



ESG in tax

Khoo Yu Lin

Partner | Zaid Ibrahim & Co. (in association with KPMG Law)

Koh Reenie

Partner, ESG Assurance Lead | KPMG in Malaysia

Phang Oy Cheng

Partner, Head of Sustainability Advisory | KPMG in Malaysia

Moderated by:

Ng Sue Lynn

Partner, Head of Indirect Tax | KPMG in Malaysia

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Deciphering ESG



Environment



Global climate crisis: inevitable, unprecedented and irreversible

Devastating report is 'code red' warning for 1.5C, chief says



FINANCIAL TIMES

More extreme weather expected



CODE RED FOR HUMANITY

EXTREME WEATHER DOWN TO GLOBAL WARMING, SAYS DOOMSDAY REPORT FROM UN

CODE RED

Shocking verdict on future of humanity

Scientists urge PM to create UK climate plan

Climate change caused by humans is already causing extreme weather across world, with global warming set to reach the 1.5C mark early - in 2040 - even in best case scenario, warns UN

Climate experts call for Johnson and Sunak to ramp up British climate action

Lord Stern tells 'We need the Prime Minister and Chancellor to take action now' - and backed by IPSG



PM: WAK TO RED ALERT ON CLIMATE CRISIS

Next decade 'pivotal' to secure planet's future after

Climate change caused by humans is already causing extreme weather across world, with global warming set to reach the 1.5C mark early - in 2040 - even in best case scenario, warns UN

Climate experts call for Johnson and Sunak to ramp up British climate action

Lord Stern tells 'We need the Prime Minister and Chancellor to take action now' - and backed by IPSG

Severe floods, heatwaves, droughts and storms becoming more frequent



Social



Social

ESG

Over 300 women needed to have 30% women on boards of all PLCs

By Tan Zhai Yun / theedgemaalaysia.com

13 Sep 2023, 07:21 pm

Malaysia penalises 400 companies so far this year for violating labour laws

Human Resources Minister V Sivakumar says firms have been fined more than \$500,000 over breaches in 2023.

Al Jazeera – 15 September 2023

WORK

Minimum wages are going up, but typical workers still don't make enough to get by in any U.S. state

Published Thu, Feb 16 2023•2:51 PM EST



Governance

TAX CORPORATE GOVERNANCE FRAMEWORK

INLAND REVENUE BOARD OF MALAYSIA
(As at 11 April 2022)

Tax Governance Framework in Malaysia: Moving Towards Sustainability and Value Creation

