TaXavvy

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Economic Stimulus Package

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Bolstering Confidence, Stimulating Growth, Protecting Jobs.

Economic Stimulus Package 2020 (ESP)

The ESP has been announced by Tun Dr. Mahathir Mohamad on 27 February 2020. The ESP focuses on strategies to mitigate the impact of COVID-19, spur rakyat-centric economic growth, and promote quality investments.

Key tax measures from the ESP

Easing cash flow for businesses

- Deferment of tax instalment payments for tourism industry
- Revision of tax estimate in the third month
- Stamp duty exemption on loan restructuring and rescheduling agreements

Boosting private consumption

- Reduction in employees' contribution to the Employees Provident Fund (EPF)
- Special personal income tax relief for domestic travelling expenses
- Service tax exemption for hotel and other accommodation operators
- Relaxation of condition to purchase duty free goods for persons entering Malaysia

Promoting investments

- Accelerated capital allowance for machinery and equipment Including ICT equipment
- Deduction for renovation and refurbishment expenses
- Double deduction for establishment of regional office by international shipping companies
- Import duty and sales tax exemption on equipment and machinery for port operators
- Expansion of scope of value added activities carried out in LMW and FIZ

Developing human capital

- Further deduction for training expenses for hotel and tour operators

Protecting employees from COVID-19

- Deduction/allowance on personal protective equipment provided to employees

Easing cash flow for businesses

Deferment of tax instalment payments for tourism industry

Currently companies are required to make monthly tax instalment payments for each year of assessment based on the tax estimates furnished to the tax authorities.

To assist and ease cash flow for businesses in the tourism sector such as travel agents, hotel operators and airline companies, the payment of monthly tax instalments from 1 April 2020 to 30 September 2020, is deferred for 6 months.

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

[Effective for tax instalments from 1 April 2020 to 30 September 2020]

Stamp duty exemption on loan restructuring and rescheduling agreements

Currently, stamp duty of RM10 is imposed on loan restructuring and rescheduling agreements for existing loans where the original loan agreement has been subjected to appropriate stamp duty.

To ease the financial strain and facilitate the restructuring and rescheduling of business loans, stamp duty exemption of 100% will be given on loan agreements arising from such loan restructuring and rescheduling between borrowers and financial institutions, provided the original loan agreement has been duly stamped.

[Effective for loan restructuring and rescheduling agreements executed from 1 March 2020 to 31 December 2020]

Revision of tax estimate in the third month

Currently companies are allowed to revise their tax estimates in the sixth and ninth month of the basis period for a year of assessment.

To ease cash flow burden, companies will be allowed to revise their tax estimates earlier, i.e. in the third month of the instalment payment schedule, if the third month falls in 2020.

The application for revision of tax estimate is to be made online to IRB.

[Effective for applications made from 1 March 2020]

Example
A company with a financial year ending on 31 December 2020 will be able to make an application to revise its tax estimate in the month of its third instalment i.e. April 2020.

Boosting private consumption

Reduction in employees' contribution to the Employees Provident Fund (EPF)

The current EPF contribution rate for employees who are Malaysian citizens or permanent residents is 11%.

To help increase employees' take home pay, a reduction in the minimum EPF contribution rate by 4% (i.e. from 11% to 7%) is proposed. However, employees can still make an election to continue at the higher rate of EPF deduction.

[Effective from 1 April 2020 to 31 December 2020]

Special personal income tax relief for domestic travelling expenses

Currently traveling expenses (both local or overseas) are not deductible against income chargeable to tax.

It is proposed that a special personal income tax relief of up to RM1,000 be given to resident individuals for domestic traveling expenses incurred between 1 March 2020 to 31 August 2020. The expenses eligible for tax relief are as follows:

1. accommodation fees on a tourist accommodation premises registered with the Ministry of Tourism, Arts and Culture Malaysia; and
2. entrance fees to tourist attractions.

[Effective for year of assessment 2020 only]

Service tax exemption for hotel and other accommodation operators

Currently, provision of accommodation services and other services within the accommodation premises by hotel and other operators of accommodation premises are taxable under Group A, First Schedule of the Service Tax Regulations 2018.

