

INSIDER MOVES 38 | BROKERS' DIGEST: LOCAL EQUITIES 42 |
MARKET RECAP 44 | COFFEE BREAK 45

CAPITAL

Possibility of special dividend payouts ahead of new 2% tax, say market experts

BY CHERYL POO AND JOHN LAI

Could the shareholders of family-controlled companies on Bursa Malaysia that hold substantial retained profits be in for a special dividend payout this year?

Market experts say the imposition of the new 2% tax on individual shareholders whose annual dividends exceed RM100,000, as announced during the tabling of Budget 2025 in parliament recently, may well provide the impetus for such companies to pay out a special dividend in the remaining months of 2024 before the tax kicks in, possibly next year.

"Perhaps it makes sense for such family-controlled companies to pay out as much as possible before the 2% tax applies since they have already paid corporate income tax on the earnings. If they pay out later, they will have to pay the additional 2% tax," TA Investment Management Bhd chief investment officer Choo Swee Kee tells *The Edge*.

The new dividend tax has been hotly debated by economists, tax experts, company owners and investors, with some quarters lamenting that the additional tax imposed will be yet another layer of taxation on the taxpayer or an additional layer of taxation on corporate earnings. However, others argue for its necessity to ensure tax equity.

"For the government and the man in the street, it seems fair to tax those who have wealth and have substantial investments in shares. Since they receive substantial 'tax-free' dividends at the individual level, they should not mind paying an additional 2% tax. On the other hand, some may highlight that since the corporates which declared the said dividends already paid income tax on the earnings, it would amount to double taxation on the same source of income," Choo observes.

In any case, the tax has yet to be gazetted. Barring the details for now, people expect it to take effect in 2025.

"This should be sufficient time for the ultra-high-net-worth individuals to undertake tax planning," says former dealer and high-net-worth investor Ian Yoong, who finds the dividend tax acceptable.

"Based on our understanding of personal income tax, dividends are already considered taxable income. Therefore, this implies that the tax on dividends is in addition to the dividends taxed as personal income. This may potentially affect the dividend outlook of entrepreneur-led companies where other means of rewarding shareholders may be considered, such as dividend reinvestment schemes or share buybacks," says MIDF Amanah Investment Bank Bhd head of research Imran Yassin

Md Yusof, who believes the new tax will have a neutral impact on overall market sentiment.

Some listed companies currently hold a considerable amount of cash, where the net cash makes up more than 38% of their market capitalisation. These include Hong Leong Group's manufacturing arm Hong Leong Industries Bhd (KL:HLIND), which has net cash per share of RM5.62; Oriental Holdings Bhd (KL:ORIENT) (net cash per share of RM4.09); Kossan Rubber Industries Bhd (KL:KOSSAN) (net cash per share of 80 sen); and Sarawak Oil Palms Bhd (KL:SOP) (net cash per share of RM1.18).

'Minimal impact on Bursa'

Most of the tax and market experts whom *The Edge* spoke to believe the 2% tax on dividend income of more than RM100,000 is unlikely to cause an immediate or seismic shift in investment strategies among high-net-worth individuals.

"Since this dividend tax is expected to impact only affluent, big dividend recipients, retail or corporate shareholders are not expected to be affected," Areca Capital Sdn Bhd CEO Danny Wong tells *The Edge*.

"Most investors look for both capital gains and dividend income, and generally the capital gains component is larger. Meanwhile, institutions which are most concerned about dividends — namely, the Employees Provident Fund, Kumpulan Wang Persaraan (Diperbadankan) and Permodalan Nasional Bhd — are exempted from the 2% tax requirement," says TA's Choo.

Former dealer Yoong, who has done a back-of-the-envelope calculation on the tax impact, says: "The average dividend yield for companies on the FBM KLCI was 3.5% per annum in August

2024. You would need a minimum portfolio size of RM2.86 million to receive an annual dividend income of RM100,000. My estimate of the quantum of tax from this proposed dividend tax is RM80 million to RM110 million. In reality, this 2% dividend tax is more for optics."

The average amount spread among those who have to pay this 2% is unlikely to spook ultra-high-net-worth investors.

"On the plus side, there was no inheritance tax in the budget announcement. In my discussions with tax accountants on this 2% tax, the impact on directors and shareholders of unlisted companies will be marginal," Yoong adds.

