

Tax Whiz

Tax highlights from your advisers

28 February 2020

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Economic Stimulus Package (“ESP”) 2020

The interim Prime Minister, Tun Dr Mahathir Mohamad, unveiled a strategic economic package worth RM20 billion on 27 February 2020. The package is anchored on 3 strategies, namely mitigating the impact of Covid-19, spurring rakyat-centric economic growth and promoting quality investment.

The following are the proposed key tax measures in the ESP 2020.

INCOME TAX

1 Deferment of Tax Instalment Payments for Tourism Industry

Currently, companies are required to make monthly tax instalment payments for each year of assessment ("YA") based on tax estimates or revised estimates submitted to Malaysian Inland Revenue Board ("MIRB"). Businesses in the tourism industry, such as travel agencies, hoteliers and airlines, will be given a deferment of their monthly tax instalment payments for 6 months from 1 April 2020 to 30 September 2020.

The application for the deferment has to be made online to the MIRB.

2 Revision of Income Tax Estimation

Currently, companies are allowed to revise their tax estimates in the 6th and 9th month of the basis period for a YA. Companies will be allowed to revise their tax estimates in the month of their 3rd instalment payment, if the 3rd month of the instalment payment falls in 2020.

The application for the deferment can be made from 1 March 2020 and has to be made online to the MIRB.

3 Special Personal Income Tax Relief on Domestic Travel

A personal tax relief of up to RM1,000 will be given to individuals for the following domestic travel expenses incurred from 1 March 2020 to 31 August 2020:

- (i) accommodation expenses at premises registered with Ministry of Tourism, Arts and Culture Malaysia; and
- (ii) entrance fees to tourist attractions (these are yet to be defined).

4 Accelerated Capital Allowance for Machinery and Equipment including Information and Communication Technology ("ICT") Equipment

The annual allowance for qualifying capital expenditure incurred on machinery and equipment, including ICT equipment, from 1 March 2020 to 31 December 2020 will be increased to 40% (current rates range from 10% to 20%), with the initial allowance at 20%.

5 Special Tax Deduction for Renovation and Refurbishment Expenses

A tax deduction of up to RM300,000 will be given for expenses incurred on renovation and refurbishment of business premises from 1 March 2020 to 31 December 2020. The deduction will not be given if capital allowances have been claimed under Schedule 2 or 3 of the Income Tax Act 1967.

6 Double Deduction for Establishment of Regional Office by International Shipping Companies

A double deduction will be given on pre-commencement expenses incurred by International Shipping Companies for setting up regional offices in Malaysia.

The above proposal is applicable for applications received by the Malaysian Investment Development Authority not later than 31 December 2021.

7 Deduction / Capital Allowance on Personal Protective Equipment (“PPE”) Provided to Employees

A tax deduction will be given on expenses incurred by the companies for provision of disposable PPE such as face masks to the employees. Non-disposable PPE will be entitled to capital allowance.

STAMP DUTY

1 100% Stamp Duty Exemption on Loan Restructuring and Rescheduling Agreements

The restructuring and rescheduling of business loans between borrowers and financial institutions will be given a 100% stamp duty exemption. This is provided that the original loan agreement has been duly stamped and the loan restructuring and rescheduling agreement is executed from 1 March 2020 to 31 December 2020.

INDIRECT TAX

1 Service Tax Exemption for Hotels and Other Similar Establishments

Currently, the provision of accommodation services and related services provided by accommodation premise operators including hotels, inns, lodging houses, service apartments, homestays and any other similar establishments are prescribed to be taxable under Group A, First Schedule of the Service Tax Regulations 2018.

The accommodation premise operators will be exempted from charging Service Tax on taxable services provided from 1 March 2020 to 31 August 2020.

2 Import Duty and Sales Tax Exemption on Equipment and Machineries for Port Operators

Currently, there is no Import Duty and Sales Tax exemption available for port operators who do not enjoy the tax incentive under Approved Service Projects (“ASP”).

Port operators will be given Import Duty and Sales Tax exemptions on equipment and machineries whether imported or purchased locally, subject to the following conditions: -

- (a) The equipment and machineries are used directly in the port operations; and
- (b) Does not include parts and consumables including those for maintenance purposes.

The above is proposed to be effective for applications submitted to the Ministry of Finance from 1 April 2020 to 31 March 2023.

3 Value-Added Activities Carried Out in Licensed Manufacturing Warehouse (“LMW”) and Free Industrial Zone (“FIZ”)

Currently, the value-added activities permitted to be carried out in LMW and FIZ are limited to research and development, design, marketing (for an International Procurement Centre), distribution (for a Regional Distribution Centre), quality control, testing and commissioning including calibration and configuration, labelling and packaging as well as remanufacturing, repairing and servicing. The approvals are granted by either the Headquarters of the Royal Malaysian Customs Department (“RMCD”) or the Ministry of Finance.

The value-added activities permitted in LMW and FIZ will be expanded to include supply chain management, strategic procurement operation and total support solutions.

The approval process for all value-added activities carried out in LMW and FIZ will also be centralized and approved by the RMCD at State and Zone levels.