It has been proposed that hotel and other accommodation operators will be given exemption from charging service tax on their accommodation and related services provided for a period of 6 months from 1 March 2020 until 31 August 2020.

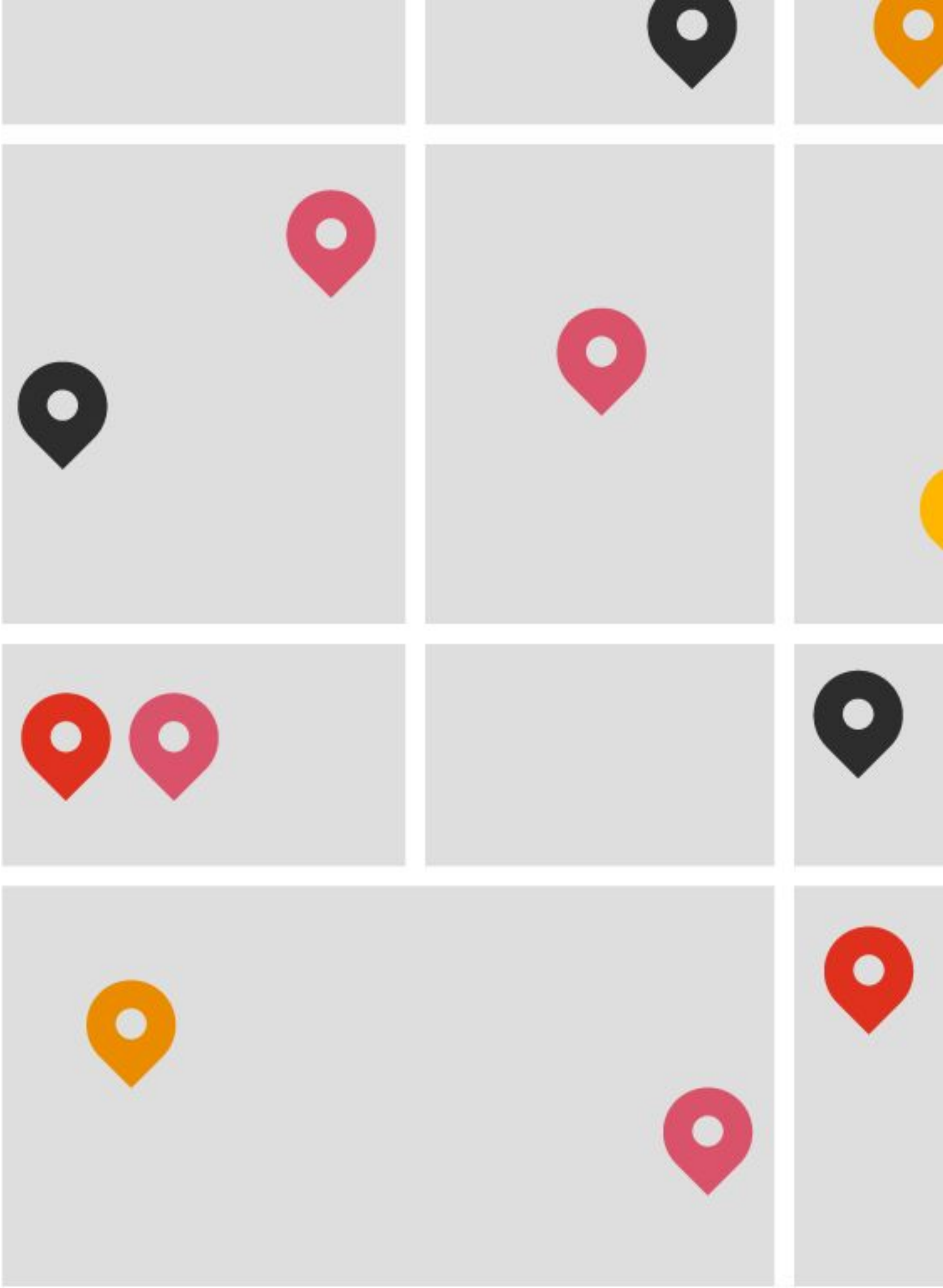
[Effective from 1 March 2020 to 31 August 2020]

Relaxation of condition to purchase duty free goods for persons entering Malaysia

For persons entering Malaysia, via international airports, the Government has proposed the relaxation of the eligibility period to purchase duty free goods from 72 hours to 48 hours.

