

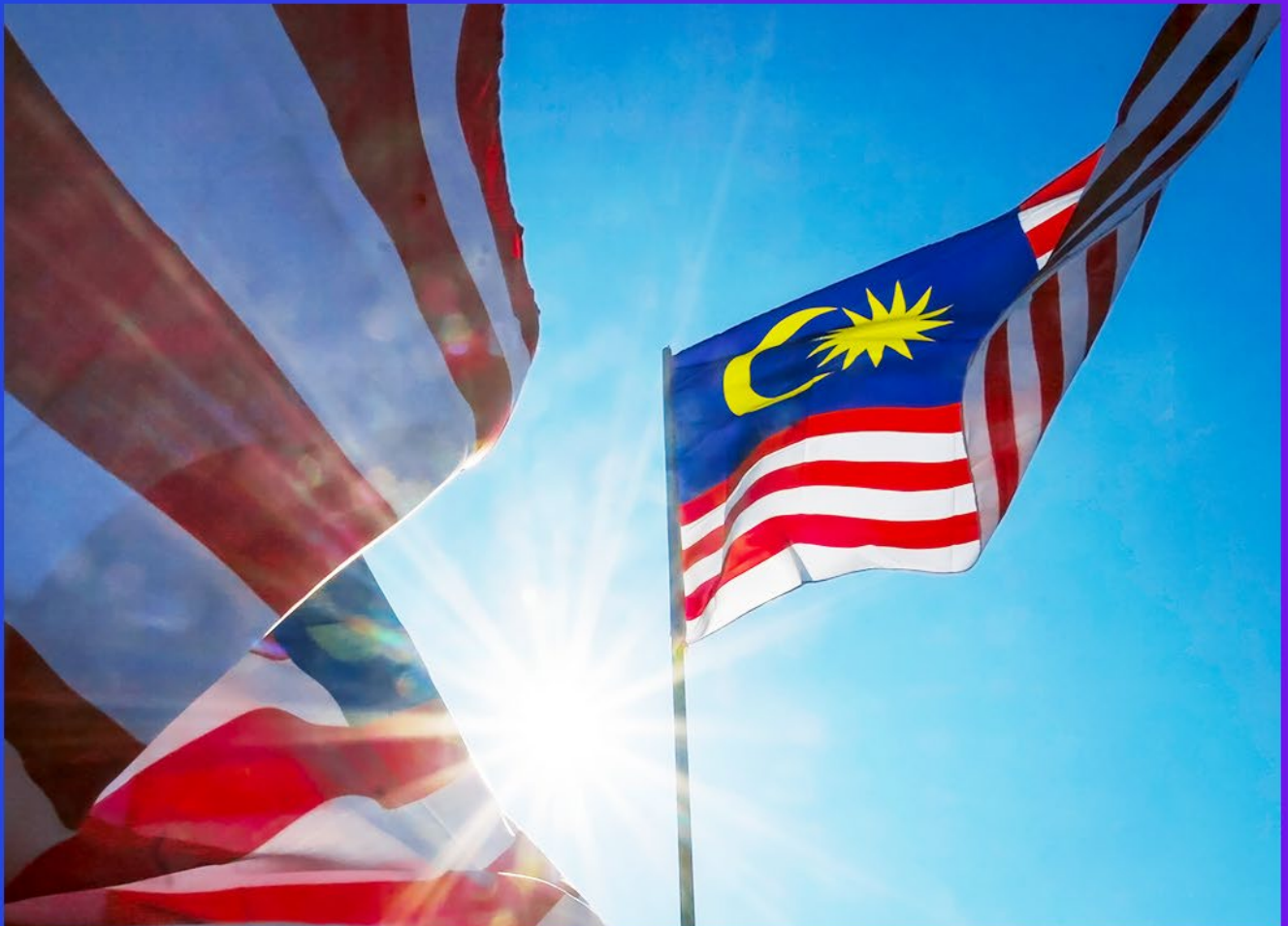


# New Tax Incentive for the Tourism Sector?

7 October 2022

---

KPMG in Malaysia



# Overview and Commentary



**Tai Lai Kok**  
Executive Director  
Head of Corporate Tax

## Key Message

“As we move to an endemic phase of COVID-19, the tourism industry is slowly recovering as international borders begin to reopen.

In order to revitalize domestic tourism, a reinvestment allowance tax incentive similar to that for the manufacturing and agricultural sector has been proposed for hotel and selected tourism projects under the Income Tax Act, 1967.”

## New Tax Incentive for the Tourism Sector?



The COVID-19 pandemic that struck us all in the year 2020 brought disruption to the lives of people and businesses all over the world, resulting in a tremendous loss of income and closure of businesses, as well as health issues and an untold number of deaths. As countries closed their borders to international tourists and airlines grounded to a halt in an effort to contain the pandemic, the tourism industry worldwide was brought to a standstill. Tourism in Malaysia was not spared and also temporarily halted when COVID-19 cases were rising rapidly. Many of the hotels and resorts in the tourism industry were forced to shut their businesses due to the Movement Control Order implemented by the Malaysian Government to curb the spread of COVID-19.