As for naysayers who believe their funds are best moved elsewhere rather than being taxed on dividends, Wong agrees that it could be a valid line of thinking, since "neighbouring stock markets don't have such a tax on dividends". He notes that entrepreneurs who own the majority stake in a business may choose to relocate to where there is no tax on dividends or set up a holding company.

Not a tax on super rich

It is understood that the dividend tax will not be applied to the private vehicles through which substantial share-

holders own their stakes in listed companies. After all, the 2% dividend tax applies to individual shareholders, and not the company.

When asked, PwC Malaysia tax leader Steve Chia explains: "When the listed company pays dividends to the private vehicle, the 2% dividend tax is not applicable.

"As long as the latter ABC company does not onward distribute the dividends to the family's individual shareholders, the 2% tax will not be triggered. In fact, in such a structure, the private entity can use the dividends to reinvest and expand its investments through the family holding company without incurring the dividend tax.

"It is only when ABC distributes the profits back as dividends to the individual shareholder that the 2% tax exposure will be triggered. Most established family businesses have a family holding company or trust structure to hold their investments. Therefore, the application of the 2% dividend tax will only be applicable when dividends are ultimately distributed into the hands of the individual shareholders."

In addition, some fund managers have pointed out that individual shareholders can avoid paying the 2% tax by transferring the shares to a holding company in Singapore, which in turn will hold the Bursa-listed shares.

For perspective on how this will be treated, Soh Lian Seng, head of tax at KPMG in Malaysia, says that under Singapore's tax regime, dividends received by the holding company are not subject to tax and the individual shareholders receiving the sum are not subject to the 2% tax if they receive the dividends directly from a Malaysian company. "However, it is important to be mindful of the potential tax implications when remitting foreign-sourced income back to Malaysia, as tax may be incurred if the exemption conditions are not met," he adds.

Soh stresses that tax should not be viewed in isolation, such as focusing solely on whether

a tax is imposed on dividends, but that a broader view is necessary, taking into account factors like the intended duration of shareholding, future disposal plans and the implications of share disposal. "Consider, for example, whether capital gains tax would apply under Section 15C of the Income Tax Act 1967. Additionally, other expenses and compliance costs must be taken into account," he adds.

It is worth noting that the new tax could apply to the dividends received by mutual funds' shareholders.



COVER STORY 2

TABLE 1

WRITER'S COMPILATION, COMPANY FILINGS

Selected controlling shareholders who received more than RM100 million in dividends, directly and indirectly, based on the companies' latest full-year filings

CONTROLLING SHAREHOLDER	RELATED LISTED COMPANIES	DIVIDENDS RECEIVED (RM MIL)	HYPOTHETICAL TAX PAYABLE* (RM MIL)
Teh family	Public Bank Bhd, LPI Capital Bhd	975.75	19.51
Yeoh family	YTL Corp Bhd, YTL Power Bhd, Malayan Cement Bhd, YTL Hospitality REIT	820.01	16.39
T Ananda Krishnan	Maxis Bhd, Astro Malaysia Bhd	785.33	15.70
Datuk Lee Yeow Chor and Lee Yeow Seng	IOI Corp Bhd, IOI Properties Group Bhd	479.06	9.58
Tan Sri Quek Leng Chan	Hong Leong Financial Group Bhd, Hong Leong Industries Bhd, Malaysian Pacific Industries Bhd, Hume Cement Industries Bhd, Guocoland Malaysia Bhd	393.25	7.85
Datuk Carl Bek-Nielsen	United Plantations Bhd	391.91	7.84
Tan Sri Lau Cho Ku	Hap Seng Consolidated Bhd	389.88	7.80
Tan Sri Jeffrey Cheah Fook Ling	Sunway Bhd, Sunway REIT, Sunway Construction Group Bhd	340.36	6.80
Robert Kuok	PPB Group Bhd, Shangri-La Hotels (M) Bhd	310.69	6.21
Gnanalingam family	Westports Holdings Bhd	262.48	5.25
Tan Sri Lim Kok Thay	Genting Bhd	254.22	5.08
Tan Sri Koon Poh Keong	Press Metal Aluminium Holdings Bhd	212.37	4.25
Tan Sri Syed Mokhtar	Gas Malaysia Bhd, Malakoff Corp Bhd, DRB-Hicom Bhd, Media Prima Bhd	179.09	3.58
Tan Sri Charoen Sirivadhanabhakdi	Fraser & Neave Holdings Bhd	156.67	3.13
Tan Yu Yeh	MR D.I.Y. Group (M) Bhd	155.98	3.12
Tan Sri Azman Hashim	AMMB Holdings Bhd, RCE Capital Bhd	153.02	3.06
Tan Sri Lee Oi Hian	Batu Kawan Bhd	132.15	2.64
Datuk Lim Siow Jin	DXN Holdings Bhd	122.25	2.44
Datuk Loh Kian Chong	Oriental Holdings Bhd	100.75	2.01