By Branded / theedgemalaysia.com

09 Oct 2023, 08:00 am

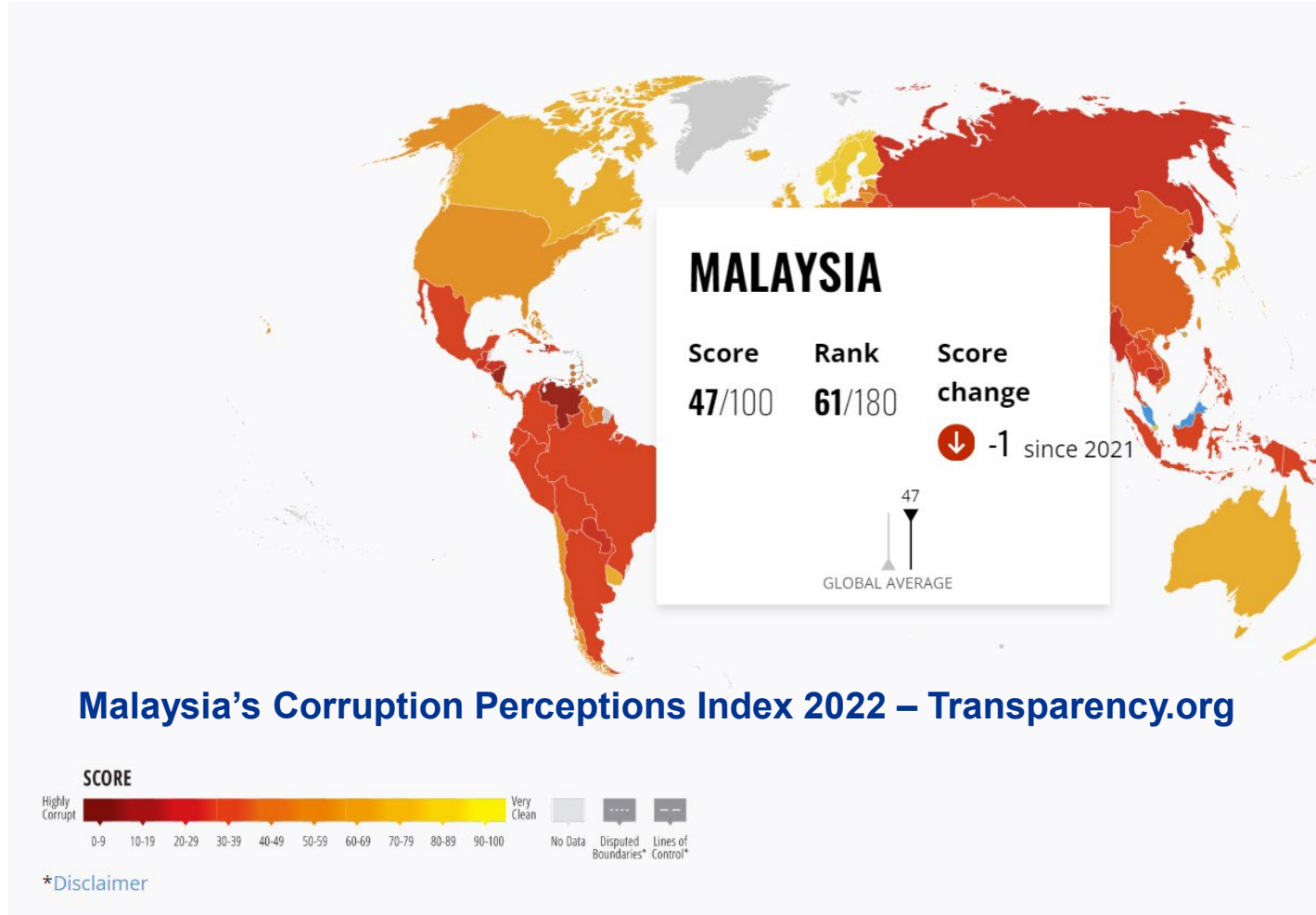
Government considering regulatory subsidiary for Bursa Malaysia

By S. BIRRUNTHA - October 11, 2023 @ 2:43pm

Business Times



Governance



Environmental, Social and Governance (ESG)

ESG is a framework that helps stakeholders understand how an organization is managing risks and opportunities related to environmental, social and governance criteria



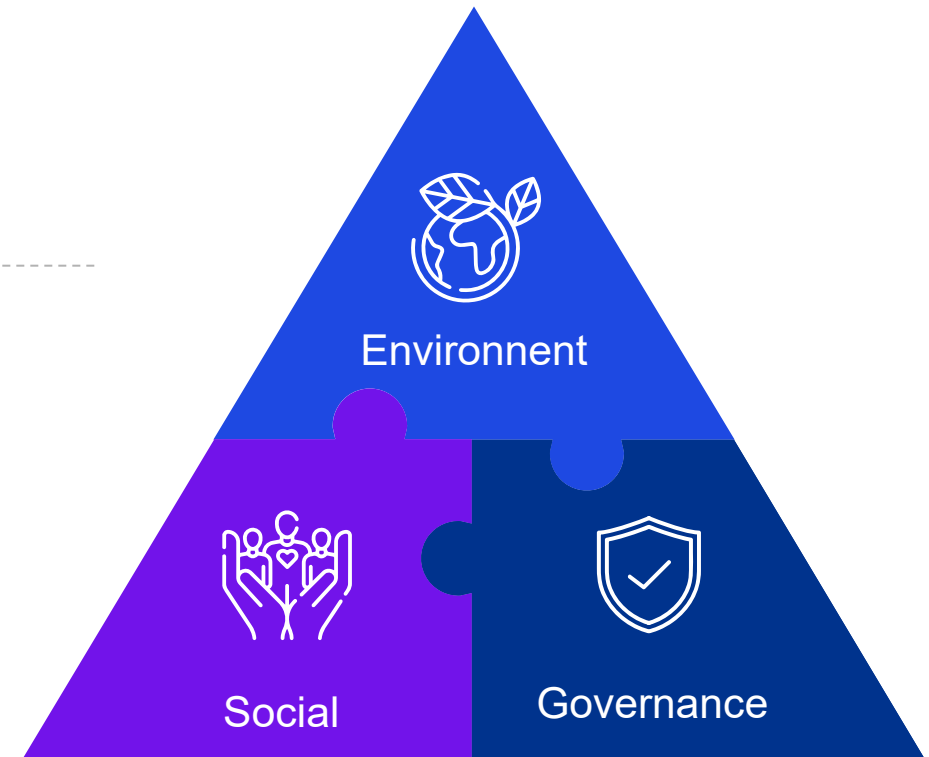
- **Climate change strategy**
- **Greenhouse gas emissions**
- **Carbon footprint reduction**
- **Biodiversity loss**