Fast forward to the year 2022, as most borders began to reopen and as we move into the endemic phase, the tourism industry is recovering, albeit at a slow pace. In recognition of the need to reinvigorate the sector, amongst other incentives introduced in the 2023 Budget is a reinvestment allowance tax incentive for hotels and selected tourism projects under the Income Tax Act, 1967.

### a) Current tax incentive

Presently, there are two main types of tax incentives available under Promotion of Investment Act, 1986 for hotel and/ or tourism projects (e.g. theme parks, convention centers, recreation parks/ other tourism projects) in Malaysia:

- **Pioneer Status (“PS”)**: 70% exemption on statutory income for a period of five (5) years; or

- **Investment Tax Allowance (“ITA”):** 60% allowance on qualifying capital expenditure incurred within a period of five (5) years which can be set-off against statutory income of up to 70%.

The above only applies to companies undertaking new investments in 1 to 3 star hotels and/ or tourism projects. For expansion, modernization and renovation of existing hotels (1 to 5 star) and/ or tourism projects, companies are eligible for additional rounds of tax incentives for refurbishment projects (one or two more possible extensions).

## b) Proposed reinvestment allowance tax incentive

It is proposed that reinvestment allowance at a rate of 60% of the qualifying capital expenditure incurred be deducted against 70% of the statutory income of an eligible company. The RA is proposed to be given for a period of five (5) consecutive years of assessment (“YA”), beginning from YA 2023 to YA 2027. The scope of activities covered under the proposed RA are refurbishment, expansion and modernization for 1 to 5 star hotels, theme park and convention centre (with a capacity of at least 3,000 participants) that are registered with the Ministry of Tourism, Arts and Culture.

Pending further details / conditions to be released on the proposed reinvestment allowance tax incentive, one would need to consider the following:

- It would appear that the proposed reinvestment allowance is introduced as an additional tax incentive to aid the above qualifying companies in the tourism industry, and it is not intended to replace the tax incentives currently given by the Malaysian Investment Development Authority (“MIDA”) or other Economic Corridors in Malaysia. For companies that have yet to apply for additional rounds of refurbishment tax incentives under MIDA, they may consider applying for reinvestment allowance from YA 2023 to YA 2027 and this may allow them to avail for the additional rounds of tax incentives under MIDA once the reinvestment allowance incentive period expires.
- Whether a similar minimum period of business operation (e.g. 36 months) will be imposed on the company in order to be eligible to claim the reinvestment allowance? We do not foresee this condition to be an issue as it is unlikely that a hotel will undertake refurbishment, expansion and modernization activities within such a short period of time from commencement of business.
- Currently, unutilised reinvestment allowances are allowed to be carried forward for a maximum period of 7 years from the end of the incentive period. There is therefore the question of whether hotels and tourism projects that apply for reinvestment allowance will be subject to the same carry forward restrictions in the event they are unable to fully utilise the tax benefits. It is important to note that hotel and tourism projects are extremely capital intensive and have long gestation periods. It is therefore hoped that this carry forward restriction be relaxed for companies in the tourism industry to assist them in recovering from the effects of the COVID-19 pandemic.
- There is also the question of what constitutes qualifying capital expenditure for the purposes of reinvestment allowance claim for a hotel. Would it encompass refurbishments to the entire hotel building, which includes the furniture and fittings, plant and equipment, as well as facilities within the retail spaces and common areas? Or will there be some calculation of the floor area to restrict the



reinvestment allowance claim? This remains to be seen pending further details to be provided in the legislation and accompanying guidelines.

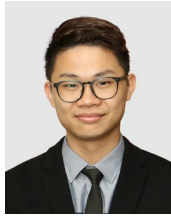
- Currently, any disposal of assets within 5 years in which reinvestment allowance is claimed, is subject to clawback. It is hoped that such clawback rules will not be applied on tourism projects as it will not be uncommon for tourism operators to replace items that are worn out or require upgrading in order to continue to attract tourists and customers.

In summary, the introduction of a proposed reinvestment allowance tax incentive for hotels and selected tourism projects is a welcome move by the Government to help revitalize the tourism sector. One hopes that clear guidelines are issued speedily so that operators will be able to take full advantage of the benefits offered to bring the industry back to its full potential.