*Note: The tax payable is based on dividends received from direct and indirect stakes. However, the 2% dividend tax is not applicable to private vehicles.

TABLE 2

Selected largest shareholders who received less than RM100 million in dividends, directly and indirectly, based on the companies' latest full-year filings

LARGEST SHAREHOLDER	COMPANY	DEEMED INTEREST (%)	DIVIDENDS RECEIVED (RM MIL)	HYPOTHETICAL TAX PAYABLE* (RM MIL)
Lim Peng Jin	Scientex Bhd	57.49	89.17	1.78
Gooi Seong Lim	Kim Loong Resources Bhd	65.49	82.81	1.65
Tan Sri Ong Leong Huat	OSK Holdings Bhd	52.73	76.11	1.52
Datin Toh Siew Chuon	Kerjaya Prospek Group Bhd	70.49	70.64	1.41
Chia Song Kun	QL Resources Bhd	41.22	65.21	1.30
Datuk Lim Chee Meng	Talworks Corp Bhd	54.13	64.92	1.30
Datuk Lau Joo Hong	Leong Hup International Bhd	53.56	58.65	1.17
Datuk Seri Thong Kok Khee	Inari Amertron Bhd	14.45	44.23	0.88
Wong Thean Soon	My E.G. Services Bhd	28.87	41.56	0.83
Datuk Seri Lee Tian Hock	Matrix Concepts Holdings Bhd	32.38	40.52	0.81
Tan Sri Dr Ngau Boon Keat	Dialog Group Bhd	19.12	39.78	0.79
Tan Sri Lim Kuang Sia	Kossan Rubber Industries Bhd	37.87	38.65	0.77
Yong Pang Chaun	Padini Holdings Bhd	45.73	34.60	0.69
Tan Sri Leong Hoy Kum	Mah Sing Group Bhd	33.82	32.84	0.65
Tan Sri Surin Upatkoon	Magnum Bhd	36.71	31.66	0.63
Datuk Seri Robert Tan Chun Meng	IGB Bhd	30.25	27.97	0.56
Goh Nan Kioh	Mega First Corp Bhd	34.90	27.14	0.54
Kao De-Tsan	Uchi Technologies Bhd	18.78	25.45	0.51
Ling Chiong Sing	Sarawak Oil Palms Bhd	27.44	24.43	0.49
Lim Han Weng	Yinson Holdings Bhd	23.52	20.51	0.41
Tan Sri Tiong Su Kouk	CCK Consolidated Holdings Bhd	44.30	11.70	0.23
Loi Tuan Ee	Farm Fresh Bhd	40.22	9.03	0.18
Datuk Kelvin Tan Aik Pen	TSH Resources Bhd	24.83	8.57	0.17
Tan Sri Dr Tan Boon Hock	ITMAX System Bhd	53.21	6.57	0.13
Chu Jenn Weng	ViTrox Corp Bhd	26.86	5.97	0.12
Kuan Kam Hon	Hartalega Holdings Bhd	46.37	5.54	0.11

*Note: The tax payable is based on dividends received from direct and indirect stakes. However, the 2% dividend tax is not applicable to private vehicles.

Soh explains this is the case because mutual funds typically pool money from multiple investors to create a diversified portfolio of stocks, bonds or other securities, and these dividends do not fall under the proposed exemption list.

"Mutual funds are generally required to withhold the appropriate amount of tax on dividends distributed to their shareholders. This means the 2% tax will be withheld by the mutual fund before distributing the dividends to the individual shareholders.

It is possible that mutual funds may opt for a one-off, larger dividend payout before the new tax takes effect," he surmises.

Soh believes the overall dividend payout by mutual funds to individual shareholders may see a slight reduction if there is a 2% withholding tax.

