e-TAX NEWS
(October 2019)

2020 PKF TAX SEMINAR
Pullman Hotel, Kuala Lumpur Bangsar
31 October 2019 (Thursday) | 8:30am – 5:00pm

**Please refer to the attached brochure*

The following is a summary of our top picks of Budget 2020 together with our detailed analysis on planning opportunities and tax risk analysis:-

1. SUPPORT FOR THE GROWTH OF SME

- **REVIEW OF INCOME TAX THRESHOLD**

Current	Budget 2020	
	Proposal	**Effective Date**
SMEs* subject to tax rate of 17% for chargeable income up to first RM500,000.	SMEs subject to tax rate of 17% for chargeable income up to first RM600,000. Additional condition imposed on SME includes having an annual sales of not more than RM50 million.	YA 2020

***** SMEs are resident companies with paid up capital of ordinary shares of not more than RM2.5 million and Limited Liability Partnership ("LLP") with total contribution of capital of not more than RM2.5million. The preferential tax rate does not apply if more than 50% of the paid up ordinary share capital of the company and related company is directly or indirectly owned by another company and the paid up capital of ordinary shares of another company are more than RM2.5 million.

PKF's Comment

SMEs are one of the biggest contributors to Malaysia's GDP. The contribution increased to 38.3% as compared to 37.8% in 2017. The proposal to increase the threshold for chargeable income to be fixed at 17% for SME in YA 2020 is a welcome move as this may help to reduce SMEs' tax burden. However, the reduction of up to a maximum of RM7,000 may not contribute to any specific benefit to the development of SMEs. Since SMEs are one of the main contributors to our country's GDP, customized tax initiatives focusing on specific needs of SMEs would be more beneficial rather than a blanket income tax reduction. SMEs in Malaysia have been facing many sustainability issues despite having competitive products offered at attractive pricing. Some of the critical problems that facing by SME are lack of ICT usage to modernize their operation to be aligned to the existing digital economy, limited or lack of exposure to international market to compete competitively, lacking of innovation, research and development, and heavily dependent on foreign cheap labour. Targeted tax incentives and initiatives to address the above critical problems would be more beneficial to the development of SMEs in Malaysia.

- **TAX DEDUCTION ON COST OF LISTING IN BURSA MALAYSIA**

Current	Budget 2020	
	Proposal	**Effective Date**
Expenses incurred for listing in Bursa Malaysia is not eligible for tax deduction.	The following types of listing cost incurred by technology-based companies and SMEs companies in ACE market or LEAP market are eligible for tax deduction up to RM1.5 million: • Fees to authorities; • Professional fees; and • Underwriting, placement and brokerage fees.	YA 2020 to YA 2022

PKF's Comment

The LEAP market was introduced by Bursa Malaysia into the Malaysian capital markets in the mid of 2017 and it has contributed to the increase of GDP in Malaysia, the Government has now proposed to assist technology-based companies and SMEs companies to growth its businesses by raising additional capital through listing in the ACE or LEAP markets. With the availability of extra funding, technology-based and SMEs companies are able to make capital investment such as, investment in tangible or intangible assets and this concurrently can align with the Government's goals on promoting Industry4WRD.

2. INCREASE OF INCOME TAX RATE OF INDIVIDUAL

Current	Budget 2020	
	Proposal	**Effective Date**
• Resident chargeable income exceeding RM2 million at tax rate of 28%. • Non-resident at flat tax rate of 28%.	• Resident chargeable income exceeding RM2 million at tax rate of 30%. • Non-resident at flat tax rate of 30%.	YA 2020

PKF's Comment

The proposal to increase the income tax rate of individuals is not new. In YA 2016, the highest bracket of income tax rate for individual was increased from 26% to 28%. In view of the variety of tax initiatives offer by the Government to SMEs, sole proprietor may consider to convert its existing business structure by incorporating a company in order to be more tax efficient since the amendment made in Companies Act 2016 allows one shareholder company to be incorporated.

3. STREAMLINE TAX TREATMENTS FOR TAX EFFICIENCY

The following tax initiatives have been announced in Budget 2020 to streamline the existing tax administration to ensure relevancy, effectives and efficiency of the tax system in Malaysia.

