not go unnoticed as well as the Government has proposed several initiatives to encourage local manufacture and trade. What may have come as a pleasant surprise was Equity Crowdfunding initiative to encourage more individual investors via this platform which would certainly help start-ups to raise alternative funding and quickly.

Overall, Budget 2021 provides a clear message that the Government is committed in caring for the Rakyat, reviving the nation's economy and propelling it forward amidst challenging times.

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](mailto:info@kpmg.com.my).

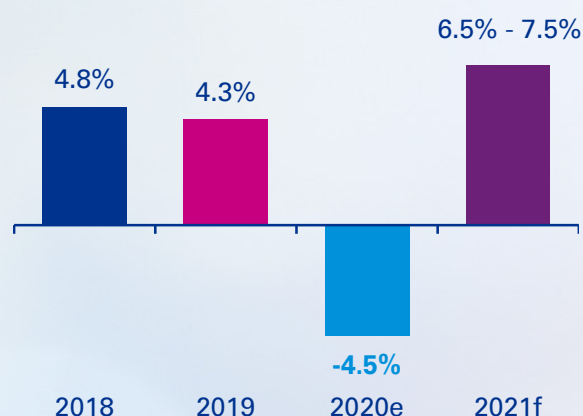
Happy reading and stay safe!



**Tai Lai Kok**

Executive Director  
Head of Tax  
KPMG Tax Services Sdn Bhd

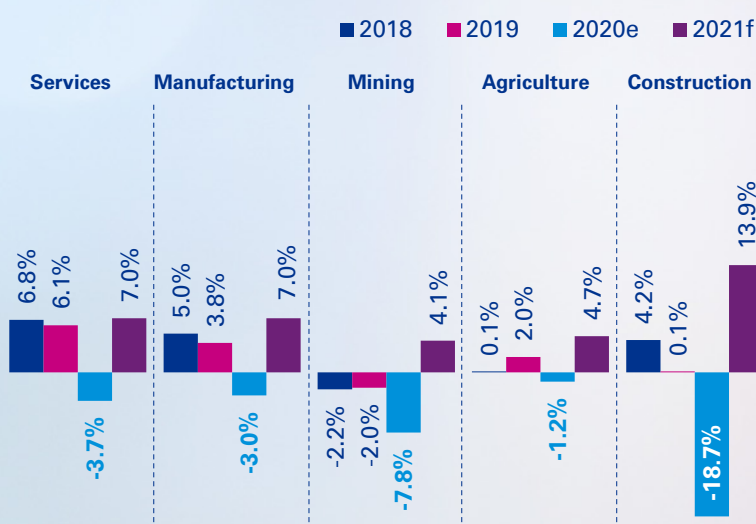
# State of Our Economy



Source: Ministry of Finance, Economic Outlook 2021

## GDP growth

- The COVID-19 pandemic has severely affected the Malaysian economy with gross domestic product (GDP) projected to contract by 4.5% in 2020, before regaining its growth in 2021 of between 6.5% – 7.5%.
- Negative growth in GDP has also impacted other global economies including ASEAN.
- Malaysia has been recognised as one of the most successful countries in managing socio-economic impact of the pandemic.



Source: Ministry of Finance, Economic Outlook 2021

## GDP growth by sectors

- On the production side, all sectors are forecasted to register sluggish performance, before rebounding in 2021.
- The construction sector is expected to experience the biggest decline in 2020, following significant contraction in all its subsectors (civil engineering, residential buildings, non-residential buildings and special trade activities) and prolonged property overhang.

in RM million	2018	2019	2020e	2021f
<b>Revenue</b>	<b>232,882</b>	<b>264,415</b>	<b>227,270</b>	<b>236,900</b>
Tax revenue	174,061	180,566	153,260	174,370
Direct tax	130,034	134,723	115,105	131,870
Indirect tax	44,026	45,843	38,155	42,500
Non tax revenue	58,821	83,849	74,010	62,530

