

# Highlights of Malaysia's 2020 budget



## Highlights

1. Key economic forecasts
2. Specific Budget Announcements
  - Taxation
  - Social measures
  - Foster an entrepreneurial economy
  - Infrastructure
  - Other budget measures and issues

The theme of this year's Budget is “driving growth and equitable outcomes towards shared prosperity.” The Malaysian government’s economic plan and the Budget for 2020 are aimed at building a stronger economy and securing a better future for all Malaysian amid the mounting uncertainties in the external environment. According to the Budget, priorities would be given to these four thrusts:

- Driving growth in the New Economy and digital era
- Investing in Malaysians: Levelling up human capital
- Creating a united, inclusive and equitable society
- Revitalisation of public institutions and finances

The Government is forecasting that the budget deficit will fall from RM51.8 billion in 2019 to RM51.7 billion. As a percentage of GDP, the deficit is forecast to fall from 3.7 per cent in 2018 to 3.2 per cent in 2020.

Total government expenditure is forecast to be RM297 billion in 2020, compared with RM277.5 billion in 2019. Total government revenue is expected to be RM244.5 billion in 2020, an increase of RM11.2 billion from 2019; however, if including the RM30 billion special dividend from PETRONAS in 2019, revenue is down 7.1 per cent in 2020.

## Key economic forecasts:

- Malaysia's GDP is forecast to grow 4.7 per cent in 2019 and 4.8 per cent in 2020. The Budget papers state this "growth is underpinned by resilient domestic demand, particularly household spending following stable labour market and low inflation."
- Malaysia's gross exports in RM terms are forecast to increase 0.1 per cent in 2019 and 1.0 per cent in 2020. Gross imports are forecast to fall 2.5 per cent in 2019 and increase 2.7 per cent in 2020. The Budget papers state that these figures are "in line with the slowdown in global economic and trade performance."
- Inflation is expected to be 0.9 per cent in 2019 and 2.0 per cent in 2020
- Malaysia's unemployment rate is expected to remain unchanged at 3.3 per cent in 2020.

The government listed the following challenges faced by Malaysia's small and open economy:

- Global concerns such as heightened trade tension and uncertainty over Brexit
- Lack of access to affordable housing in Malaysia
- Worsening environmental conditions
- Insufficient employment opportunities among graduates
- Slow progress in Bumiputera participation in various programs
- The need for quality healthcare services
- Slow adoption of technology in industry
- Inability to secure financing in business

The Government also restated its commitment to increase the level of transparency in the public sector by shifting to accrual-based accounting from a cash basis. In the 2019 budget, the Government stated that accrual accounting will be adopted in 2021; in this budget it states that the shift will be completed within three years.

## Specific budget announcements:

### ***Taxation***

The Budget papers state that the government will improve the nation's taxation system by:

- Reducing the tax gap, which is an estimate of the difference between the amount the revenue authorities actually collect and what they would have collected if every taxpayer was fully compliant with tax laws
- Minimising tax leakages
- Exploring new sources of revenue
- Enhancing tax administration.

### ***Specific tax measures announced in the Budget include:***

- It is proposed that a 100 per cent income tax exemption up to 10 years be given to qualifying income derived from a patent and copyright software of qualifying activities undertaken in Malaysia. This incentive will be available from 2020 to 2022.
- For the purposes of the Real Property Gains Tax, the Government proposes that the determination of market value for properties acquired before 1 January 2000 be amended to 1 January 2013 rather than 1 January 2000
- Malaysians above the age of 18 and corporate entities will be assigned a Tax Identification Number (TIN) from January 2021
- The Chargeable Income to which the special 17 per cent SME income tax rate applies be increased from RM500,000 to RM600,000
- It is proposed that value of each asset that can claim the capital allowance on small value assets (SVA) increase from RM1300 to RM2000 and that the limit of qualifying capital allowance eligible to be claimed by non-SMEs be increased from RM13,000 to RM20,000 each year
- It is proposed the cap on the tax deduction on secretarial fees and tax filing fees be combined to allow a deduction of up to RM15,000 (currently the deduction for secretarial fees are capped at RM5000 and tax filing fees are capped at RM10,000)
- Individual tax relief for fees paid to registered nurseries and kindergartens be increased from RM1000 to RM2000
- To encourage companies to raise capital through a listing on the ACE market or LEAP market, it is proposed to allow companies to claim a tax deduction capped at RM1.5 million for the following listing costs for the 2020 to 2022 years of assessment:
  - Fees to authorities
  - Professional fees
  - Underwriting, placement and brokerage fees
- Tax incentive application period given to angel investors be extended until 2023
- Existing tax incentives given to venture capital be extended to 2026
- The double deduction given on qualifying expenditure incurred by companies that implement a Structured Implementation Programme (SIP) approved by TalentCorp be extended to include graduates from Bachelors degrees, diplomas and other qualifications from all academic fields, and be extended until 2021