- **Responsible supply chain partnerships**
- **Fair pay and living wages**
- **Community engagement**
- **Inclusion, Diversity and Equity (IDE)**

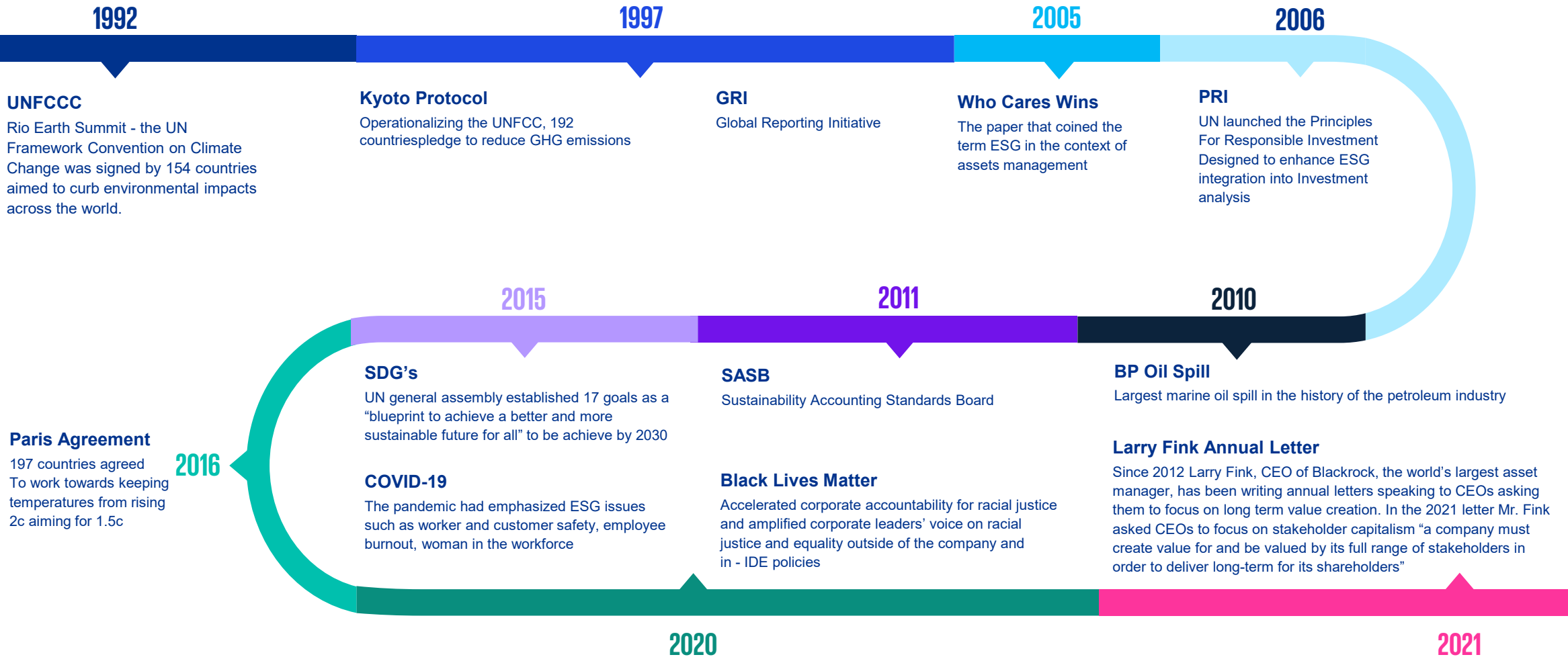


- **Corporate Governance**
- **Compliance**
- **Ethical business practices**
- **Accounting integrity and transparency**



“Who Cares Wins” – United Nations

ESG History



ESG development in Asian countries

Malaysia

Environment

- Bursa Malaysia's Voluntary Carbon Market
- Tax incentives for companies undertaking Carbon Capture and Storage (CCS) in-house technology and undertaking CCS services
- Tax Deductions for ESG initiatives

Green Technology Tax Incentive

- Green Investment Tax Allowance (GITA) Assets and projects
- Green Income Tax Exemption (GITE) Leasing Services

Electric Vehicle (EVs)

- EV charging equipment manufacturers are eligible for 100% income tax exemption on statutory income or 100% investment tax allowance
- Road tax exemption of up to 100% for EV vehicles
- Individual income tax relief for the cost of purchase, installation, rent, hire purchase and subscription fees for EV charging



ESG developments in Asian countries

Thailand

- 13th National Economic and Social Development Plan – outlines 5 goals for Thailand transformation from 2023 to 2027
- Thailand Sustainability Investment (THSI) programme – nominated listed companies with high ESG performance rating can get incentives
- Reporting – The SEC encourages the disclosure of ESG performance and the promotion of green bonds
- Electric motor vehicles (EV) – corporate income tax exemption for income received under the measures supporting the use of EV cars/ motorcycles. Reduction of vehicle tax by 80% for new EV cars
- Carbon Credits – The Thailand Greenhouse Gas Management Organisation (TGO) has launched Thailand Voluntary Emission reduction Program (T-VER) where unutilized carbon credits can be sold



ESG developments in Asian countries

Singapore

- Singapore Green Plan 2030
- Enterprise Financing Scheme – Green – access to funding for SMEs to develop technologies and solutions related to waste management, resource usage or GHG management
