KPMG

GMS Flash Alert

2021-284 | November 22, 2021

Malaysia - Budget 2022 and Tax Measures Affecting Individuals

Malaysia's Minister of Finance presented the 2022 Budget proposals on 29 October 2021, with a theme "A Prosperous Malaysian Family." The proposals focus on recovery and rebuilding the economy as Malaysia prepares to enter the recovery phase of COVID-19.

Following the tabling of the 2022 Budget, the Finance Bill was released on 9 November 2021, incorporating a number of announcements made in the Budget as well as some other notable additions. One of the key highlights is the announcement removing the tax exemption on foreign-source income received in Malaysia. In addition, there is a new relief for individuals, and, as anticipated, the scope of existing tax reliefs is being increased, extended, and expanded.

(For coverage of last year's budget, see *GMS Flash Alert* 2020-483, 4 December 2020.)

WHY THIS MATTERS

From the mobility perspective, there would be additional costs where the effective tax rate in Malaysia is higher than the tax rate in the host country. Further, the filing of the Malaysian personal income tax return of the outbound assignees may become complex with the remittance of foreign income being subject to tax and the claim of FTC. A separate application is required to be made to the Malaysian Tax Authority for the claim of the FTC where the claim cannot be made in the tax return. This is due to the different tax year or timing of filing the Malaysian and host country personal income tax returns.

The measures on the respective reliefs as announced in the budget could impact assignees into Malaysia or outbound assignees who remain subject to Malaysian tax. However, in cases where taxpayers claim the reliefs noted in this *GMS Flash Alert*, they may find their tax burdens lightened to a certain degree.

Removal of Tax Exemption on Foreign-Source Income

Before the Budget announcement, and under current rules, many individual taxpayers benefit from a tax exemption granted for foreign-source income. Put simply, individual taxpayers do not pay tax on income received in Malaysia which is sourced from outside Malaysia.

It is proposed that foreign-source income derived by individual tax residents which is received in Malaysia will be taxable effective 1 January 2022. If the income stays overseas, it will not be taxed. However, if the income is remitted into Malaysia by way of either crediting part of the remuneration by the Malaysian company in the employee's account in Malaysia or is transferred by him from his overseas account to his Malaysian account, this would attract tax liability in the year of crediting or remittance if the individual is a tax resident of Malaysia.

The proposal for removal of the tax exemption on foreign-source income can have a significant impact on Malaysia outbound assignees where part of their remuneration is being paid in Malaysia. With this removal, the foreign-source income of outbound assignees – which in the past years has not been taxable – becomes taxable in Malaysia in the year the individual is resident. This foreign-source income will be effectively added to the taxpayer's other income and will be taxed at the prevailing tax rates. A transitional tax rate of 3 percent is applied to the gross amount remitted from 1 January 2022 to 30 June 2022. The Malaysian Inland Revenue Board ("MIRB") has indicated that guidelines or FAQ will be issued to provide more clarity on this remittance of foreign-source income.

In view of the above, taxpayers with significant amounts of unremitted foreign-source income accrued in earlier years of assessment should start to assess the tax impact if the said amounts are remitted into Malaysia from 1 January 2022 onward. Based on the media release by the MIRB on 16 November 2021, the MIRB has released the special programme which will be running from 1 January 2022 to 30 June 2022. The MIRB will accept any declaration and there will be no audit, investigation or penalty on the foreign income remitted during this period.

As the foreign-source income would have been subjected to tax in the country of source, a foreign tax credit relief may be claimable against the Malaysian tax payable subject to the completeness of documentation to substantiate the claim and the granting of FTC is at the MIRB's discretion.

KPMG NOTE

The proposed tax measures, as mentioned above, will impact a number of resident taxpayers especially on their foreign-source income received in Malaysia from 1 January 2022. As Malaysia is reverting to its previous income tax scope whereby foreign-source income derived by Malaysian tax residents was taxed when received in Malaysia, this shall impact affected individual taxpayers as a higher tax liability may be incurred in Malaysia; and this, consequently, will increase the tax bill of companies with overseas operations.

Extension of Preferential Tax Rate for Non-Citizen Individuals in Selected Service Sectors

Presently for non-Malaysian citizens holding key or C-suite positions in companies relocating to Malaysia, a preferential tax rate of 15 percent is given for a period of five consecutive years. This tax incentive is limited to five non-citizen individuals employed in each company that has been granted relocation tax incentive, and they must be tax residents in Malaysia with monthly salaries of not less than MYR 25,000. The eligible individuals have to submit their applications to the Malaysian Investment and Development Authority ("MIDA") from 7 November 2020 up to 31 December 2021.

It is proposed that the applications to MIDA be extended until 31 December 2022.