- An income tax exemption up to 10 years to electrical and electronics (E&E) companies investing in selected knowledge-based services
- It is proposed that E&E companies that have exhausted their eligibility period of 15 consecutive years to claim Reinvestment Allowance be given an income tax exemption equivalent to the Investment Tax Allowance of 50 per cent on qualifying capital expenditure incurred within a five-year period. This allowance can be offset against 50 per cent of statutory income for each year of assessment. This special investment tax allowance is only available for the 2020 and 2021 years of assessment.
- Extending the Accelerated Capital Allowance and Automation Equipment Capital Allowance for manufacturing companies on the first RM2 million and RM4 million incurred on qualifying capital expenditure to 2023. Further, both Allowances be extended to services companies.
- Licensed tour operators be eligible for Accelerated Capital Allowance on expenses incurred on the purchase of new locally assembled excursion buses, with an initial allowance of 20 per cent and an annual allowance of 40 per cent. Such tour operators be also given a 50 per cent excise exemption on the purchase of new locally assembled vehicles used as tourism vehicles. The incentive will only be available for 2020 and 2021.
- The current tax deductions on the cost of issuance and additional deductions on Sukuk issuance costs under the principle of Wakalah be extended until 2025
- The tax deduction given on the issuance of sustainable and responsible investment (SRI) Sukuk be extended until 2023
- The tax exemption on management fee income from managing SRI and *Shariah*-compliant SRI funds be extended until 2023. The existing income tax exemptions on companies that provide *Shariah*-compliant fund management services be extended until 2023.
- An approved Major Exporter Scheme be introduced under the Sales Tax Act 2018 so that approved traders and manufacturers of exempted goods are eligible for full sales tax exemption on the importation and purchase of goods or raw materials, components and packaging materials. It is proposed that traders or manufacturers of exempted goods will be eligible to apply for the scheme subject to an export of not less than 80 per cent of their annual sales.
- The Group relief facility under the Services Tax Regulations 2018 be improved to allow relief for taxable services under a professional group provided by a company to a third party who is not within the same group of companies.
- The Green Investment Tax Allowance (GITA) and the Green Income Tax Exemption (GITE) will be extended until 2023. The GITE be extended to give a 70 per cent income tax exemption of up to 10 years for companies undertaking solar leasing activities.
- An income tax exemption of 50 per cent be given on statutory income for organisers of approved arts and cultural activities, and approved international sports and recreational competitions. This incentive will be available for 2020 to 2022.
- Any entities whose main activities are other than promoting and organising conference qualify for an income tax exemption of 100 per cent of statutory income where they organise a conference that brings in at least 500 foreign participants annually. This incentive will be available from 2020 to 2025.
- New investments in international theme park projects will be given income tax exemption of 100 per cent of statutory income for five years or an Investment Tax Allowance of 100 per cent on qualifying expenditure incurred within five years to be set off against up to 70 per cent of statutory income

