



2022 Budget Snapshots

Keluarga Malaysia, Makmur Sejahtera

KPMG in Malaysia

29 October 2021

Overview and Commentary

Friday, 29 October 2021 – Themed “A Prosperous Malaysian Family”, our Finance Minister, YB Senator Tengku Datuk Seri Utama Zafrul Tengku Abdul Aziz tabled the 2022 National Budget as Malaysia prepares to enter the recovery phase of COVID-19.

As the vaccination rollout program continues to inoculate Malaysians against the pandemic, many economic sectors have gradually reopened thus putting the nation’s economy on the path to recovery. As it is set to rebound, Malaysia’s GDP growth in 2022 is expected to expand between 5.5% to 6.5% (2021: 3% to 4%), whilst the fiscal deficit is projected at 6% of GDP (2021: 6.5%).

With the highest allocation thus far, this year’s budget of RM332.1 billion has been earmarked for Operating Expenditure (70%), Development Expenditure (23%) and COVID-19 Fund (7%). At approximately 29.5% of the proposed funding coming from Borrowings and use of Government’s Assets and projected tax revenue collection of only RM171.4 billion, it raises concerns on the impact to the country’s financial health.

Whilst there are no major new taxes being introduced, a Prosperity Tax (“Cukai Makmur”) was announced, where a one-off tax for Year of Assessment 2022 is to be imposed on non-SME companies. These companies which have chargeable income in excess of RM100 million will be taxed at the rate of 33% on that excess. Other notable tax changes include a removal of the existing income tax exemption on income derived from foreign sources remitted back to Malaysia from 1 January 2022 and a Special Voluntary Disclosure Programme by the Royal Malaysian Customs Department.

On the other hand, the Government continues its support for local businesses. As an example, anchor companies are encouraged to be involved in the development of Bumiputera vendors and incentives are given in the form of a double deduction on eligible expenditures up to RM500,000. The Budget also announced a

welcome extension of the period of carry forward of business losses from seven years to ten years. In order to encourage strategic investments in certain sectors, the Government also provides an allocation for a matching grant. As for the Rakyat, the Government plans to introduce “Bantuan Keluarga Malaysia” worth RM 8.2 billion which will benefit 9.6 million recipients.

With such ambitious plans being introduced, it raises concerns over the risks associated with the funding for Budget 2022. This will indeed be a challenge for the Government to balance its effort in rebuilding Malaysia’s fiscal resilience while maintaining its social responsibilities, in line with the “Keluarga Malaysia” concept introduced by the Prime Minister.

Budget 2022 undoubtedly represents a commitment by the Malaysian Government to adopt an inclusive approach behind rebuilding and growing the Malaysian economy. This ensures that nobody is left behind in our recovery journey and fiscal support continues to be provided so the Rakyat and businesses can get back on their feet.

The following pages set out some economic statistics and a quick snapshot of the key changes announced in this year’s Budget.

Should you have any queries relating to this snapshot or any other tax matters, please contact your KPMG consultants or send us an email at info@kpmg.com.my.

Happy reading and stay safe!

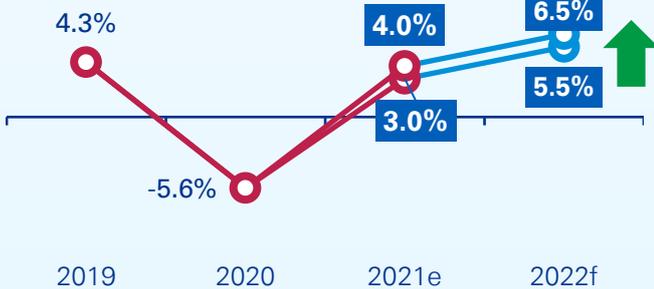


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State of Our Economy

GDP growth

National level



Sectorial level

| YoY GDP growth (%) | 2019 | 2020 | 2021e | 2022f |
|--------------------|------|-------|-------|-------|
| Manufacturing | 3.8 | -2.6 | 8.1 | 4.7 |
| Agriculture | 2.0 | -2.2 | -0.8 | 3.9 |
| Services | 6.1 | -5.5 | 2.6 | 7.0 |
| Mining | -2.0 | -10.6 | 1.5 | -0.3 |
| Construction | 0.1 | -19.4 | -0.8 | 11.5 |

Source: Ministry of Finance, Economic Outlook 2022

- Growth in 2021 represents a rebound from the economic contraction faced in 2020 due to the COVID-19 pandemic.
- Manufacturing, services and mining sectors have improved but pandemic restrictions continue to limit growth in the agriculture and construction sectors.
- Growth is anticipated to accelerate in 2022 due to:



Expansion in global and domestic economic activities.



Resumption of projects with high multiplier effects.



Stronger external demand - E&E products and major commodities.



Increase on the supply side for almost all sectors, led by the services and manufacturing sectors.



Positive business and consumer sentiment, recovering labor market.