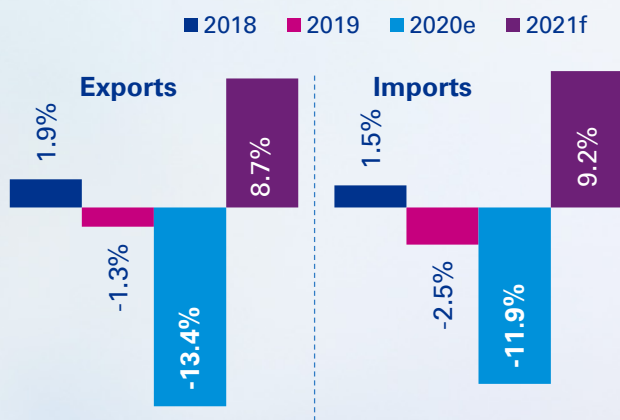
Note: e - Estimate data f - Forecast data

Source: Ministry of Finance, Fiscal Outlook and Federal Government Revenue Estimates 2021

## Federal government revenue

- Revenue is forecasted to decline in 2020 due to lower tax collection.
- Direct tax (50.6% of total revenue) is projected to decrease by 14.6% in 2020 to RM115.1 billion. All direct tax components are expected to decline due to weak economic activities and lower crude oil prices.
- Indirect tax (16.8% of total revenue) is estimated to decline by 19.4% in 2020 to RM38.2 billion. All components within indirect tax are expected to decline too.

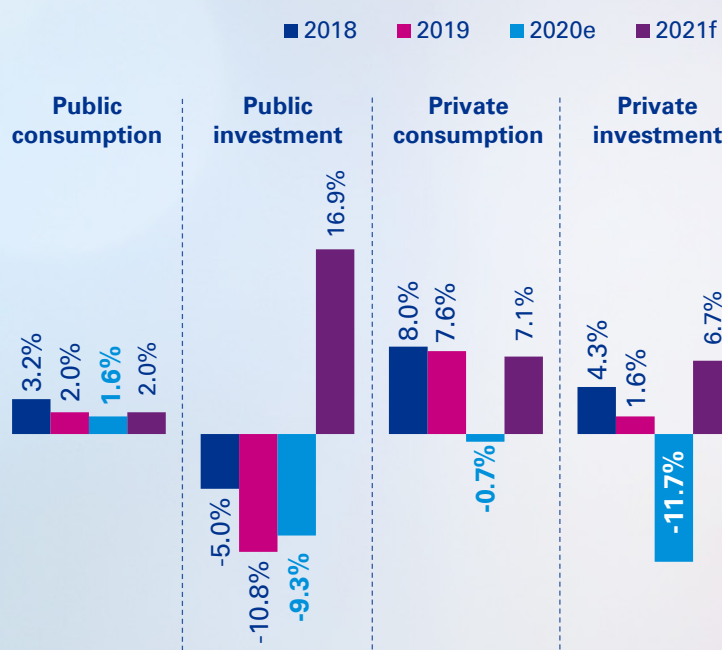




Source: Ministry of Finance, Economic Outlook 2021

## Trade

- Total trade is forecasted to decline by 5.7% to RM1.74 billion.
- Gross exports is anticipated to decline due to global restrictions and supply disruptions. It is expected to rebound in 2021 following the recovery in global trade and supply chains.
- Gross imports is expected to drop due to lower imports of intermediate and capital goods.

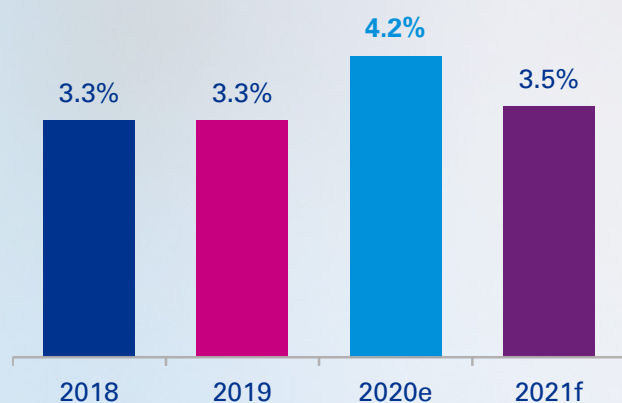


Source: Ministry of Finance, Economic Outlook 2021

## Domestic demand

- Both public and private investments are projected to fall by 9.3% and 11.7% respectively, due to lower capital outlays, weak demand and tight liquidity as businesses suspend their operations during the Movement Control Order (MCO) and uncertainties in financial markets.
- Public consumption is anticipated to increase by 1.6% in 2020. Private consumption is expected to decrease marginally by 0.7% in 2020, driven by the reduced household spending during MCO.