- Investment Allowance Scheme - Tax relief scheme for approved projects, including energy efficiency projects
- Carbon Pricing Act 2018 - Industrial facilities emitting more than 25,000 carbon dioxide equivalent are required to submit a monitoring plan, annual emissions report and make tax payments for reckonable GHG emissions
- Enterprise Sustainability Programme – SGD \$180 million allocated to enable local companies to develop sustainability capabilities



ESG developments in Asian countries

Republic of Korea

- The Korean Government established the ESG Infrastructure Expansion Plan and is working on establishing the K-ESG Guidelines, K-Taxonomy, build the ESG investment platform and provide additional training and consulting to SMEs.
- Sustainability goals – Framework Act on Sustainable Development (FASD)
- Governance Disclosure Obligation – KRX requires KOSPI Listed Companies to disclose corporate governance reports
- Korean New Deal – US\$140 billion of investment to fund green transition of infrastructure, promote low-carbon and decentralized energy, and innovation in the green industry
- Emissions Trading Scheme – trading of carbon credit for companies with annual emissions of 125,000 tonnes or more and single installations that emit 25,000 tonnes or more



ESG development in Asian countries

The Philippines

- Tax incentives to enterprises promoting or providing green products and services, green jobs, green technologies and sustainable development.
- Tax incentives for imports of CBU EVs and charging stations
- Proposed Plastic Bags Tax Act – P100 fee for each kg of single-use plastic bags
- Pesticides and Chemical Fertilizers Tax Act – environmental tax on domestic manufacturers and importers of pesticides and chemical fertilizers
- SEC requires PLC to submit a sustainability report to assess and manage non-financial performance across ESG aspects of the organisation



The "T" in ESG



ESG and Taxation

Tax Transparency

- Tax Corporate Governance Framework
- E-invoicing
- BEPS 2.0

Tax Incentives

- GITA
- GITE
- Tax Deductions
- Pre-packaged Tax exemptions
- Many more...

