GMS Flash Alert

2023-067 | March 29, 2023

Malaysia - Tax Measures Affecting Individuals in Budget 2023

Malaysia's prime minister, who is also the finance minister, presented the 2023 Budget proposals on 24 February 2023, with a theme "Membangun Malaysia MADANI."[1] The proposals overall reflect the government's drive for a reform agenda focusing on fair, equitable, sustainable, and people-led economic growth and development.

This year's budget offers a reduction of the individual income tax rate by 2 percent for middle-income resident individuals, but increases the tax rate by 0.5 percent to 2 percent for higher-income resident individuals. This is part of the MADANI key drivers under "Care and Compassion" for supporting vulnerable groups. There is also an increase, an extension and an expansion of the scope of existing tax reliefs. (For coverage of last year's budget, see *GMS Flash Alert* 2021-284, 22 November 2021.)

WHY THIS MATTERS

One of the key highlights in this year's budget affects middle-income resident individuals in the chargeable income band of MYR 35,001 to MYR 100,000, who will have a reduction of individual income tax rate by 2 percent whilst the higher-income resident individuals in the chargeable income band of MYR 100,001 to MYR 1,000,000 will have an increase in their individual income tax rate by 0.5 percent to 2 percent.

Companies with international assignees are likely to see a slight increase in their assignment-related costs.

For assignees who are on assignment to Malaysia and assignees working outside Malaysia but who are still subject to Malaysian tax, international assignment cost projections and budgeting should reflect these changes once they come into effect. Where appropriate, adjustments to gross-up packages and withholding taxes (monthly tax deductions) may need to be considered.

Changes to Income Tax Rates for Resident Individuals for YA 2023

It is proposed that with effect from Year of Assessment ("YA") 2023, the income tax rates for resident individuals will be reduced by 2 percent for the chargeable income bands between MYR 35,001 to MYR 100,000, whilst resident individuals with chargeable income bands between MYR 100,001 to MYR 1,000,000 will be increased by 0.5 percent to 2 percent.

Comparisons between the current and proposed individual income tax rates together with income tax savings or tax increases for resident individuals resulting from the reduction or increase of tax rates are shown in the table below.

Chargeable Income (MYR)	Current Tax Rates (%)	Tax Payable (MYR)	Proposed Tax Rates (%)	Tax Payable (MYR)	(Tax Savings) / Tax Increases (MYR)
0 – 5,000	0	0	0	0	-
5,001 – 20,000	1	150	1	150	-
20,001 – 35,000	3	**600**	3	**600**	-
35,001 – 50,000	**8**	**1,800**	**6**	**1,500**	(300)
50,001 – 70,000	**13**	**4,400**	**11**	**3,700**	(700)
70,001 – 100,000	**21**	**10,700**	**19**	**9,400**	(1,300)
100,001 – 250,000	**24**	**46,700**	**25**	**46,900**	200
250,001 – 400,000	**24.5**	**83,450**	**25**	**84,400**	950
400,001 – 600,000	**25**	**133,450**	**26**	**136,400**	2,950
600,001 – 1,000,000	**26**	237,450	**28**	248,400	10,950
1,000,001 – 2,000,000	**28**	517,450	**28**	528,400	10,950
2,000,000 and above	30		30		10,950

Source: KPMG in Malaysia

Nonresident individuals' income tax rate is maintained at 30 percent.

KPMG INSIGHTS

These measures will have little impact on assignees into Malaysia or outbound assignees who remain subject to Malaysian tax. The impact on the employer's cost of international assignments will depend on each assignee's particular set of circumstances. The preferential tax rate of 15 percent that is given for a period of five consecutive years for non-Malaysian citizens holding key or C-suite positions in companies relocating to Malaysia (see below), could have some mitigating effect.

Expansion of Scope and Increased in Relief Limit

It is proposed that the limit be increased, or the scope be expanded for the following existing reliefs.

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 with serious diseases and the cost of fertility treatment. Includes: (i) full medical check-up, including COVID-19 detection test by hospital / registered medical practitioner or COVID-19 self-detection test kit; and mental health-related check-up or consultation services by a registered psychiatrist, clinical psychologist and counsellor; (ii) prescribed vaccination expenses; and (iii) Intervention expenditures.	8,000 includes: 1,000 1,000	10,000 includes: - 1,000 1,000 4,000	The maximum relief has been increased by MYR 2,000 and the scope of medical expenses is expanded to include Intervention expenditure for Autism Spectrum Disorder, Attention Deficit Hyperactivity Disorder, Global Developmental Delay, Intellectual Disability, Down Syndrome and Specific Learning Disabilities limited to MYR 4,000 (for children aged 18 years and below) as follows: i. A diagnostic assessment certified by a medical practitioner registered with the Malaysian Medical Council; ii. Early intervention and rehabilitation programmes conducted by health profession practitioners registered under the Allied Health Profession Act 2016. (Effective from YA 2023)
Life Insurance Premium or Takaful Contribution on life insurance policy	3,000	3,000	The scope is expanded to include additional voluntary contribution to Employee Provident Fund ("EPF"). (Effective from YA 2023)

Source: KPMG in Malaysia

Extension of Period of Personal Tax Relief for Child-Care Centres and Kindergartens

To ease parents' financial burdens in providing early education for children, it is proposed to extend the period for claiming fees of up to MYR 3,000 paid to registered child-care centres or kindergartens for children aged six years and below to Year of Assessment ("YA") 2024.

The above proposal is effective for YA 2024.

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

It is proposed that 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 who have been granted relocation tax incentives, and who must be tax residents in Malaysia with monthly salaries of not less than MYR 25,000.

Based on the Budget Speech, it is proposed that the preferential tax rate of 15 percent for non-Malaysian citizen individuals holding C-suite positions in certain manufacturing companies relocating their operations to Malaysia (subject to eligibility criteria) will be extended until YA 2024.

KPMG INSIGHTS

These proposed tax measures 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, assignees should give consideration to their pattern of stays 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 underpaid tax.

Mandatory E-Filing of Individual Tax Return

Currently, the income tax return form for individual taxpayers can be submitted through an electronic medium provided in the e-Filing system, or by manual filing.

From YA 2024, it is proposed that individual taxpayers be required to submit their income tax return form by way of an electronic medium which is provided in the e-Filing system. Manual filing will no longer be allowed.

Allow Payment by Instalments for Balance of Tax Payable under Deemed Assessment

From YA 2023, it is proposed that the balance of tax payable under deemed assessments (i.e., tax return filed) may be allowed by the Director General of Inland Revenue to be settled through instalments.

FOOTNOTES:

1 The prime minister introduced the budget with the theme "Membangun Malaysia MADANI," representing values that emphasize alleviating poverty and sustainable growth. MADANI is the Malay acronym for Sustainability, Care & Compassion, Respect, Innovation, Prosperity and Trust, according to news reports.

The budget speech and related budget documents can be found on the "Budget 2023" webpage on the website for Malaysia's Ministry of Finance (in English) and see the "Bajet 2023" webpage (in Malay).

For budget analysis and related publications/communications from the KPMG International member firm in Malaysia, see: 2023 Budget Snapshots - KPMG Malaysia.

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MYR 1 = EUR 0.21
MYR 1 = USD 0.226
MYR 1 = GBP 0.184
MYR 1 = AUD 0.338

Source: www.xe.com

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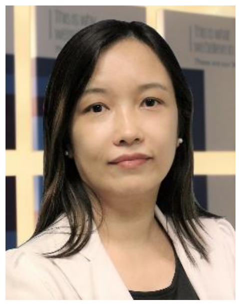

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