## Unemployment rate



Note: e - Estimate data f - Forecast data

Source: Ministry of Finance, Economic Outlook 2021

## Labour market

- The closure of operations for businesses during the MCO has directly affected the labour market.
- The unemployment rate is expected to rise to 4.2% in 2020 due to the weak labour market. It is however anticipated to decrease to 3.5% in 2021.

# 2021 Budget Highlights



## 1 Review of Income Tax Rate

**Income tax rate for resident individual** ↓ **1%**

Income tax rate for resident individuals to be reduced from 14% to 13% for the chargeable income band of RM50,001 to RM70,000 from Year of Assessment (YA) 2021.

## 2 Compensation for Loss of Employment

**Tax exemption** ↑ **RM10,000**

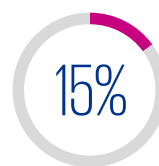
Income tax exemption for compensation for loss of employment to be increased from RM10,000 to RM20,000 for each full year of service for YA 2020 and YA 2021.

## 3 Non-Malaysian Citizens in Companies with Relocation Incentive

**15%** **individual income tax at a flat rate for 5 consecutive years**

- Limited to 5 non-Malaysian citizens employed in key positions / C-suites positions with monthly salary of not less than RM25,000.
- The individual has to be a Malaysian tax resident for each YA throughout the period.
- Applications to be received by the Malaysian Investment Development Authority (MIDA) from 7 November 2020 until 31 December 2021.

## 4 Revision of Returning Expert Programme (REP)



**Flat income tax rate on employment income for 5 YAs**

- Import duty and excise duty exemption for the purchase of a Completely Built-Up (CBU) vehicle or excise duty exemption for the purchase of a Completely Knocked-Down (CKD) vehicle (subject to total duty exemption of RM100,000).
- Applications to be received by Talent Corporation Malaysia Berhad from 1 January 2021 until 31 December 2023.

## 5 Medical Expenses for Self, Spouse and Children

**Tax relief** ↑ **RM2,000**

- Income tax relief to be increased from
  - a) RM6,000 to RM8,000 for medical expenses for serious diseases for taxpayer, spouse and children and fertility treatment for taxpayer and spouse; and
  - b) RM500 to RM1,000 for full medical check-up expenses.

Total deduction allowable for items (a) and (b) is restricted to RM8,000.

- Scope of tax relief to be expanded to include vaccination expenses of up to RM1,000 for taxpayer, spouse and children.

Effective from YA 2021.

## 6 Medical Treatment, Special Needs and Carer Expenses for Parents

**Tax relief** ↑ **RM3,000**

Income tax relief for medical treatment, special needs and carer expenses incurred on parents to be increased from RM5,000 to RM8,000 from YA 2021.

## 7 Lifestyle Expenses

**Tax relief** ↑ **RM500**

- Income tax relief for lifestyle expenses to be increased from RM2,500 to RM3,000, with an additional amount of RM500 allocated for cost of purchasing sports equipment, entry/rental fees for sports facilities and participation fees in sports competitions.
- Scope of existing lifestyle tax relief to be expanded to include subscription for electronic newspaper.

Effective from YA 2021.





## 8 Tax Incentive for Equity Crowdfunding

50%

**Income tax exemption on 50% of investment in equity crowdfunding**

10%

**Limited to RM50,000, capped at 10% of aggregate income**

Qualifying investors are given the above incentive for investments made from 1 January 2021 to 31 December 2023.