- Increasing the cap on tax deductions given to companies sponsoring arts, cultural and heritage activities in Malaysia from RM700,000 to RM1,000,000 per year
- The current income tax exemption on employment income for women who return to work after a career break be extended until 2023
- The Government will extend the double tax deduction on expenses incurred by companies participating in Skim Latihan Dual Nasional (SLDN) for another two years
- To further promote the development of real estate investment trusts (REIT), the current favourable tax treatment be extended until 2025
- The double deduction for expenses incurred by companies participating National Dual Training Scheme for Industry4WRD be extended until 2021
- The tax deduction for employers who make PTPTN loan repayments on behalf of employees be extended until 2023
- The donation reporting threshold under subsection 44(6) of the Income Tax Act 1967 will be increased from RM10,000 to RM20,000 from 2020
- The current cap on tax deduction on donations for charitable and sports activities, and projects of national interest will be increased from seven per cent of aggregated income of a non-corporate taxpayer, to 10 per cent
- The income tax exemption received by religious institutions and organisations will be extended from those institutions registered under the Registrar of Societies to those institutions registered as a company limited by guarantee with the Companies Commission of Malaysia
- The Government proposes to introduce an individual income tax rebate equivalent to the value departure levy imposed on a *umrah* visa and/or a pilgrimage to holy places
- It is proposed to expand the scope of income tax relief on medical treatment expenses to include the cost of fertility treatment
- It is proposed that a new band for taxable income above RM2 million be introduced and taxed at a rate of 30 per cent, a two percentage point increase. This is expected to impact 2000 taxpayers.
- A full stamp duty exemption be given on the transfer of a first residential home on prices up to RM500,000 under the Rent-To-Own scheme
- The Government proposes to limit the stamp duty remission of 50 per cent on the transfer of real property between parents and children and vice versa by way of love and affection to Malaysian citizens only
- The maximum amount of stamp duty on foreign currency loan agreements be increased from RM500 to RM2000
- The Government will merge the Special Commissioner of Income Tax and the Customs Appeal Tribunal into the Tax Appeal Tribunal, which will commence operation in 2021.

## ***Social measures***

- The Ministry of Education remains the single largest recipient of government funding at RM64.1 billion in 2020. This includes RM735 million for school maintenance and upgrading work.
- The allocation for total subsidies and social assistance will increase from RM22.3 billion in 2019 to RM24.2 billion in 2020. This includes expanding the Bantuan Sara Hidup (BSH) scheme to cover 1.1 million people aged over 40 who are earning less than RM2000 per month, as well as all disabled persons aged 18 or over who have an income of less than RM2000 a month.

- The Ministry of Health will be allocated RM30.6 billion in 2020 compared with RM28.7 billion in 2019. This includes RM1.6 billion for the construction of new hospitals and the expansion and upgrading of existing hospitals, RM319 million for the construction and upgrading of health and dental clinics and RM227 million to upgrade medical equipment. The MySalam payment for hospitalised Malaysians will be expanded to cover new illnesses and those up to 65 years of age, from 55
- The Government will increase funding for rural development projects in 2020 to RM10.9 billion from RM9.7 billion. This increased funding will be allocated to a range of projects including RM587 million to rural water projects, RM500 million for rural electrification and RM1 billion for rural roads.
- The Government has increased funding for its Bumiputera agenda from RM7.6 billion in 2019 to RM8.0 billion in 2020, with the largest share of that money focused on education followed by financing for Bumiputera SMEs and Bumiputera entrepreneurship programs
- The Government will allocate RM810 million for the welfare of the FELDA community, including an income enhancement program, writing-off the interest of the settlers' debt and new housing for the new generation of FELDA settlers'
- The Government has increased the allocation to the Ministry of Agriculture from RM4.4 billion in 2019 to RM4.9 billion in 2020, with a special focus on enhancing incomes of farmers
- The Government will give graduates who have been unemployed for more than 12 months and who subsequently secure employment, a wage incentive of RM500 per month for two years and the employers of such graduates will receive a hiring incentive of up to RM300 per month for each new hire for two years
- The Government will give women aged 30 to 50 who have been out of the workforce for a year or more and who subsequently secure employment, a wage incentive of RM500 per month for two years. The employers who hire such workers will receive a hiring incentive of up to RM300 per month for each new hire for two years.
- The Government will provide a wage incentive for Malaysians who are hired to replace foreign workers. The wage incentive will be either RM350 or RM500 per month, depending on the sectors, and will be for two years. The employers who hire Malaysians to replace foreign workers will receive a hiring incentive of up to RM250 per month for two years.
- Trainees on apprenticeships will receive an additional monthly allowance of RM100
- The Government will allocate RM30 million in 2020 to provide more childcare facilities or TASKA
- Starting January 2020, the fuel Targeted Subsidy Programme (PSP) will launch in Peninsula Malaysia. For recipients of the BSH, the petrol subsidy receivable will be RM30 per month for car owners and RM12 per month for motorcycle owners. The subsidy will be transferred directly into the recipient's bank account every four months. All other motorists will receive a special Kad95, which gives them a fuel subsidy of 30 sen per litre limited to 100 litres per month for cars and 40 litres per month for motorcycles. The fuel subsidy will kick in when the fuel price for RON95 is above RM2.08 a litre
- The Government will collaborate with financial institutions to introduce a Rent-To-Own finance scheme for housing. The scheme is for the purchase of a first home with a property price of up to RM500,000. The applicant will rent the property for five years and after the first year, the tenant will have the option to purchase the house based on the price at the time the tenancy agreement was signed.