- **SMALL VALUE ASSETS (SVA)**

Current	Budget 2020	
	Proposal	Effective Date
100% capital allowance on SVA with a value of not more than RM1,300 for each asset for both SME and non-SME.	Value of each SVA for both SME and Non-SME is increased from RM1,300 to RM2,000.	YA 2020
SME is eligible to fully claim capital allowance on SVA without any limit.	Remained unchanged.	
Qualifying capital allowance on SVA eligible to be claimed by non-SME for each YA is restricted to RM13,000.	The maximum limit of total SVA for non-SME be increased from RM13,000 to RM20,000 for each YA.	

PKF's Comment

The increase of the value from RM1,300 to RM2,000 for the purpose of claiming capital allowance will accelerate the claim of capital allowance categorised as SVA and to ease the tax administration work for monitoring the claim of capital allowance.

- **EXPENSES INCURRED ON SECRETARIAL FEE AND TAX FILING FEE**

Current	Budget 2020	
	Proposal	Effective Date
Tax deduction for secretarial fee up to RM5,000 for each YA.	Tax deduction limit on expenses incurred on secretarial and tax filing fee be combined and allowed up to RM15,000 for each YA.	YA 2020
Tax deduction for tax filing fee up to RM10,000 for each YA.		

PKF's Comment

By combining the threshold of tax deduction for both secretarial fee and tax filing fee will provide greater flexibility to maximize the claim of tax deduction.

- **INCOME TAX EXEMPTION TO RELIGIOUS INSTITUTION OR ORGANISATION REGISTERED AS A COMPANY LIMITED BY GUARANTEE**

Current	Budget 2020	
	Proposal	**Effective Date**
Income tax exemption is given on all income received by religious institution or organisation established for the purpose of religious worship and advancement of religion and registered under the Registrar of Societies Malaysia or under any written law governing the institution or organisation.	Income tax exemption extended to religious institution or organisation registered as Company Limited by Guarantee (CLBG) with SSM. The conditions for the purpose of this exemption as follows:- • Income and profit received, and real property acquired is used solely in achieving the objective of the establishment for the purpose of religious worship and advancement of religion; • It is not being operated primarily for the purpose of profit; • CLBG is required to submit tax return annually to the IRB; and • To comply with other requirements set by IRB.	For CLBG approved by IRB from YA 2020

PKF's Comment

The above proposal has streamed line the tax exemption given to religious institution or organization registered under Registrar of Societies Malaysia and Companies Act 2016 to achieve the main objective of the tax exemption rather than subject to the legal structure of the entity.

- **INCOME TAX RELIEF FOR MEDICAL EXPENSES**

Current	Budget 2020	
	Proposal	**Effective Date**
Personal tax relief of up to RM6,000 on medical expenses for serious disease (includes expenses of up to RM500 for full medical checkup).	The scope of personal tax relief on medical expense is expanded to cover the cost of fertility treatment.	YA 2020

PKF's Comment

Today, the fertility rate in Malaysia has fallen alarmingly from 4.9 children per woman in the 1970s to 1.9 children per woman. As such, the expansion of the above tax relief is to ease the financial burden of married couple who seeking fertility treatment.

4. A BUDGET FOR 'WOMEN'

Women make up half the nation's population and account for over 55% of enrolment in local universities. Malaysian women show a labour force participation rate of just over 54%. However, they tend to exist the workforce in their late 20s to early 30s, usually due to family commitments. Not surprisingly, a few initiatives were proposed in Budget 2020 to encourage more talented women to return to the workforce.

- **FEES PAID TO CHILDCARE CENTRES AND KINDERGARTENS**

Current	**Budget 2020**	
	Proposal	**Effective Date**
Personal tax relief up to RM1,000 is given to taxpayers who enroll their children aged up to 6 years in childcare centres or kindergartens registered with Department of Social Welfare or Ministry of Education.	Personal tax relief on fees paid to childcare centres and kindergartens be increased from RM1,000 to RM2,000.	YA 2020

PKF's Comment

This proposal is a welcome effort to relief parents from financial burden and the relief will help to some extent to alleviate the rising cost of living in Malaysia.

- **TAX INCENTIVE FOR WOMEN RETURNING TO WORK AFTER CAREER BREAK**

Current	**Budget 2020**	
	Proposal	Effective Date
Income tax exemption is given on employment income for a maximum of 12 consecutive months to women who return to work after a career break	It is proposed that the existing tax exemption be extended for a period of 4 years	Application received from 1.1.2020 until 31.12.2023

- **INITIATIVE UNDER MALAYSIANS@WORK FOR WOMEN RETURNING TO WORK**

Under the women returning to work programmes, women who have stopped working for a year or more and are aged between 30 to 50 years old; and their employer would receive the following incentive:-

Employee	RM500 per month for 2 years
Employer	RM300 per month for 2 years

Based on the budget speech, the above arrangement will be managed through EPF and will be subsequently integrated with the Employment Insurance System (EIS) and other active labour market programmes.