9

## Expenses on Study Fees

- Income tax relief of RM7,000 a year to be expanded to cover fees for attending up-skilling and self enhancement courses in any field of skills recognised by the Department of Skills Development, Ministry of Human Resources. This tax relief is limited to RM1,000 for each YA for YA 2021 and YA 2022.

10

## Disabled Spouse

**Tax relief**

↑ **RM1,500**

Additional tax relief for disabled spouse to be increased from RM3,500 to RM5,000 from YA 2021.

11

## Contribution to Private Retirement Scheme (PRS)

**Tax relief**

**+4 years**

Income tax relief up to RM3,000 on contribution to PRS to be extended from YA 2022 to YA 2025.

12

## Net Annual Savings in Skim Simpanan Pendidikan Nasional (SSPN)

**Tax relief**

**+2 years**

Income tax relief of up to RM8,000 on net annual savings in the SSPN to be extended to YA 2022.

13

## Tax Incentive for Global Trading Centre



**10% income tax rate for a period of 5 + 5 years**

10% income tax rate for a period of 5 years and renewable for another 5 years for Global Trading Centre for applications received by MIDA from 1 January 2021 until 31 December 2022.

14

## Extension of Principal Hub Incentive

**+ 2 years**

- Application period is extended for another 2 years from 1 January 2021 to 31 December 2022.
- Relaxation of minimum condition for number of high valued workers, annual operating expenditure and number of key posts personnel for renewal for another 5 years.

15

## Relocation Incentives for Selected Services Sector

**0% - 10%** Income tax rate of 0% to 10% for 10 years for **new company**

**10%** Income tax rate of 10% for 10 years for **existing company with new services segment**

Tax incentive for qualifying companies relocating their operations to Malaysia and making new investments is expanded from manufacturing sector to selected services sector:

- Provision of technology solution services
- Provision of infrastructure and technology for cloud computing
- Research and development (R & D) / design and development activities
- Medical devices testing laboratory and clinical trials
- Any services or manufacturing related services determined by the Minister of Finance (MOF)

For applications received by MIDA from 7 November 2020 until 31 December 2022.





16

## Extension of Existing Relocation Incentives for Manufacturing Sector

# + 1 year

## 0%

Income tax rate of 0% for 10 or 15 years for new companies

or

## 100%

Investment tax allowance for 5 years for existing companies

For applications received by MIDA until 31 December 2022.

17

## Extension of Existing Tax Incentives

# Until 2022

- MRO activities for aerospace
- Building and repair of ships
- Bionexus status company
- Economic corridor developments

18

## Extension of Tax Incentive for Manufacturers of Industrialised Building Systems (IBS) Components

# + 5 years

- Investment tax allowance of 60% on qualifying capital expenditure incurred within 5 years to be set off against 70% of statutory income.
- Companies are only required to produce at least 3 basic components of IBS or IBS system that uses at least 3 basic components.
- For applications received by MIDA from 1 January 2021 until 31 December 2025.

19

## Tax Incentives for Manufacturers of Pharmaceutical Products including Vaccines

**0% - 10%** Income tax rate for the first 10 years

**10%** Income tax rate for subsequent 10 years



Grants, import duty / sales tax exemption for machineries, equipment and raw materials

For applications received by MIDA from 7 November 2020 until 31 December 2022.

20

## Extension of Tax Incentive for Export of Private Healthcare Services

**+ 2 years**

Income tax exemption equivalent to 100% of the value of the increase in export of healthcare services to be set off against 70% of statutory income is extended for another 2 years for YA 2021 and YA 2022.

21

## Expansion of Tax Incentive for Commercialisation of R & D Findings for Qualified Resource and Non-Resource Based Activities or Products

- Tax deduction on investment made by an investor company in a subsidiary company that commercialises the R & D findings of public research institutions including public and private higher learning institutions.
- Income tax exemption of 100% of statutory income for 10 years for subsidiary companies that commercialise R & D findings of public research institutions including public and private higher learning institutions.
- For applications received by MIDA from 7 November 2020 until 31 December 2025.