## ***Foster an entrepreneurial economy***

- The Government will encourage up to 100,000 small to medium-sized enterprises (SMEs) to adopt electronic Point of Sale equipment, Enterprise Resource Planning and electronic payroll systems through a 50 per cent matching grant of up to RM5000 per company. This measure is worth RM500 million over five years.
- The Government will encourage more businesses to automate their business processes through matching grants of up to RM2 million per company for 1000 manufacturing and 1000 services businesses. This measure is worth RM550 million.
- The Government will spend RM70 million to build 14 one-stop Digital Enhancement Centres in all states to facilitate access to finance and capacity building of businesses, especially SMEs
- The Government will seek to spur more pilot projects on digital applications such as drone delivery and blockchain through contestable matching grants. The fund will be worth up to RM25 million.
- To encourage greater uptake of e-wallets by individuals and business, the government will offer a RM30 payment to all Malaysians with an e-wallet who are aged 18 and above and with an annual income of less than RM100,000. The payment will be able to be redeemed from 1 January 2020 to 29 February 2020. 15 million Malaysians are expected to receive the payment, with the Government allocating RM450 million to fund the measure.
- The government guarantee for external financing for Bumiputera SMEs, export-orientated SMEs and SMEs investing in automation and digitalisation will increase from 70 per cent to 80 per cent, and the fee for the guarantee will be reduced to 0.75 per cent
- With the support of the Government, the SME Bank will introduce two new funds where the Government will provide an annual interest subsidy of 2 per cent for women entrepreneurs with loans of up to RM1 million each and Bumiputera SMEs, with priority given to producers of halal products and manufacturers with high local content
- The Government will increase the ceiling per company for the Market Development Grant from RM200,000 to RM300,000
- The Government will provide RM150 million in funding to support entrepreneurial development and upskilling of Bumiputera SMEs
- The Government will provide RM75 million for capacity building and export focus for Bumiputera SMEs
- To support Malaysian construction consortiums bidding for projects overseas, the Government will provide a RM1 billion for one to five matching guarantee for dedicated private equity funds investing in Malaysian consortiums.

## ***Infrastructure***

- The implementation of the National Fiberisation and Connectivity Plan (NFCP), which includes RM21.6 billion in spending on digital infrastructure over the next five years to strengthen and expand broadband internet coverage and raising internet speed at "affordable prices" for consumers and business. The Government will finance at least half of the required investment.
- The Government will provide RM210 million to accelerate the deployment of new digital infrastructure in public buildings particularly schools and industrial parks
- RM1.1 billion is to be allocated in 2020 to support projects for corridor development activities including:

- RM50 million for the development of Chuping Valley Industrial Area in Perlis
- RM69.5 million for the Kuantan Port related projects
- RM42 million for the construction of Sungai Segget Centralised Sewerage Treatment Plant in Johor
- RM55 million for infrastructure in the Samalaju Industrial Park in Sarawak by RECODA
- RM20 million for the Sabah Agro-Industrial Precinct
- The Government will invest RM450 million to acquire up to 500 electric buses
- The Government will spend RM85 million to ease congestion at the Johor Causeway.

### ***Other budget measures and other issues***

- To attract foreign direct investment from targeted Fortune 500 companies and global unicorns, the Government will make available up to RM1 billion worth of customised packaged investment incentives annually over 5 years. To qualify, these companies must invest at least RM5 billion each in Malaysia.
- To improve the global competitiveness of Malaysia's businesses, the government will make available up to RM1 billion in customised packaged investment incentives annually over 5 years. These incentives are conditional upon these companies proving their ability to grow and export their products and services globally.
- An allocation of RM90 million will be made to drive awareness, promotions and programs for the Visit Malaysia 2020 campaign.

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