PKF's Comment

The above income tax exemption has been extended for a period of 4 years to encourage more women to return to work after a career break. Besides the financial benefit, the relevant Government agencies must also address other non-financial issues faced by married women especially related to flexible work arrangements, family care leave and the availability of child care centre at work place, just to name a few.

5. PROMOTION OF CORPORATE SOCIAL RESPONSIBILITY

Tax initiatives have been announced by Government in Budget 2020 to promote the welfare of the society by way of encouraging donation of money from the public sector.

- **TAX DEDUCTION ON DONATION OR CONTRIBUTION BY COMPANY AND OTHER THAN COMPANY**

Current	Budget 2020	
	Proposal	**Effective Date**
Tax deduction up to 7% of aggregate income by taxpayers other than company for contribution made to: • Institutions or organisations approved under subsection 44(6) of the Income Tax Act, 1967 ('the Act") includes organisation such as Jactim Foundation, Kiwanis Down's Syndrome Foundation, National Cancer Society Malaysia, etc.; • Sport activity such as badminton, football, bowling, etc. approved under subsection 44(11B) of the Act; and / or • Projects of national interest approved under subsection 44(11C) of the Act. •	Tax deduction has been increased from 7% to 10% of aggregate income by taxpayers other than company for the same contribution made to: • Institutions or organisations approved under subsection 44(6) of the Income Tax Act, 1967 ('the Act"); • Sport activity approved under subsection 44(11B) of the Act; and / or • Projects of national interest approved under subsection 44(11C) of the Act.	YA 2020
Existing, there is no tax treatment on contribution by way of cash *wakaf* (i.e. donation for the purpose of religion) to state religious authority or cash endowment to public university under the Act.	Tax deduction of 10% of aggregate income by taxpayers other than company and company for contribution made for: • Cash *wakaf* contribution to state religious authority or body established by the state religious authority to administer *wakaf*; • Cash *wakaf* contribution to public university approved by the state religious authority to receive *wakaf*; and • Cash endowment contribution to public university.	YA 2020

PKF's Comment

The above changes were made to streamline the tax deduction between company and other than company to 10%. With the increase of tax deduction from 7% to 10% for other than company, it may encourage more donation and cash contribution from individuals. The tax deduction of 10% is allowable for set-off at aggregate income level, and for maximisation of tax benefit, taxpayer should ensure that there is sufficient aggregate income to set-off against the donation contribution. Aggregate income level is computed after deduction of brought forward unabsorbed business losses and current year business losses, and the donation contribution deduction will be disregarded in the absence of any or insufficient of aggregate income.

- **TAX DEDUCTION FOR SPONSORSHIP OF ARTS, CULTURAL AND HERITAGE ACTIVITIES**

Visit Malaysia 2020 is the Government's primarily effort to brand Malaysia as a top destination for tourism with a projection of 30 million tourist arrivals. In conjunction with the Visit Malaysia 2020, tax initiatives have been announced by the Government to encourage taxpayer to sponsor local arts, cultural or heritage activity.

Current	Budget 2020	
	Proposal	Effective Date
Tax deduction up to RM700,000 a year is given to taxpayer on expenditure incurred for sponsoring any local arts, cultural or heritage activity approved by Minister of Tourism, Arts and Culture.	The tax deduction is increased from RM700,000 to RM1million a year for expenditure incurred by taxpayer for sponsoring any local arts, cultural or heritage activity approved by Minister of Tourism, Arts and Culture.	YA 2020
Tax deduction up to RM300,000 is given on expenditure incurred for sponsoring foreign arts, cultural or heritage activity.	Remain unchanged.	-

PKF's Comment

The above proposal is an initiative by the Government to encourage private sector to be involved in promoting the tourism industry towards Visit Malaysia 2020.