22

## Tax Deduction for Employment of Senior Citizens, Ex-Convicts, Parolees, Supervised Persons and Ex-Drug Dependents

# + 5 years

Further tax deduction on remuneration paid by employers to the above employees is extended for a period 5 years from YA 2021 to YA 2025.

23

## Tax exemption on Grants for Green Sustainable and Responsible Investment (SRI) Sukuk and Bond Issuers

- Existing income tax exemption on grant for Green SRI Sukuk is expanded to all SRI sukuk and bond which meets the ASEAN Green, Social and Sustainability Bond Standards approved by the Securities Commission Malaysia (SC).
- For applications received by the SC from 1 January 2021 to 31 December 2025.

24

## Exchange Traded Funds

# + 5 years

## Extension of Stamp Duty Exemption

Stamp duty exemption on contract notes for trading of Exchange Traded Funds which are executed from 1 January 2021 to 31 December 2025.



25

## First Residential Home

### Stamp duty exemption – Value of First Residential Property

RM300,000 → RM500,000

- For 100% stamp duty exemption on transfer instruments and loan agreements for the purchase of first residential property by Malaysian citizens, the qualifying value of the first residential property is to be increased from RM300,000 to RM500,000.
- The stamp duty exemption applies to sale and purchase agreements executed from 1 January 2021 to 31 December 2025.

26

## Reviving Abandoned Housing Projects

+ 5 years

### Extension of Stamp Duty Exemption

Stamp duty exemption to revive certified abandoned housing projects which are given to rescuing contractor / developer or original house purchaser of abandoned project for loan agreements and transfer instruments executed from 1 January 2021 to 31 December 2025.

27

## Imposition of Tourism Tax on Accommodation Booked through Online Platform

The imposition of tourism tax to be expanded to include accommodation premises reserved through online platform providers effective from 1 July 2021.



## 28 Locally assembled bus

# + 2 years

### Extension of Sales Tax Exemption

Sales tax exemption for the purchase of locally assembled bus including air conditioner to be extended until 31 December 2022.

## 29 Free Industrial Zone and Licensed Manufacturing Warehouse

# 10% → 40%

### Limit on sales value for value added and additional activities

The limit on sales value for value added and additional activities in the Free Industrial Zone and Licensed Manufacturing Warehouse as listed below to be increased to 40% of the company's annual sales value:-

- Research and development;
- Product design;
- Marketing, for company with International Procurement Centre status only;
- Distribution, for company with Regional Distribution Centre status only;
- Quality control;
- Testing and commissioning including calibration and configuration;
- Labelling, packaging and re-packaging;
- Remanufacturing, repairing and servicing; and
- Supply chain management, strategic procurement operation and total support solutions.

Applicable for new applications and applications to increase the sales value limit received by the Royal Malaysian Customs Department (RMCD) from 7 November 2020.

## 30 Imposition of Excise Duty on Electronic Cigarette including Vape

The following excise duty is to be imposed effective from 1 January 2021:-

- Excise duty at the rate of 10% ad valorem for all types of electronic and non-electronic cigarette devices including vape; and
- Excise duty at the rate of RM0.40 per milliliter for liquid or gel used for electronic cigarette including vape.

# Contact us

## Petaling Jaya Office

### **Tai Lai Kok**

Executive Director –  
Head of Tax and Head of Corporate Tax  
ltai1@kpmg.com.my  
+603 7721 7020

### **Long Yen Ping**

Executive Director –  
Head of Global Mobility Services  
yenpinglong@kpmg.com.my  
+603 7721 7018

### **Bob Kee**

Executive Director – Head of Transfer Pricing  
bkee@kpmg.com.my  
+603 7721 7029

### **Ng Sue Lynn**

Executive Director – Head of Indirect Tax  
suelynng@kpmg.com.my  
+603 7721 7271

### **Soh Lian Seng**

Executive Director –  
Head of Tax Dispute Resolution  
lsoh@kpmg.com.my  
+603 7721 7019

## Outstation Offices

### Penang Office

#### **Evelyn Lee**

Executive Director – Penang Tax  
evewflee@kpmg.com.my  
+604 238 2288 (ext. 312)