Expansion of Scope, Increased in Relief Limit, and Introduction of New Relief

It is proposed that the following existing reliefs and relief limits be expanded or increased, and new reliefs be introduced:

Type of Tax Relief	**Tax Relief Amount (Current) MYR**	**Tax Relief Amount (Proposed) MYR**	**Proposed Changes and Effective Period**
Medical expenses for taxpayer, spouse, and children on serious diseases and the cost of fertility treatment. Includes: (i) full medical check-up ; and (ii) prescribed vaccination expenses	8,000 includes: 1,000 1,000	8,000 includes: 1,000 1,000	The restriction of MYR 1,000 under full medical check-up is expanded to include expenses incurred for: • COVID-19 detection test by hospital / registered medical practitioner or COVID-19 self-detection test kit (Effective from YA 2021) • mental health related check-up or consultation services by: i. a psychiatrist registered with the Malaysian Medical Council under the Mental Health Act 2001; or ii. a clinical psychologist registered with the Malaysian Allied Health Professions Council under the Allied Health Professions Act 2016; or iii. a counsellor registered with Board of Counsellors Malaysia under the Counsellors Act 1998. (Effective from YA 2022)
Contribution to Social Security Organisation (SOCSO)	250	350	The limit of relief is increased to MYR 350 and is expanded to include employee's contributions through the Employment Insurance System. (Effective from YA 2022)

Contribution to Employee Provident Fund (EPF)	4,000	4,000	The scope is expanded to include voluntary contributors including pensionable civil servants. (Effective from YA 2022)
Self-education fees (i) includes fees for attending any up-skilling and self-enhancement courses	7,000 Include: 1,000	7,000 Include: 2,000	The limit of relief for fees paid for attending any up-skilling or self-enhancement courses recognised by the Department of Skills Development, Ministry of Human Resources is increased to MYR 2,000. (For YA 2022 and YA 2023 only)
Domestic tourism expenses – accommodation and entrance fee	1,000	1,000	The scope is expanded to include purchase of domestic tour packages through licensed travel agents registered with the Commissioner of Tourism under the Tourism Industry Act 1992. (Effective for YA 2021 and YA 2022 only)
Expenses on Electric Vehicle ("EV") Charging Facilities and equipment	-	2,500	Expenses related to cost of installation, rental, purchase including hire-purchase equipment or subscription fee for EV charging facilities or equipment (For YA 2022 and YA 2023 only)

Source: KPMG, Malaysia

Extension of Period of Personal Tax Relief

It is proposed that the period of claiming the following reliefs be extended as per the below.

Type of Tax Relief	**Tax Relief Amount (Current) MYR**	**Period for Tax Relief (Current)**	**Period for Tax Relief (Proposed)**
Additional lifestyle relief for the purchase of a smartphone, personal computer, or tablet	2,500	Up to YA 2021	Extended to YA 2022

Fees paid to registered child-care centres or kindergartens for child aged 6 years and below	3,000	Up to YA 2021	Extended to YA 2023
Contribution to deferred annuity scheme	3,000 (including contributions to Private Retirement Scheme)	Up to YA 2021	Extended to YA 2025

Source: KPMG, Malaysia

KPMG NOTE

The proposed tax measures, as mentioned above, could benefit assignees in Malaysia if they qualify as tax residents in Malaysia, although the tax saving may not be significant. In order to qualify as tax residents in Malaysia, the assignees should give consideration to their pattern of stay in Malaysia.

To support their claims for relief, taxpayers are required to retain documentary evidence. In the event of a tax audit, failure to produce the documentary evidence could result in a disallowance of the reliefs and attract penalties of up to 100 percent of the tax under-paid

Income Tax Exemption on E-sports Earnings

To boost the growth of e-sports, it is proposed that prize money received by individuals from recognised e-sports tournaments be exempted.

The effective date for this proposal has yet to be announced.

Exemption of Real Property Gains Tax (“RPGT”)

It is proposed that RPGT rate on gains from the disposal of real property and shares in real property companies in the sixth year and onwards be reduced from 5 percent to 0 percent for disposals made by Malaysian citizens, permanent residents, and persons other than companies.

This proposal is effective from 1 January 2022.

KPMG NOTE

The proposed tax measures are expected to ease the financial burdens of Malaysian taxpayers.

Extension of Reduction in Contribution to Employees Provident Fund (EPF)

Malaysian employees are required to be contributors to the EPF.

It is proposed that the minimum employee's contribution rate reduction to 9 percent of the employee's wages will be extended to June 2022 to help boost employees' take-home pay.

FOOTNOTE:

1 The Budget speech and related Budget documents can be found on the "Budget 2022" webpage on the website for Malaysia's Ministry of Finance (in English). And in Malay, see the "Bajet 2022" webpage.

For Budget analysis and related publications/communications from the KPMG International member firm in Malaysia, see: https://home.kpmg/my/en/home/insights/2021/10/2022-budget-snapshots.html .

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MYR 1 = EUR 0.2117
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