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# TaXavvy

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# Budget 2023
# Pre-Budget Statement

## Strengthening Recovery, Facilitating Reforms Towards Sustainable Socio-Economic Resilience of Keluarga Malaysia

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The Ministry of Finance (MOF) has issued its Pre-Budget Statement (PBS) dated 3 June 2022 in preparation for the 2023 Budget. It is the second PBS issued in MOF's history as part of its efforts to encourage public discourse on the national budget, and to enhance transparency and accountability in its formulation process.

Budget 2023 is expected to prioritise economic recovery and continue reforms to enhance socio-economic resilience.

## Areas that will be focused on in Budget 2023:

- People-centric initiatives for the rakyat's socio-economic wellbeing
- Conducive business environment to enhance competitiveness and productivity
- Inclusive and sustainable development model for economic growth

On the tax front, the PBS has touched on Malaysia's commitment at the international level, strategies to increase tax revenue and strategies to strengthen the tax system.

## Commitment at the international level

Malaysia recognises that Multinational Enterprises (MNEs) depend heavily on digitalisation, and that existing tax policies need to be reviewed to prevent revenue leakage and profit shifting. Malaysia has always been responsive to current changes in the internationally agreed tax standards to ensure a competitive environment to attract foreign and domestic direct investment as well as to prevent cross-border tax evasion activities.

The Government and OECD are currently discussing the implementation of taxation on the digital economy under the BEPS Action Plan 1 and have agreed to implement the Two-Pillar approach, namely Pillar 1 and Pillar 2*. These pillars are expected to be implemented starting 2023.

The PBS states that Malaysia is currently reviewing the technical details of the Two-Pillar approach, including the possibility of introducing the Qualified Domestic Minimum Top-up Tax under Pillar 2.

** Note: The aims of the Two-Pillar approach are:*

- *Pillar 1 - seeks to reallocate a portion of the consolidated profit of an MNE to the country where sales arise (market jurisdiction) based on a formulaic approach.*
- *Pillar 2 - seeks to ensure a level playing field between countries in attracting foreign direct investment by introducing a minimum effective tax rate of 15% by each country/jurisdiction.*

## Strategies to increase tax revenue

### e-Invoicing

In line with the 12th Malaysia Plan to strengthen the digital services infrastructure and digitalising tax administration, the Government intends to implement e-Invoicing in stages in effort to enhance the efficiency of the country's tax administration management in the digital economy. This is expected to improve the quality of services and reduce compliance costs to taxpayers as well as increase the efficiency of business operations. The e-Invoicing initiative will also support the use of the Tax Identification Number which is implemented in Malaysia from year 2022 as a measure to expand the income tax net.

## Strategies to strengthen the tax system

### Initiatives proposed by Tax Reform Committee

Proposals by the Tax Reform Committee will continue to be implemented by the Government. These include the review on broad-based incentives, reliefs and deductions, as well as improving the tax administration through comprehensive registration of taxpayers, better training of tax personnel, improved registration of cross-border trade, strengthened audit and investigation, and enhanced legal certainty for taxpayers.

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