

THE saying that the only sure things in life are death and taxes is often attributed to Benjamin Franklin, but he is not the original author of the famous quote. In fact, its origin traces back to an early 18th Century comedic play in England.

In 21st Century Malaysia, the government is facing a cash crunch as operating expenditure (opex) rises relentlessly to a point in the near-future where almost all revenue would be earmarked for opex, with none to fund development expenditure crucial for growth.

And so, to broaden the tax base and implement a more progressive tax structure, a 2% tax on dividend income of individual shareholders will be imposed starting this January, as outlined in Budget 2025.

As yet, there is no clarity on whether the tax will also be imposed on those holding shares via investment vehicles, such as limited liability companies or "Sdn Bhd".

Tax specialists say once the finance bill proposing Budget 2025 is released, further clarification on how the tax will be applied can be reviewed.

Ernst & Young Tax Consultants Sdn Bhd's Malaysia tax managing partner Farah Rosley says that based on the tax appendix released, the scope would include individuals, residents and non-residents, including those holding shares through nominees.

"When individual shareholders receive dividend income from their investments in private limited companies or other investment vehicles, the dividend distributions may be subject to the 2% dividend tax if the individual earns more than RM100,000 in dividends in a year," she says.

"In this context, nominees refer to individuals or entities that hold shares on behalf of the actual or beneficial owner.

"If a person uses multiple nominees to hold shares, the Inland Revenue Board may determine the actual beneficial ownership through these arrangements."

Farah points out that the intention may be to prevent tax avoidance by those who spread their ownerships across multiple nominees to stay below the RM100,000 threshold or using nominees which are not individuals.

"Further guidance may be issued on this point," she adds.

According to Soh Lian Seng, the administrative aspects of the tax have not been made clear as there are a few areas, such as dividend withholding, that need to be addressed.

The head of tax at KPMG in Malaysia noted that local companies will now have to concern themselves with the resident status of individuals and that for non-residents, the only feasible means may be to withhold the 2% on dividends upon making payment.

"For private companies with limited shareholders that are well known to the company, larger companies – particularly listed companies – would potentially need to put in place mechanisms for tracking the residence status of their individual shareholders for withholding tax purposes.

Greater clarity required on dividend tax



Soh: The administrative aspects of the dividend tax have not been made clear.



Lavindran: In the long run, Malaysia may need to consider a withholding mechanism.



Farah: The intention may be to prevent tax avoidance by those with ownerships across multiple nominees.



Kong: The dividend tax will greatly impact top executives whose wealth is closely tied to their stock holdings.

"Then there is the added complication of effectively tracking the annual dividend income threshold of RM100,000 of the non-resident individual if the company makes more than one dividend payment per year or if the individual receives multiple dividends from different sources," Soh says.

PwC Malaysia tax partner Lavindran Sandragasu says although comparatively simpler to administer, dividend withholding taxes can have negative implications on investor sentiment and are indiscriminate in their application across all income groups.

"In the long run, however, Malaysia may need to consider a withholding mechanism, primarily for non-resident investors who may otherwise not file a Malaysian tax return," he says, adding that neighbouring Thailand and Indonesia already have dividend withholding taxes for residents and non-residents.

He sees the tax as having a minimal impact at most on the

stock market as, on a rough estimate, around 50% to 60% of shares are held by institutional shareholders such as the Employees Provident Fund, Permodalan Nasional Bhd and Armed Forces Fund Board.

"However, taking into account that the targets of the dividend tax are high-net-worth individuals who have access to various investment structures and options, the efficacy of a dividend tax in terms of tax revenue generation needs to be considered in a broader context," Lavindran says.

A number of fund managers and equity research heads are

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■ Further clarification on the application of the tax will be available when finance bill is released

■ Regular dividend payment will still be an option to attract long-term investors

now divided over whether dividend payouts can be tweaked or whether there could be more share buybacks or profits reinvested into the business to enhance long-term value.

Apex Securities Bhd head of research Kenneth Leong believes that regular dividend payment will still be an option to attract long-term investors.

Ho notes that share buybacks or reinvestments will really depend on the companies' business stage or model, with those at the growth stage typically reinvesting the bulk of their earnings.

According to Peter Kong, Kenanga Investment Bank Bhd head of research, investors most affected by the dividend tax will be founding shareholders and top executives whose wealth is tied to their stock holdings.

However, Kong points out that this group has other avenues to structure their dividend portfolios more efficiently, such as tax-exempted unit trusts.

He says there may be more interest in "value" stocks – those that are deemed undervalued versus their fundamentals – rather than investors switching to growth stocks.

"This is because we think investors will be looking for companies with share buyback programmes.

"These are companies that may have their powder kept dry in the way of cash that may be channelled to share buybacks and would have added appeal to investors now," Kong says.

As for reinvesting earnings, he believes that it is a decision that hinges on whether companies can find good projects that will yield returns exceeding their cost of capital.

Tradeview Capital Sdn Bhd chief investment officer Nixon Wong says the 2% tax rate is not significant enough to incentivise a change of the entire dividend paying structure.

"I believe it depends on the shareholding structure, with companies having individual major shareholders or that are family-owned to be likelier to reduce dividend and reinvest.

"The dividend payout at larger companies with more fragmented shareholdings will likely not see a change in the dividend payout," he adds.

For Rakuten Trade Sdn Bhd head of equity sales Vincent Lau, the tax should be a signal to investors to shift to growth stocks, where there is room for capital growth as compared to big-cap stocks that have already risen in value.

"Indirectly, we see this as positive as this tax move should encourage investors to take action by buying into small and mid-cap stocks that do not pay dividends but have capital growth.

"For dividend stocks, this tax could push them to more share buybacks," Lau says.