Carbon Tax

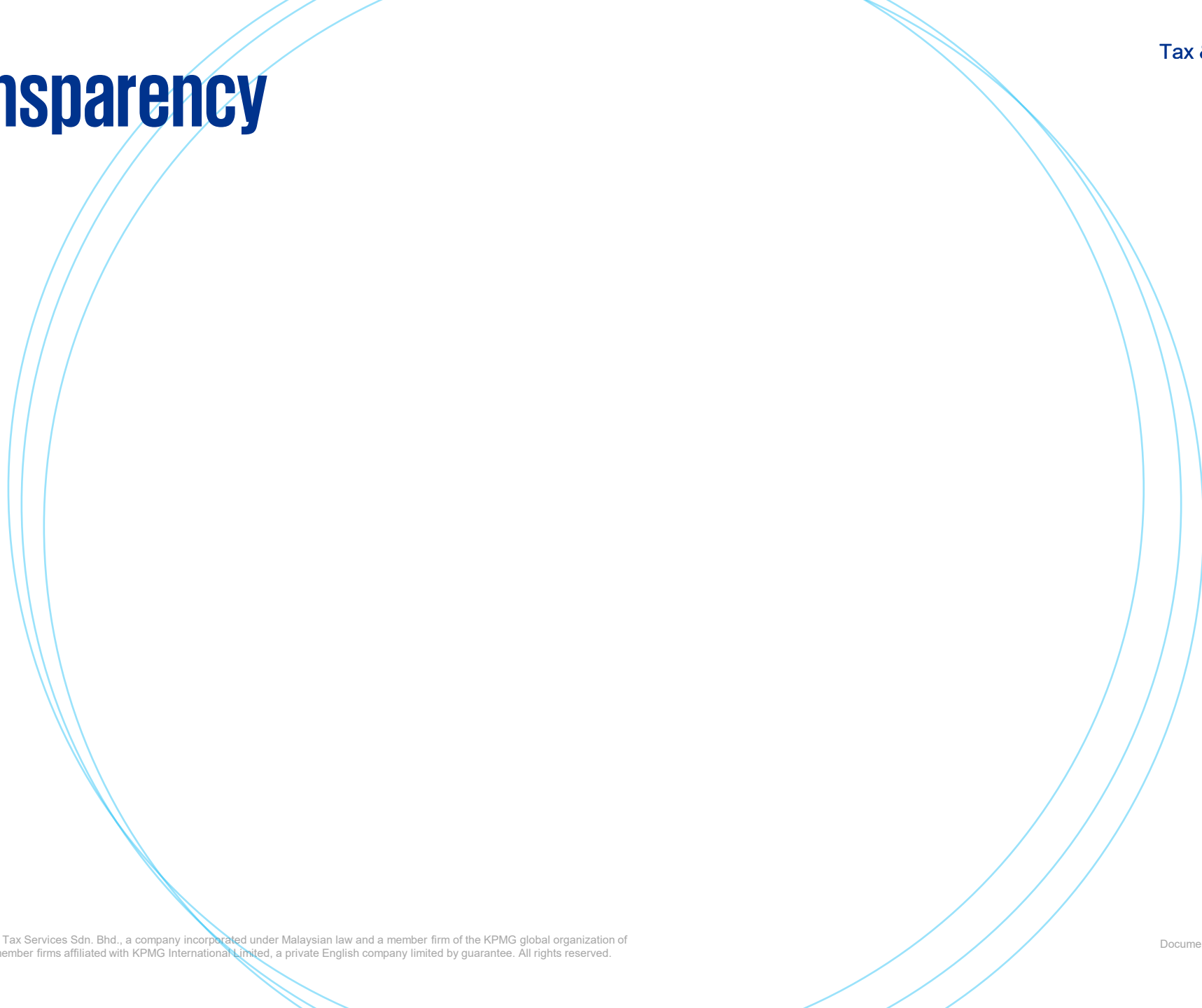
- Tax Impact
- Financial Implications
- Compliance/Reporting