- **EXPANSION OF SCOPE OF TAX DEDUCTION ON CONTRIBUTION TO CHARITY AND COMMUNITY PROJECTS**

The Government has proposed greater initiative to embark on corporate social responsibility by taxpayer for the preservation of forest and national park to support the effort of protecting the endangered animals. Similar effort has been proposed to preserve our island, beach and heritage buildings. In line with this, the following proposal was announced:

Current	Budget 2020	
	Proposal	**Effective Date**
Tax deduction on expenditure incurred by taxpayer on the provision of services, public amenities and contributions to a charity or community project pertaining to education, health, housing, conservation or preservation of environment, enhancement of income of the poor, infrastructure and information and communication technology approved by the Minister.	It is proposed that the current scope be enhanced to include tax deduction on expenditure incurred on: • Environmental preservation and conservation projects including forest, island, beach and national park; and • Maintenance and conservation projects for heritage buildings designated by National Heritage Department under the National Heritage Act 2005.	YA 2020

PKF's Comment

The above proposal encourages corporate sector to embark on corporate social responsibility to preserve our natural heritage.

6. REAL PROPERTY GAINS TAX

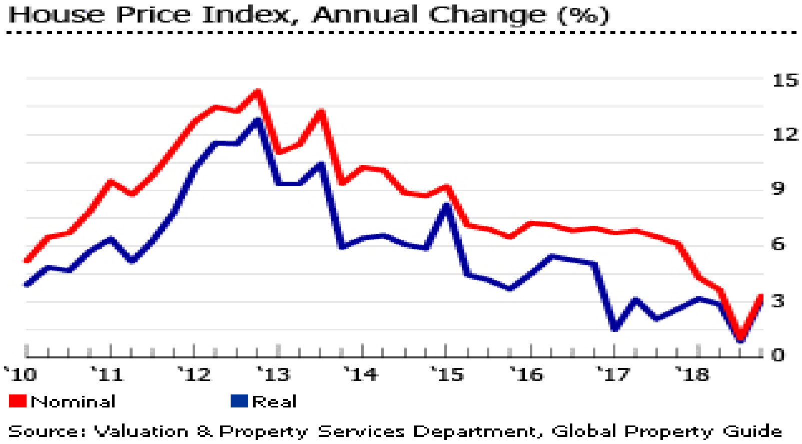
- **REVISED DATE OF ACQUISITION OF PROPERTY PRIOR TO YEAR 2000**

Current	Budget 2020	
	Proposal	Effective Date
With effective from 1 January 2019, the market price on 1 January 2000 is used as the acquisition price for real properties acquired prior to year 2000 by Malaysian citizens and permanent residents.	It is proposed that for disposal of real properties made from 12 October 2019, the market value as at 1 January 2013 is used as the acquisition price for real properties acquired prior to year 2000 by Malaysian citizens and permanent residents.	From 12 October 2019

PKF's Comment

The above proposal was made after feedback made by the public concerning of the substantial real property gains tax to be suffered by Malaysian citizens and permanent residents for disposal of real properties not for speculative purposes when comparing the market price on 1 January 2000 as the deemed acquisition price with the disposal price to arrive at the capital gain on disposal.

In Budget 2020, it was proposed to move the date of deemed acquisition price of real properties acquired prior to year 2000 from 1 January 2000 to 1 January 2013. The above proposal is in line with the House Price Index published by the Valuation and Property Services Department in May 2019 (see diagram below) which displays the price of real properties in Malaysia reached its peak toward the end of 2012.



As a result of the above proposal, the base year for deemed acquisition price of real properties has been shifted to 1 January 2013 from 1 January 2000. Sellers who are Malaysian citizen and permanent resident that intend to dispose of their property will compute their capital gain based the difference of the property price between 1 January, 2013 and the current disposal date which is expected to be lower as opposed to the deemed acquisition price as at 1 January 2000.

- **REVIEW OF REAL PROPERTY GAINS TAX RATE**

<table>
<tr><th rowspan="2">Current</th><th colspan="2">Budget 2020</th></tr>
<tr><th>Proposal</th><th>Effective Date</th></tr>
<tr>
<td>The current Real Property Gains Tax ("RPGT") rate does not make distinction between company incorporated in Malaysia and outside Malaysia and disposal made by trustee of a trust.</td>
<td>
• Company incorporated outside Malaysia
<table>
<tr><th>Date of disposal</th><th>Rate</th></tr>
<tr><td>Within 3 years of acquisition</td><td>30</td></tr>
<tr><td>In the 4th year after acquisition</td><td>30</td></tr>
<tr><td>In the 5th year after acquisition</td><td>30</td></tr>
<tr><td>In the 6th after acquisition and beyond</td><td>10</td></tr>
</table>
• Trustee of a trust
<table>
<tr><th>Date of disposal</th><th>Rate</th></tr>
<tr><td>Within 3 years of acquisition</td><td>30</td></tr>
<tr><td>In the 4th year after acquisition</td><td>20</td></tr>
<tr><td>In the 5th year after acquisition</td><td>15</td></tr>
<tr><td>In the 6th after acquisition and beyond</td><td>10</td></tr>
</table>
</td>
<td>Coming into operation of Finance Act</td>
</tr>
</table>