The threshold amount of the allowable duty free goods purchased has also been increased from RM500 to RM1,000. The threshold amount is for items other than goods which are already eligible for exemption under the specified limit such as alcohol, cigarettes, clothes, shoes, food and personal electrical appliances.

[Effective 1 April 2020]



Promoting investments

Accelerated capital allowance for machinery and equipment Including ICT equipment

Currently, qualifying capital expenditure incurred on machinery and equipment including ICT equipment, is entitled to capital allowance at the following rates:

- initial allowance of 20%, and
- annual allowance of between 10% to 20%.

To incentivise businesses to invest in 2020, the annual allowance is increased to 40%.

[Effective for capital expenditure incurred from *1 March 2020 to 31 December 2020]

Deduction for renovation and refurbishment expenses

Currently, expenditure incurred on renovation and refurbishment of business premises is not deductible for tax purposes.

To encourage businesses to carry out renovation and refurbishment of their business premises, a deduction is given for the renovation and refurbishment expenditure up to a limit of RM300,000. The deduction will not be given if the expenditure is claimed as an allowance under Schedule 2 or Schedule 3 of the Income Tax Act 1967.

[Effective for expenditure incurred from *1 March 2020 to 31 December 2020]

** Updated on 2 March 2020.*

Double deduction for establishment of regional office by international shipping companies

Currently, pre-commencement expenditure is generally not tax deductible.

It is announced that pre-commencement expenditure incurred by international shipping companies to set up a regional office in Malaysia will be given a double deduction.

[Effective for applications received by MIDA by 31 December 2021]

Import duty and sales tax exemption on equipment and machinery for port operators

Currently, port operators who are no longer enjoying tax incentive under the Approved Service Projects are not entitled to claim any import duty and sales tax exemption.

It has been proposed that an exemption of import duty and sales tax will be given to these existing port operators on imported or locally purchased equipment and machinery used directly in port operation from 1 April 2020 to 31 March 2023. However, this exemption does not apply to the importation or purchase of spare parts and consumables including those that are used for maintenance purposes.

Applications for exemption have to be submitted to the Ministry of Finance from 1 April 2020 to 31 March 2023.

[Effective from 1 April 2020 to 31 March 2023]

Expansion of scope of value added activities carried out in LMW and FIZ

Currently, the value-added activities that are permitted to be carried out in a Licensed Manufacturing Warehouse (LMW) and Free Industrial Zone (FIZ) include research and development, design, marketing (for companies with International Procurement Centre status), distribution (for companies with Regional Distribution Centre status), quality control, testing and commissioning including calibration and configuration, labelling, packaging remanufacturing, repairing and servicing. These value-added activities must be approved by either the Royal Malaysian Customs Department at Headquarters or the Ministry of Finance.

It has been proposed that these value-added scope of activities will be expanded to include supply chain management, strategic procurement operation and total support solutions.

In addition, the approval process for all value added activities will be centralised and approved at the Royal Malaysian Customs Department at State and Zone levels.

[Effective 1 April 2020]

Developing human capital

Further deduction for training expenses for hotel and tour operators

Currently, a single deduction is prescribed for training expenditure incurred by qualifying hotel and tour operating businesses for courses approved by the Ministry of Tourism, Arts and Culture [Income Tax (Deduction for Approved Training) Rules 1992 - PU(A) 61/1992].

It is announced that the government will provide a double deduction on expenses incurred on approved training provided to employees in the tourism sector.

[Effective date: Not stated]

Protecting employees from COVID-19

Deduction/allowance on personal protective equipment provided to employees

Expenditure incurred by companies in providing employees with disposable personal protective equipment (PPE) such as face masks is deductible under section 33(1) of the Income Tax Act; while expenditure incurred in providing non-disposable PPE to employees can be claimed as capital allowance.

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