"However, the mutual funds' regular practice of receiving and distributing dividends would continue as usual. The full impact of the 2% tax will depend on how the legislation and

rules surrounding the dividend tax are drafted. For example, additional conditions may be introduced to make the tax more comprehensive without creating an excessive administrative burden or deterring investments," he explains.

Based on the dividend payouts in 2023, data compiled by *The Edge* show that the Teh family is estimated to have received RM975.75 million in dividends from its equity interest in Public Bank Bhd (KL:PBANK) and LPI Capital Bhd (KL:LPI). A 2% dividend tax

would have come to RM19.51 million. However, as the stakes are held through Consolidated Teh Holdings Sdn Bhd, the dividends received would not be subject to the 2% tax.

It is the same for many controlling shareholders of public-listed companies (PLCs).

For YTL group, the Yeoh family's equity interest in the PLCs is housed under the family vehicle of Yeoh Tiong Lay & Sons Holdings Sdn Bhd. The family vehicle is estimated to have received dividends of RM820 million in 2023.

Meanwhile, T Ananda Krishnan's equity interest in the PLCs he controls are parked under several vehicles. For instance, his 41.25% stake in Astro Malaysia Holdings Bhd (KL:ASTRO) is held via All Asia Media Equities Ltd, which in turn is owned by his flagship Usaha Tegas Sdn Bhd, East Asia Broadcast Network Systems N V and Usaha Tegas Entertainment Systems Sdn Bhd, among others.

Ananda's 62.24% equity interest in Maxis Bhd (KL:MAXIS) is held through BGSME Equity Holdings Sdn Bhd, while his 34.58% stake in Bumi Armada Bhd (KL:ARMADA), which did not declare a dividend in 2023, is parked under Objektif Bersatu Sdn Bhd. The tycoon was estimated to have received RM785.3 million in dividends from Astro and Maxis in 2023.

Banking tycoon Tan Sri Quek Leng Chan holds his controlling stakes in PLCs through investment holding companies. For instance, Hong Leong Co (M) Bhd holds 51.94% equity interest in Hong Leong Financial Group Bhd (KL:HLFG), while Hong Leong Manufacturing Group Sdn Bhd holds 56.22% in Malaysian Pacific Industries Bhd (KL:MPI), 72.77% in Hume Cement Industries Bhd (KL:HUMEIND) and 74.57% in Hong Leong Industries. From his equity interest in several PLCs, Quek is estimated to have received RM393.25 million in dividends in 2023.

It is also estimated that Tan Sri Syed Mokhtar Albukhary received total dividends of RM179.1 million from his equity interest in Gas Malaysia Bhd (KL:GASMSIA), Malakoff Corp Bhd (KL:MALAKOFF), DRB-Hicom Bhd (KL:DRBHCOCOM) and Media Prima Bhd (KL:MEDIA).

Aurora Mulia Sdn Bhd is the vehicle that holds a 31.9% stake in Media Prima, while Indra Cita Sdn Bhd holds 30.93% in Gas Malaysia and 38.45% in Malakoff. Syed Mokhtar controls 55.92% of DRB-Hicom through Etika Strategi Sdn Bhd.

Other recipients of substantial dividend payouts, but below RM100 million (see Table 2), include Scientex Bhd's (KL:SCIENTEX) Lim Peng Jin, who is managing director and CEO, and sibling Lim Peng Cheong. The brothers control more than 50% of the company via a few vehicles, including Scientex Holdings Sdn Bhd, Scientex Infinity Sdn Bhd, Scientex Leasing Sdn Bhd, TM Lim Sdn Bhd and Sim Swee Tin Sdn Bhd.

Peng Jin's direct and indirect 57.49% stake in Scientex would have entitled him to RM89.17 million in dividends for the financial year ended July 31, 2023.

Controlling shareholder of Kim Loong Resources Bhd (KL:KMLOONG) Gooi Seong Lim was estimated to have received dividend cheques totalling RM82.81 million for the financial year ended Jan 31, 2024.

As for veteran stockbroker Tan Sri Ong Leong Huat, his dividends from his 50.10% equity interest in OSK Holdings Bhd (KL:OSK), which holds a 10.24% stake in RHB Bank Bhd (KL:RHBANK), was estimated to be RM76.11 million. His OSK stake is held via Yellow Rock (L) Foundation. ■



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