### Kuching & Miri Offices

#### **Regina Lau**

Executive Director – Kuching Tax  
reglau@kpmg.com.my  
+6082 268 308 (ext. 2188)

### Kota Kinabalu Office

#### **Titus Tseu**

Executive Director – Kota Kinabalu Tax  
titustseu@kpmg.com.my  
+6088 363 020 (ext. 2822)

### Johor Bahru Office

#### **Ng Fie Lih**

Executive Director – Johor Bahru Tax  
flng@kpmg.com.my  
+607 266 2213 (ext. 2514)

### Ipoh Office

#### **Crystal Chuah Yoke Chin**

Tax Manager – Ipoh Tax  
ycchuah@kpmg.com.my  
+605 253 1188 (ext. 320)



# KPMG Offices

## **Petaling Jaya**

Level 10, KPMG Tower,  
8, First Avenue, Bandar Utama,  
47800 Petaling Jaya, Selangor  
Tel: +603 7721 3388  
Fax: +603 7721 3399  
Email: [info@kpmg.com.my](mailto:info@kpmg.com.my)

## **Kota Kinabalu**

Lot 3A.01 Level 3A,  
Plaza Shell,  
29, Jalan Tunku Abdul Rahman,  
88000 Kota Kinabalu, Sabah  
Tel: +6088 363 020  
Fax: +6088 363 022  
Email: [info@kpmg.com.my](mailto:info@kpmg.com.my)

## **Penang**

Level 18, Hunza Tower,  
163E, Jalan Kelawei,  
10250 Penang  
Tel: +604 238 2288  
Fax: +604 238 2222  
Email: [info@kpmg.com.my](mailto:info@kpmg.com.my)

## **Johor Bahru**

Level 3, CIMB Leadership Academy,  
No. 3, Jalan Medini Utara 1,  
Medini Iskandar,  
79200 Iskandar Puteri, Johor  
Tel: +607 266 2213  
Fax: +607 266 2214  
Email: [info@kpmg.com.my](mailto:info@kpmg.com.my)

## **Kuching**

Level 2, Lee Onn Building,  
Jalan Lapangan Terbang,  
93250 Kuching, Sarawak  
Tel: +6082 268 308  
Fax: +6082 530 669  
Email: [info@kpmg.com.my](mailto:info@kpmg.com.my)

## **Ipoh**

Level 17, Ipoh Tower,  
Jalan Dato' Seri Ahmad Said,  
30450 Ipoh, Perak  
Tel: +605 253 1188  
Fax: +605 255 8818  
Email: [info@kpmg.com.my](mailto:info@kpmg.com.my)

## **Miri**

1st Floor, Lot 2045,  
Jalan MS 1/2,  
Marina Square, Marina Parkcity,  
98000 Miri, Sarawak  
Tel: +6085 321 912  
Fax: +6085 321 962  
Email: [info@kpmg.com.my](mailto:info@kpmg.com.my)

Some or all of the services described herein may not be permissible for KPMG audit clients and their affiliates or related entities.

[www.kpmg.com.my/Tax](http://www.kpmg.com.my/Tax)

 [facebook.com/KPMGMalaysia](https://facebook.com/KPMGMalaysia)

 [linkedin.com/company/kpmg-malaysia](https://linkedin.com/company/kpmg-malaysia)

 [twitter.com/kpmg\\_malaysia](https://twitter.com/kpmg_malaysia)

 [instagram.com/kpmgmalaysia](https://instagram.com/kpmgmalaysia)

The information contained herein is of a general nature and is not intended to address the circumstances of any particular individual or entity. Although we endeavor to provide accurate and timely information, there can be no guarantee that such information is accurate as of the date it is received or that it will continue to be accurate in the future. No one should act on such information without appropriate professional advice after a thorough examination of the particular situation.

© 2020 KPMG Tax Services Sdn. Bhd., a company incorporated under Malaysian law and a member firm of the KPMG global organization of independent member firms affiliated with KPMG International Limited, a private English company limited by guarantee. All rights reserved.

The KPMG name and logo are trademarks used under license by the independent member firms of the KPMG global organization.