Carbon Trading

- Taxability
- Deductibility

Carbon Border Adjustment Mechanism (CBAM)

Tax Transparency



Tax Incentives

Green Investment Tax Allowance ("GITA") Assets / Project

- GITA of 100% of qualifying capital expenditure ("QCE") incurred on approved green technology asset / green technology project.
- Offset against 70% of statutory income in the year of assessment. Unutilised allowances can be carried forward until they are fully absorbed.
- GITA project - 3 years from date of first QCE incurred (as verified by MGTC)
- Comply with the following criteria:-
 - a) minimise the degradation of the environment or reduce greenhouse emission;
 - b) promotes health and improvement of environment; and
 - c) conserves the use of energy, water and/or other forms of natural resources or promote the use of renewable energy or able to recycle waste material resources.
- Assets must be registered and listed under the MyHIJAU Directory.
- 2024 Budget proposed to be extended to 31 December 2026, with GITA of 100%/60% (depending on different qualifying activities under respective tiers) against 100%/70% of statutory income.
- New guidelines yet to be issued by MIDA.



Tax Incentives

Green Investment Tax Exemption ("GITE") Services

- GITE of 70% on statutory income for qualifying green services (which includes renewable energy, energy efficiency, electric vehicle and etc)
- 3 years starting from YA of first invoice related to green technology services issued
- Date of first invoice not earlier than date of application received by MIDA
- Comply with all the following criteria:
 - a) employs at least 5 full-time employees working in Malaysia including at least 2 competent personnel in green technology;
 - b) must have a green policy related to the environmental or sustainability;
 - c) must have documented SOP to ensure quality of services;
 - d) 100% income must be derived from the respective green technology services; and
 - e) company must undertake at least 3 qualifying activities (as defined)
- Only one company in the same group is eligible for GITE-services
- 2024 Budget proposed to combine the qualifying activities to be under GITA (under respective tiers).
- New guidelines not yet issued by MIDA.



Tax Incentives

GITE Leasing

- GITE of 70% on statutory income for solar leasing activities:

Capacity (MW)	Incentive Period
>3MW- ≤10MW	5 years
>10MW- ≤30MW	10 years

- Commence from date of first invoice issued and not earlier than date of application received by MIDA
- Company that:-
 - has been verified by SEDA and listed under the RPVI Directory
 - at least 60% of the equity of the company must be held by Malaysians
 - possess a minimum installed capacity of 3MW solar PV projects aggregated under the NEM or SelCo Programme which have achieved COD
- Commence from date of first invoice issued and not earlier than date of application received by MIDA

- Company that:-
 - has been verified by SEDA and listed under the RPVI Directory
 - at least 60% of the equity of the company must be held by Malaysians
 - possess a minimum installed capacity of 3MW solar PV projects aggregated under the NEM or SelCo Programme which have achieved COD
- Comply with all the following criteria:
 - a) employs at least 5 full-time employees working in Malaysia including at least 2 competent personnel in green technology; and
 - b) derives income from sales of electricity / leasing activities. Income derived from activities other than sales of electricity / leasing activities is not eligible for income tax exemption
- Only one company in the same group is eligible for GITE-solar leasing
- 2024 Budget proposed to be extended to 31 December 2026.