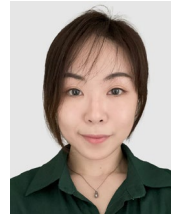
# Authors



**Tai Lai Kok**  
Executive Director  
Head of Corporate Tax  
ltai1@kpmg.com.my



**Benjamin Ang**  
Associate Director  
Corporate Tax  
benjaminang@kpmg.com.my



**Annie Yii**  
Manager  
Corporate Tax  
annieyii@kpmg.com.my

# Contact Us

## Petaling Jaya Office

### Soh Lian Seng

Executive Director –  
Head of Tax and Head of Tax Dispute Resolution  
lsoh@kpmg.com.my  
+603 7721 7019

### Tai Lai Kok

Executive Director – Head of Corporate Tax  
ltai1@kpmg.com.my  
+603 7721 7020

### Bob Kee

Executive Director – Head of Transfer Pricing  
bkee@kpmg.com.my  
+603 7721 7029

### Long Yen Ping

Executive Director –  
Head of Global Mobility Services  
yenpinglong@kpmg.com.my  
+603 7721 7018

### Ng Sue Lynn

Executive Director – Head of Indirect Tax  
suelynng@kpmg.com.my  
+603 7721 7271

## Outstation Offices

### Penang Office

#### Evelyn Lee

Executive Director – Penang Tax  
evewflee@kpmg.com.my  
+604 238 2288 (ext. 312)

### Kota Kinabalu Office

#### Titus Tseu

Executive Director – Kota Kinabalu Tax  
titustseu@kpmg.com.my  
+6088 363 020 (ext. 2822)

### Ipoh Office

#### Crystal Chuah Yoke Chin

Associate Director – Ipoh Tax  
ycchuah@kpmg.com.my  
+605 253 1188 (ext. 320)

### Kuching & Miri Offices

#### Regina Lau

Executive Director – Kuching Tax  
reglau@kpmg.com.my  
+6082 268 308 (ext. 2188)

### Johor Bahru Office

#### Ng Fie Lih

Executive Director – Johor Bahru Tax  
flng@kpmg.com.my  
+607 266 2213 (ext. 2514)

# KPMG Offices

## **Petaling Jaya**

Level 10, KPMG Tower,  
8, First Avenue, Bandar Utama,  
47800 Petaling Jaya, Selangor  
Tel: +603 7721 3388  
Fax: +603 7721 3399  
Email: [info@kpmg.com.my](mailto:info@kpmg.com.my)

## **Penang**

Level 18, Hunza Tower,  
163E, Jalan Kelawei,  
10250 Penang  
Tel: +604 238 2288  
Fax: +604 238 2222  
Email: [info@kpmg.com.my](mailto:info@kpmg.com.my)

## **Kuching**

Level 2, Lee Onn Building,  
Jalan Lapangan Terbang,  
93250 Kuching, Sarawak  
Tel: +6082 268 308  
Fax: +6082 530 669  
Email: [info@kpmg.com.my](mailto:info@kpmg.com.my)

## **Miri**

1st Floor, Lot 2045,  
Jalan MS 1/2,  
Marina Square, Marina Parkcity,  
98000 Miri, Sarawak  
Tel: +6085 321 912  
Fax: +6085 321 962  
Email: [info@kpmg.com.my](mailto:info@kpmg.com.my)

## **Kota Kinabalu**

Lot 3A.01 Level 3A,  
Plaza Shell,  
29, Jalan Tunku Abdul Rahman,  
88000 Kota Kinabalu, Sabah  
Tel: +6088 363 020  
Fax: +6088 363 022  
Email: [info@kpmg.com.my](mailto:info@kpmg.com.my)

## **Johor Bahru**

Level 3, CIMB Leadership Academy,  
No. 3, Jalan Medini Utara 1,  
Medini Iskandar,  
79200 Iskandar Puteri, Johor  
Tel: +607 266 2213  
Fax: +607 266 2214  
Email: [info@kpmg.com.my](mailto:info@kpmg.com.my)

## **Ipoh**

Level 17, Ipoh Tower,  
Jalan Dato' Seri Ahmad Said,  
30450 Ipoh, Perak  
Tel: +605 253 1188  
Fax: +605 255 8818  
Email: [info@kpmg.com.my](mailto:info@kpmg.com.my)

Some or all of the services described herein may not be permissible for KPMG audit clients and their affiliates or related entities.



[kpmg.com.my/Tax](https://kpmg.com.my/Tax)

The information contained herein is of a general nature and is not intended to address the circumstances of any particular individual or entity. Although we endeavor to provide accurate and timely information, there can be no guarantee that such information is accurate as of the date it is received or that it will continue to be accurate in the future. No one should act on such information without appropriate professional advice after a thorough examination of the particular situation.

© 2022 KPMG Tax Services Sdn. Bhd., a company incorporated under Malaysian law and a member firm of the KPMG global organization of independent member firms affiliated with KPMG International Limited, a private English company limited by guarantee. All rights reserved.

The KPMG name and logo are trademarks used under license by the independent member firms of the KPMG global organization.