The above is proposed to be effective from 1 April 2020.

4 Review on Condition for Purchase of Duty Free Goods for Persons Entering Malaysia

Currently, non-residents entering Malaysia to visit for a period of not less than 72 hours or a resident returning after an absence of not less than 72 hours, are entitled to purchase duty free goods, subject to the prescribed threshold.

The conditions to purchase duty free goods at international airports will be revised as follows:-

- (a) The period of visit or absence be reduced from 72 hours to 48 hours; and
- (b) The threshold be increased from RM500 to RM1,000. This threshold is for goods other than goods which are currently exempted under the respective prescribed threshold such as alcohol, tobacco, apparels, footwear, food and electrical appliances for personal care.

The above is proposed to be effective from 1 April 2020.

Contact Us

Petaling Jaya Office

**Tai Lai Kok**

Executive Director – Head of Tax and Head of Corporate Tax
ltai1@kpmg.com.my
+603 7721 7020

**Long Yen Ping**

Executive Director – Head of Global Mobility Services
yenpinglong@kpmg.com.my
+603 7721 7018

**Bob Kee**

Executive Director – Head of Transfer Pricing
bkee@kpmg.com.my
+603 7721 7029

**Ng Sue Lynn**

Executive Director – Head of Indirect Tax
suelynnng@kpmg.com.my
+603 7721 7271

**Soh Lian Seng**

Executive Director – Head of Tax Dispute Resolution Practice
lsoh@kpmg.com.my
+603 7721 7019

**Nicholas Crist**

Executive Director – Corporate Tax
nicholasrist@kpmg.com.my
+ 603 7721 7022

**Dato' Leanne Koh**

Executive Director – Corporate Tax
leannekoh@kpmg.com.my
+603 7721 7026

**Neoh Beng Guan**

Executive Director – Corporate Tax
bneoh@kpmg.com.my
+ 603 7721 7025

**Ong Guan Heng**

Executive Director – Corporate Tax
guanhengong@kpmg.com.my
+ 603 7721 7027

**Chang Mei Seen**

Executive Director – Transfer Pricing
meiseenchang@kpmg.com.my
+ 603 7721 7028

**Ivan Goh**

Executive Director – Transfer Pricing
ivangoh@kpmg.com.my
+ 603 7721 7012

Outstation Offices

Penang Office**Evelyn Lee**

Executive Director – Penang Tax
evewflee@kpmg.com.my
+604 238 2288 (ext. 312)

Kuching & Miri Offices**Regina Lau**

Executive Director – Kuching Tax
reglau@kpmg.com.my
+6082 268 308 (ext. 2188)

Kota Kinabalu Office**Titus Tseu**

Executive Director – Kota Kinabalu Tax
titustseu@kpmg.com.my
+6088 363 020 (ext. 2822)

Johor Bahru Office**Ng Fie Lih**

Executive Director – Johor Bahru Tax
flng@kpmg.com.my
+607 266 2213 (ext. 2514)

Ipoh Office**Crystal Chuah Yoke Chin**

Tax Manager – Ipoh Tax
ycchuah@kpmg.com.my
+605 253 1188 (ext. 320)

KPMG Offices

Petaling Jaya

Level 10, KPMG Tower,
8, First Avenue, Bandar Utama,
47800 Petaling Jaya, Selangor
Tel: +603 7721 3388
Fax: +603 7721 3399
Email: info@kpmg.com.my

Penang

Level 18, Hunza Tower,
163E, Jalan Kelawei,
10250 Penang
Tel: +604 238 2288
Fax: +604 238 2222
Email: info@kpmg.com.my

Kuching

Level 2, Lee Onn Building,
Jalan Lapangan Terbang,
93250 Kuching, Sarawak
Tel: +6082 268 308
Fax: +6082 530 669
Email: info@kpmg.com.my

Miri

1st Floor, Lot 2045,
Jalan MS 1/2,
Marina Square, Marina Parkcity,
98000 Miri, Sarawak
Tel: +6085 321 912
Fax: +6085 321 962
Email: info@kpmg.com.my

Kota Kinabalu

Lot 3A.01 Level 3A,
Plaza Shell,
29, Jalan Tunku Abdul Rahman,
88000 Kota Kinabalu, Sabah
Tel: +6088 363 020
Fax: +6088 363 022
Email: info@kpmg.com.my

Johor Bahru

Level 3, CIMB Leadership Academy,
No. 3, Jalan Medini Utara 1,
Medini Iskandar,
79200 Iskandar Puteri, Johor
Tel: +607 266 2213
Fax: +607 266 2214
Email: info@kpmg.com.my

Ipoh

Level 17, Ipoh Tower,
Jalan Dato' Seri Ahmad Said,
30450 Ipoh, Perak
Tel: +605 253 1188
Fax: +605 255 8818
Email: info@kpmg.com.my

kpmg.com/my

 facebook.com/KPMGMalaysia

 twitter.com/kpmg_malaysia

 linkedin.com/company/kpmg-malaysia

 instagram.com/kpmgmalaysia

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