PKF's Comment

The above proposal is to provide clarity on the rate of RPGT on disposal of real properties and preferential RPGT rates will only be applicable to Malaysian citizens, permanent residents, companies incorporated in Malaysia and trustee of a trust.

7. INCENTIVE FOR REINVESTMENT

- **SPECIAL INCENTIVE FOR ELECTRICAL AND ELECTRONIC SECTOR**

The electrical and electronic industry contributed 38% of the total exports with a trade surplus of RM119billion, which marked the highest among all the sub-sectors for the manufacturing sector. The electrical and electronic industry continues to be a key driver of industrial development and contributes significantly to gross development growth, export earnings, investment and employment. To assist the electrical and electronic industry to continue to reinvest in improvement in manufacturing processes the following proposal was made:

Current	Budget 2020	
	Proposal	Effective Date
Electrical and electronic companies engaged in manufacturing activities are eligible for tax incentive under the Promotion of Investment Act, 1986 and entitled for reinvestment allowance.	It is proposed that electrical and electronic companies that have exhausted the 15 consecutive years of reinvestment allowance be given income tax exemption equivalent to investment tax allowance of 50% on qualifying expenditure set off against 50% of statutory income incurred within a period of 5 years. The incentive is given in compliance with conditions such as incurring prescribed amount of annual operating expenditure and employing a minimum number of workers.	Application received by Malaysian Investment Development Authority from 1 January 2020 until 31 December 2021.

PKF's Comment

The above proposal to encourage electrical and electronic industry is a welcome initiative by the Government to support this sector to thrive and invest in technological advance equipment. We are of the view that the same initiative should be given to all industries and sectors which have exhausted the 15 consecutive years of reinvestment allowance claimed in order to encourage further reinvestment in advance technology and equipment.

As the above proposed incentive is only granted for 2 years, timely issuance of the relevant guideline on the terms and conditions for claiming the above incentive is crucial to ensure the relevant sector will fully benefit from the above proposal.

- **EXTENSION OF ACCELERATED CAPITAL ALLOWANCE ON AUTOMATION EQUIPMENT**

The Government has taken right step in spurring smart manufacturing by the adoption of automation technology to boost productivity and quality. The budget announcement on the extension of Accelerated Capital Allowances (ACA) for manufacturing and services companies is a welcome step.

<table>
<tr><th rowspan="2">Current</th><th colspan="2">Budget 2020</th></tr>
<tr><th>Proposal</th><th>Effective Date</th></tr>
<tr><td>Category 1:
Labour-intensive industry (rubber, plastic, wood and textile products)

A manufacturing company engaged in the above industry which incurs qualifying capital expenditure on automation equipment is eligible for the following incentives:

• Accelerated capital allowance for automation equipment of 100% on first RM4million from year of assessment 2015 to 2020; and

• Income tax exemption up to 100% of the accelerated capital allowance on automation equipment.

Category 2:
Industries other than Category 1

Incentive as per above except that the accelerated capital allowance for automation equipment is 100% on the first RM2million.</td><td>It is proposed that the incentive for Categories 1 and 2 be extended for another 3 years until year of assessment 2023.

It is also proposed that the incentive under Category 2 be expanded to include services sector.</td><td>Application received by Malaysian Investment Development Authority until 31 December 2023.

Application received by Malaysian Investment Development Authority from 1 January 2020 until 31 December 2023.</td></tr>
</table>

PKF's Comment

Managing the issues of foreign workers will remain pertinent in many years to come and it is especially so given our steady economic growth. In sustaining the growth expectations may have strong implications on the supply and demand for workers, with the current state and structure of the economy, which has strong presence of agriculture, plantations and construction — by their nature, are labour intensive. So are our export-oriented manufacturing activities.

