GLOBAL MINIMUM TAX

Non-tax incentives needed to attract investors

KUALA LUMPUR: The global minimum tax (GMT), which will take effect from January next year, will shake the tax incentive landscape.

Multinational enterprises (MNEs), which enjoy tax incentives that push their effective tax rate to below 15 per cent, will be imposed a top-up tax.

Malaysia, like many other countries, has long relied on tax incentives to bring in foreign direct investment (FDI).

The implementation of GMT nullifies the effect of tax incentives and necessitates the introduction of non-tax incentives to attract investors.

In its paper titled "Global Minimum Tax in Malaysia — Reconsidering Tax Incentives", KPMG said while the Malaysian headline corporate income tax of 24 per cent was well above the GMT rate of 15 per cent, an MNE group's global anti-base erosion (GloBE) effective tax rate in Malaysia could be less than 15 per cent subsequent to GloBE adjustments.

In the event that MNE's effective tax rate falls below 15 per cent, a top-up tax is imposed to meet the minimum tax.

The GMT implementation has led to neighbouring countries such as Singapore and Vietnam to introduce non-tax incentives to keep and to bring in FDI.

Singapore has a Refundable Investment Credit Scheme which allows for tax credits on qualifying expenditure, consistent with the Qualified Refundable Tax Credit (QRTR) requirement under the GloBE rules.

Vietnam has the Investment Support Fund for eligible taxpayers in targeted industries where stipulated conditions are met.

The KPMG paper, authored by partner Neoh Beng Guan, director Gan Cheng Yee and associate director Jessica Yap, said on the home front, the government issued a GMT survey earlier this year to affected MNE groups which were enjoying tax incentives.

It aimed to collect feedback to evaluate the potential impact of existing tax incentives to GMT and served as a starting point for affected MNE groups to renegotiate existing tax incentives.

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> **STEVE CHIA**
> PwC Malaysia tax leader

NON-TAX INCENTIVES

Prime Minister Datuk Seri Anwar Ibrahim said the government was committed to streamlining existing taxes and introducing non-tax incentives.

This includes assessing the feasibility of a "strategic investment tax credit".

KPMG said if the tax credit was a QRTC, it was creditable against tax liabilities.

"It has less negative impact on the GloBE effective tax rate compared to other tax incentives such as tax holidays," it added.

Ernst & Young Tax Consultants Sdn Bhd Malaysia tax leader Farah Rosley said she expected the credit to be designed as a QRTC so that it would be less affected by GMT rules, and to give Malaysia a competitive edge in attracting FDI.

POSITIONING MALAYSIA AS FDI DESTINATION

With the GMT expected to level the playing field as far as tax incentives are concerned, there is a pressing need to revamp the incentive regime to ensure that we attract high-growth high-value investments that continue to propel us into becoming a high-income nation.

PwC Malaysia tax leader Steve Chia said the proposed New Investment Incentive Framework was a step in the right direction, through its focus on value-driving activities as opposed to the current regime's product-based incentives.

"We see a marked shift in the approach to attracting investments, through measures designed to enhance diversity of the electrical and electronics sector and the development of artificial intelligence through special deductions for private tertiary education institutions that provide courses in this field.

"To bolster confidence in the nation's investment landscape, we observed measures that target to strengthen the local supply chain and ecosystem of key sectors, develop economic clusters across states that play on specific strengths and emphasis on economic spillover effects," he added.