

POST-BUDGET 2020

Charting our path for the digital era

Our tax practice decided to try something different at our last town hall — inviting three children between the ages of 13 and 15 as guest speakers. These youngsters shared their experience in developing apps to solve daily issues, ranging from a visitor management and access control system for a property to a rep counter for gym equipment. What was more impressive was the fact that their coding skills were self-taught from books and the internet! It certainly left the participants in awe, with many leaving the hall inspired to upskill themselves and do things differently.

I believe the spirit and passion demonstrated by these children is what our Finance Minister Lim Guan Eng had in mind when he made driving economic growth in the new economy and digital era the first thrust of his Budget 2020 speech. Clearly, Budget 2020 is the first to provide clarity on Malaysia's approach in navigating the digital and high-technology economy. Amid an uncertain global environment, driving economic growth in areas with high potential is critical to ensuring that the broader government agenda of shared prosperity is achieved.

The need for a refined approach

Foreign direct investments (FDIs) into Malaysia have been on an upward trend, with a 47.3% increase in 2018, followed by a surge of 97.2% in the first half of 2019, according to Malaysian Investment Development Authority (Mida) statistics. However, domestic direct investments (DDIs) remain in a downward spiral (declining 4.9% in 2017, 15% in 2018 and 29.6% in the first half of 2019). In the Global Competitiveness Report 2019, released recently by



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the World Economic Forum, Malaysia had slipped to 27th position from 25th last year. Although Malaysia remains the second best performer in Asean, Vietnam's 10-spot leap to 67th position is indeed something we should keep an eye on.

We need to ask ourselves: is our incentives framework keeping up with these developments? Malaysia's list of promoted activities and products was last updated in 2012. With the speed of change in this digital era, it is safe to say that this list is akin to a Nokia 3310 in the world of iPhone 11. I am pleased that Budget 2020 strives to address these challenges with targeted incentives in the digital and high-technology sectors.

Standing out from the crowd

In my opinion, the customised package investment incentive of up to RM1 billion annually over five years that specifically targets Fortune 500 companies and global unicorns in high-technology, manufacturing, creative and new economic sectors is a bold departure from Malaysia's usual approach to tax incentives. Evidently, customised tax incentives are not a concept that is alien to Malaysia. The key difference with this proposal is the signal it sends to global investors — that if each of you commits to invest at least RM5 billion in Malaysia and contributes to the creation of 150,000 high-quality jobs over five years, the government's quid pro quo is to work with you to ensure that Malaysia is the ideal location for your business. The bar set by the government for this measure is high, but I believe it is intended to demonstrate how serious we are in bringing in game-changing investments into Malaysia.

In the same vein, the government is granting a 10-year tax exemption for intellectual proper-

ty-generated income derived from patents and copyright software based on the Modified Nexus Approach (MNA) as it requires substantial research and development activities relating to the IP to be undertaken in Malaysia.

Both measures require Malaysia as a country to up its game in order to establish an ecosystem that is conducive for these investments, through the role of Mida and InvestKL in facilitating investments, and as businesses, by collectively developing the requisite talent pool to support these activities while providing quality services and support to investors. Each and every one of us will have to play our part in ensuring a successful outcome for the country as a differentiated investment destination.

Spurring domestic investments

Also announced were various tax incentives and measures that, in my view, should help alleviate the current downward trend in DDIs. They include a good mix of new measures as well as extension and expansion of existing measures.

The most intriguing in my mind is the customised packaged investment incentive of up to RM1 billion annually over five years for Malaysian businesses that export globally. It is expected to create 100,000 high-quality jobs for Malaysians over the next five years. The focus of job creation for Malaysians is aligned with the Malaysians@Work initiative designed to address issues of graduate unemployment, gender gap in employment and overdependence on foreign workers.

The special 50% investment tax allowance for reinvestment by companies in the electrical and electronics sector that have exhausted their rein-

vestment allowance is also much welcomed. However, as this special investment tax allowance is only applicable until Dec 31, 2021, it would be more impactful for this measure to be made available to all sectors in order to incentivise companies to undertake reinvestment activities within this short time frame.

The expansion of the accelerated capital allowance for automation equipment for the services sector and the RM550 million allocation for smart automation matching grants are an acknowledgement that automation is as important for the services sector as it is for the manufacturing sector. Automation contributes to increased productivity in both sectors as the workforce can be reskilled and redesignated to perform higher-value-add activities. These measures will benefit businesses by reducing the cost of implementing Fourth Industrial Revolution technologies. Additionally, the concept of reskilling and developing new skills reinforces the government's human capital development policy of mainstreaming technical and vocational education and training.

My takeaway from Budget 2020 is that it is well-crafted with a clear and targeted approach to driving economic growth in sectors with the greatest potential. I believe that, with these growth engines in place, we will achieve the objective of increasing the size of the economy and sharing prosperity among all Malaysians. It challenges each and every one of us to upskill ourselves to contribute to the digital era. Surely, if the youngsters can do it, I do not see any reason why we cannot. **E**

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