Unless Malaysia has a well-aligned long term national policies encompass talent development, research and development, industrial upgrading initiatives and a progressive long term foreign labour policies to transform into the highly skilled labour, the numerous tax incentives, Government grants/aids and soft loans proposed by the Government to transform the manufacturing sector and manufacturing related services sector would not achieve the desire results. Easy availability of cheap low-skilled foreign workers blunts the need for productivity improvement and automation.

8. TAX INCENTIVE FOR DEVELOPMENT OF INTELLECTUAL PROPERTY

A new tax incentive is proposed to encourage the development of intellectual property (IP) in Malaysia with income tax exemption of 100% up to 10 years on qualifying IP income derived from patent and copyright software of qualifying activities.

Base Erosion & Profit Shifting (BEPS) refers to legitimate tax planning strategies adopted by multinational companies to exploit loopholes and mismatches in tax rules worldwide, reducing tax payable by shifting their profits to jurisdictions with preferential tax benefit. The BEPS project was initiated by the OECD and G20 countries in 2013. In October 2015, a comprehensive 15-point Action Plan was released. Malaysia has pledged to implement the measures proposed in the inclusive framework of BEPS, including countering harmful tax practices under BEPS action 5, aimed at preventing tax avoidance. To be in compliance with BEPS action 5 which emphasized on substantive testing, the Modified Nexus approach will be adopted to ensure only income derived from IP developed in Malaysia will be eligible for the tax exemption.

PKF's comment:

The Modified Nexus approach defined in the BEPS action 5 aims to ensure that intellectual property regimes provides benefits to taxpayers that engage in research and development (R&D) since the intention of the IP regimes is to encourage R&D activity. As a consequence, a taxpayer is able to benefit from the IP regime to the extent that it can be demonstrated that the taxpayer incurred expenses related to R&D activities which give rise to the IP income. Therefore, the IP income which may be eligible for tax benefits is computed as below:

$$\frac{\text{Qualifying expenditures incurred to develop IP asset}}{\text{Overall expenditures incurred to develop IP asset}} \times \text{Adjusted net qualifying income from IP asset} = \text{Income receiving tax benefits}$$

We hope the IRB will promptly issue the relevant guideline to provide clarity on the application of the Modified Nexus approach to ensure the objective of the proposal to transform the Malaysian economy into a knowledge base economy can be fulfilled. In order to adopt the above formula, it is necessary to have clarity on the following:

1) Which expenditure is considered as "qualifying expenditure incurred to develop IP assets";
2) Which expenditure is considered to as "overall expenditure incurred to develop the IP assets";
3) How the net qualifying income from IP asset is computed; and
4) A clear definition what is the scope of IP asset. Are marketing related intangible, trademarks and domain names included?

9. REDUCTION OF PENALTY FOR UNPAID TAXES

Current	Budget 2020	
	Proposal	Effective Date
Penalty of 10% on balance of unpaid tax after payment deadline and a further 5% on unpaid tax upon expiry of 60 days after deadline.	Penalty of 10% on balance of unpaid tax after deadline and no further extra 5% penalty upon expiry of 60 days.	YA 2020

PKF's Comment

To cap the penalty rate for unpaid taxes at 10% by removing the additional penalty of 5% for any non-payment of taxes beyond the 60 days after the due date is indeed a good news to Malaysian taxpayers. However, after the end of the Special Voluntarily Disclosure Programme (SVDP) on 30 September,2019, more hefty penalty will be imposed by the IRB for any non-compliance of tax legislation and more robust tax audit activities will be initiated by the IRB moving forward to promote greater tax compliance in Malaysia.

The new penalty structure for any non-compliance of the tax legislation in Malaysia proposed by the IRB is summarized below:-

Penalty rate under Section 112(3) of the Act on late submission of income tax return form

Late filing period (Months)	Existing penalty rate	Proposed penalty rate
≤ 12	20%	15%
> 12 - 24	25%	30%
> 24 - 36	30%	45%
> 36	35%	

Penalty rate under Section 113(2) of the Act on Incorrect reporting of Income and Other Information – Tax Audit case

Description	Existing penalty rate	Proposed penalty rate
Audit findings	45%	45%
Repetitive	-	55%

Penalty rate on Incorrect reporting of Income and Other Information - Tax Investigation case