Tax Incentives

Tax Deduction on ESG related expenditures

- Tax deduction up to RM50,000 per YA (YA 2024 – YA 2027)

ESG Related Expenditure

ESG reporting by companies listed on the Bursa Malaysia stock exchange

ESG reporting by financial institutions regulated by the Bank Negara Malaysia

Preparation of reports related to Tax Corporate Governance Framework by companies

Preparation of transfer pricing documentation by companies

Consultation fee for implementing e-invoicing incurred by Micro, Small and Medium Enterprises

ESG reporting by companies to approved regulator by the Ministry of Finance

Further Tax Deduction for Voluntary Carbon Market

- Currently, expenditure related to development of carbon projects incurred by carbon credit trading companies is allowed under Section 33(1).
- Further tax deduction of up to RM300,000 be given to companies for costs incurred on Development and Measurement, Reporting and Verification related to the development of carbon projects (certified by MGTC), against the carbon credits income traded on BCX.
- Effective for applications received by MGTC from 1 January 2024 to 31 December 2026.



Tax Incentives

Income Tax Exemption on management fee income from SRI fund management services

Tax Incentives for Carbon Capture and Storage

Import Duty, Excise Duty and Sales Tax exemptions on EV

Tax Deduction for Carbon Projects

Tax Deduction on the cost of issuing SRI Sukuk

Income Tax Exemption for Green SRI Sukuk Grant and Bond Grant Scheme

Tax Incentives for Company that rents non-commercial EV

Tax Deduction on EV rental cost

Tax Deduction on Contributions for Environmental Preservation and Conservation Projects

Tax Exemption on Income of Social Enterprise

Tax Incentive for Manufacturer of EV Charging Equipment

Tax Deduction for Smart AI-Driven Reverse Vending Machine

Carbon Tax – what is the Asian trajectory?



- Levied on facilities that directly emit $\geq 25,000$ tonne carbon dioxide emission (tCO_2e) of greenhouse gas (GHG) emissions annually
- Covers six GHGs, namely carbon dioxide, methane, nitrous oxide, hydrofluorocarbons, perfluorocarbons and sulphur hexafluoride. From 2024 onwards, to include nitrogen trifluoride emissions
- Covers 80% of total GHG emissions from about 50 facilities in the manufacturing, power, waste, and water sectors



- JPY 289 (USD 2.04)/tCO₂e (fixed rate since 2012)



- Postponed introduction of carbon tax indefinitely



- Planning to introduce carbon tax on energy, transport and industrial sectors to achieve carbon neutrality by 2050 and net zero greenhouse gas emissions by 2065



- No news on implementation date of carbon tax – possibly similar to Singapore – RM X/tCO₂e
- To achieve carbon neutrality by 2050

Carbon Exchange and Emission Trading Scheme



Bursa Carbon Exchange (BCX) – Bursa Malaysia’s voluntary carbon market exchange

What is it?

- Spots exchange that facilitates the trading of high-quality carbon credits at transparent prices via standardized carbon contracts
- Adopt Verified Carbon Standard (Verra)

Tax Considerations

- Is the income subject to tax?
- Is the purchase of carbon credits tax deductible?
- Are there any indirect tax implications?

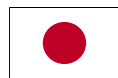
Benefits:

- Purchase the credits to offset their carbon footprint
- Sell carbon credits to help finance and drive development of domestic GHG emission reduction
- Being seen as more “green” provided purchases are used strategically – to avoid “greenwashing”



Singapore

- Climate Impact X (CIX)