Period of settlement	Existing penalty rate		Proposed penalty rate	
	Investigation	Repetitive	Investigation	Repetitive
≤ 6	RM1,000 to RM10,000 and pay a special penalty of double amount of the tax undercharged (Section 113(1) of the Act) 100% of the tax undercharged (Section 113(2) of the Act)		45%	60%
> 6 - 12			50%	65%
> 12 – 18			55%	70%
≥ 18			60%	75%

10. SALES TAX UPDATE

- **APPROVED MAJOR EXPORTER SCHEME UNDER SALES TAX ACT 2018**

Current	Budget 2020	
	Proposal	**Effective Date**
Refund of the amount of sales tax paid on goods imported or purchased, and subsequently exported only available through drawback facility. Manufacturer who purchases raw materials, components and packaging materials for the manufacturing of exempted goods for export has to apply for exemption under Item 4, Schedule B, Sales Tax (Persons Exempted from Payment of Tax) Order 2018.	Traders or manufacturers of exempted goods are eligible to apply for the scheme and subject to an export of not less than 80% of their annual sales. The approved trader and manufacturers under this scheme will be: i) eligible for full sales tax exemption on the importation and purchase of goods or raw materials, components and packaging materials; and ii) not required to determine the quantity of goods to be exported at the time of importation or purchase of goods. Sales tax shall be paid for: i) the portion of trading goods or manufactured exempted goods that are not exported or sold in local market, based on the prescribed formula; and ii) waste or refuse of raw materials, components and packaging materials used for the manufacturing of exempted goods that are disposed or sold in the local market.	1 July 2020

PKF's Comment

The above proposals should be able to ease the administrative works of the traders and manufacturers. Traders and manufacturers will have more time to focus on their business operations instead of the administration works in determining the quantity of goods imported or purchased and to worry about the quantum which are subsequently exported or sold in the local market.

If there are goods imported for the purpose of export are not sold locally or brought into the Principal Customs Area, it just need to pay the sales tax accordingly.

In addition, the above shall ease the traders or manufacturers cash flow. Currently, sales tax paid on goods imported or purchased, and subsequently exported may be refunded by Director General ("DG") under drawback facility and this can usually take some time for the DG to refund the amount.

11. SERVICE TAX UPDATE

- **IMPROVEMENT ON GROUP RELIEF FACILITY UNDER SERVICE TAX**

Current	Budget 2020	
	Proposal	**Effective Date**
The taxable service under Group G, Professional (except for employment services and security services) provided by a company to another company within the same group of company is not subjected to service tax as provided under paragraph 3 of the First Schedule, Service Tax Regulations 2018 (Regulations). The above has been extended to the importation of taxable services under professional group from a company within the same group of company outside Malaysia pursuant to paragraph 3A of the Regulations. However, the above group relief will no longer be applicable once the company provides the same taxable services to a third party who is not within the same group of company.	Taxable services under Group G Professional (except for employment services and security services) provided by a company to a third party who is not within the same group of company will be allowed under the group relief. The above is subject to a condition that the value of services provided to third party does not exceed 5% of the total value of services provided by that company within 12 months.	1 January 2020

PKF's Comment

With the above expanded relief, a company (if applicable) is now required to monitor its value of taxable services provided under the same group and third party to ensure that the value of services provided to third party does not exceed 5% of total value of services provided by the company within the 12 months. If the condition is breached, the entire taxable services provided within the group and third party will subject to service tax. We shall treat this relaxation with extreme care.

- **SERVICE TAX EXEMPTION ON PROVISION OF TRAINING AND COACHING SERVICES FOR DISABLED PERSON**

Current	Budget 2020	
	Proposal	**Effective Date**
All training and coaching services are subject to 6% service tax except the services provided by: i) research and development company as well as contract research and development company under Section 2, Promotion of Investment Act 1986; ii) approved research institute under Section 34B, Income Tax Act 1967; or iii) Federal or State Government, local authorities or statutory bodies.	Service tax exemption on training and coaching services to disabled persons with hearing, visual, physical, speech, mental, and learning disabilities provided by the service providers as follows: i) training and coaching centres registered with Ministry of Health Malaysia or Department of Social Welfare; or ii) training and coaching centres endorsed by any national association for disabled persons registered with Registrar of Societies Malaysia.	1 January 2020

PKF's Comment

The above proposal is tandem with the government continual support for welfare agencies and non-governmental organisations. We would need the relevant guidelines and procedures be issued by the Royal Malaysia Customs Department as soon as possible to ensure sufficient time for the affected businesses to implement the new law efficiently.

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