Japan

- Tokyo Emissions Trading Scheme
- Saitama Prefecture Emissions Trading Scheme

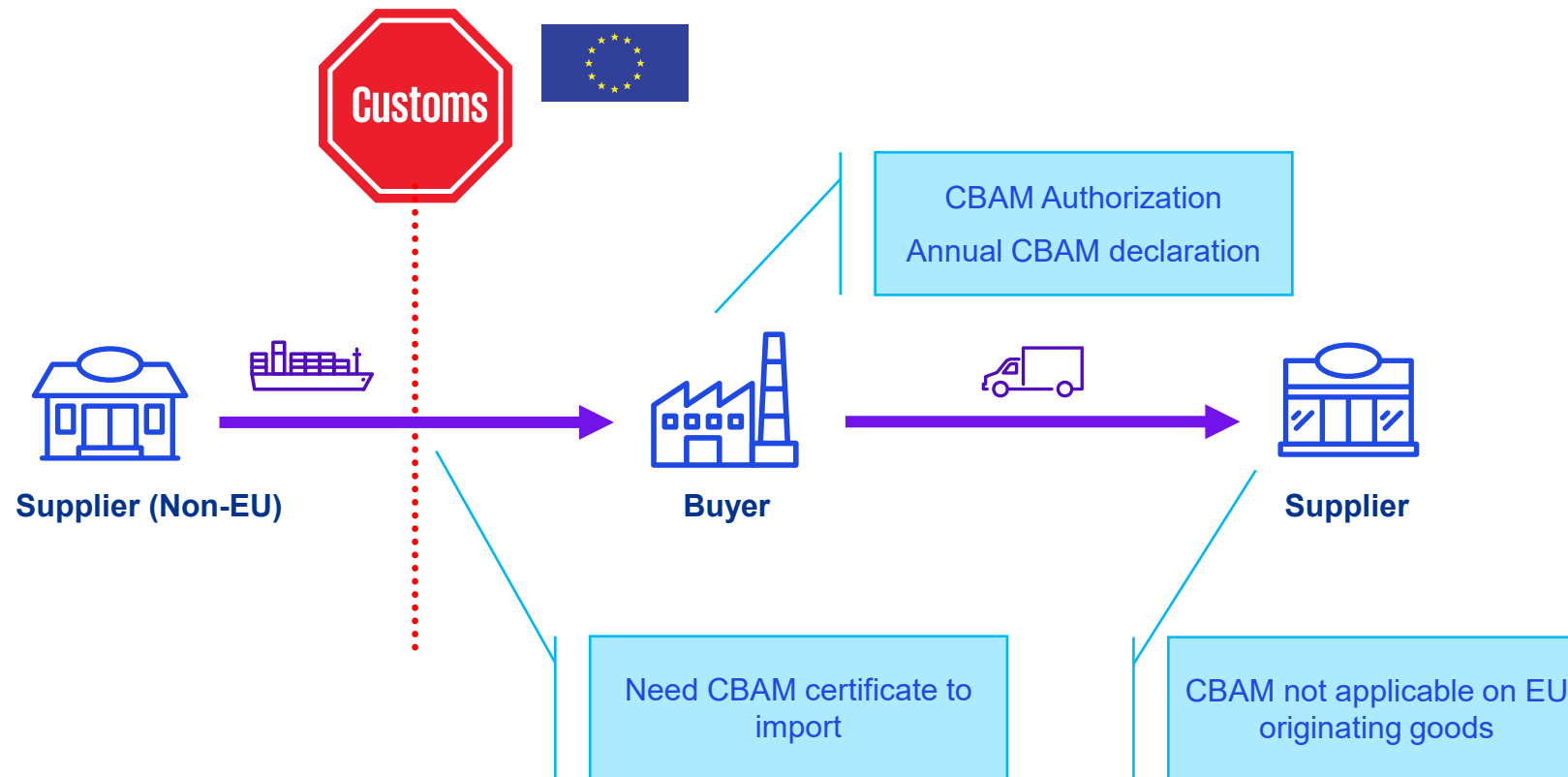


Korea

- Emissions Trading Scheme
- Socially responsible investment bodies

Carbon Border Adjustment Mechanism (CBAM)

CBAM is a policy tool that imposes a carbon tariff or price on carbon-intensive products imported into the EU



Goods impacted:

- Cement
- Iron and steel
- Aluminum
- Fertilizers
- Electricity
- Hydrogen

Considerations

- How to calculate the embodied carbon?
- What is the additional carbon tariff or price?
- Reporting/ compliance obligations?

Panel discussion



Moderated by:

Ng Sue Lynn

Partner, Head of Indirect Tax
KPMG in Malaysia



Khoo Yu Lin

Partner, Zaid Ibrahim & Co
(in association with KPMG
Law)



Koh Ree Nie

Partner, ESG Assurance Lead
KPMG in Malaysia



Phang Oy Cheng

Partner, Head of Sustainability
Advisory
KPMG in Malaysia



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