Trade

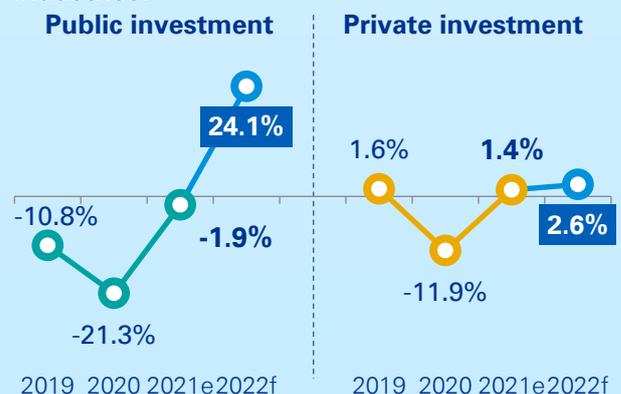
- Total trade is forecast to rise by 16.8% to RM2.084 trillion in 2021 and grow by 1.6% to RM2.117 trillion in 2022.
- Rebound in gross exports and imports as restrictions ease and economies reopen.
- Robust trade to continue in 2022 following the improvements in global trade and supply chains.



Note: e - Estimate data f - Forecast data

Domestic investments

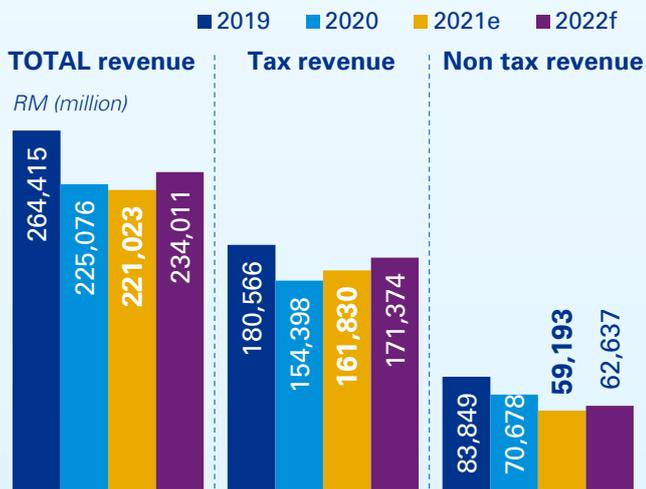
- Public investment is expected to shrink due to smaller capital spending by public corporations. Private investment to increase by Government's continuous measures to ensure a conducive environment for investment.
- In 2022, public investment will be supported by large-scale infrastructure projects. Private investment will grow in tandem with the Government's focus on promoting high-impact industries.



Source: Ministry of Finance, Economic Outlook 2022

Federal government revenue

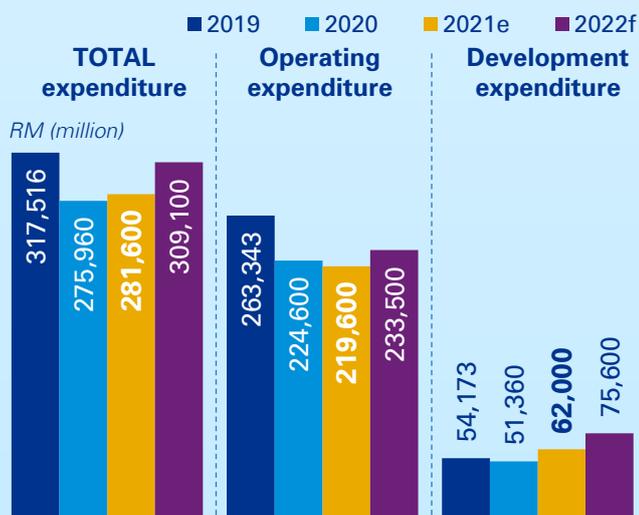
- The federal government revenue is forecasted to decline by 1.8% in 2021 before increase by 5.9% to RM234.0 billion in the following year, in line with better economic prospects. Tax revenue remains the major contributor to total revenue, consisting of 73.2% of the total share and is expected to increase to RM171.4 billion.
- After considering revenue growth and expenditure requirement, the fiscal deficit is expected to moderate to 6% to GDP.



| in RM mil | 2019 | 2020 | 2021e | 2022f |
|---------------------|---------|---------|---------|---------|
| Direct tax | 134,723 | 112,511 | 120,048 | 127,334 |
| CITA | 63,751 | 50,065 | 60,588 | 65,499 |
| Individual | 38,680 | 38,953 | 36,400 | 37,510 |
| PITA | 20,783 | 12,772 | 11,500 | 12,400 |
| Indirect tax | 45,843 | 41,887 | 41,782 | 44,040 |
| SST | 27,668 | 26,773 | 26,528 | 27,560 |
| Excise duty | 10,511 | 9,855 | 9,760 | 10,200 |
| Import duty | 2,733 | 2,346 | 2,330 | 2,500 |
| Export duty | 1,126 | 746 | 1,406 | 1,610 |

Federal government expenditure

- The recovery momentum is anticipated to gain traction in 2022 in line with the steady progress of the vaccination programme, bolstered by the implementation of the National Recovery Plan (NRP).
- As Malaysia enters the second year of the Twelfth Malaysia Plan (12MP) in 2022, Development Expenditure will continue to be distributed to projects and programmes with a high multiplier impact to reinvigorate economic growth, create a conducive investment climate and safeguard the wellbeing of the *rakyat*.



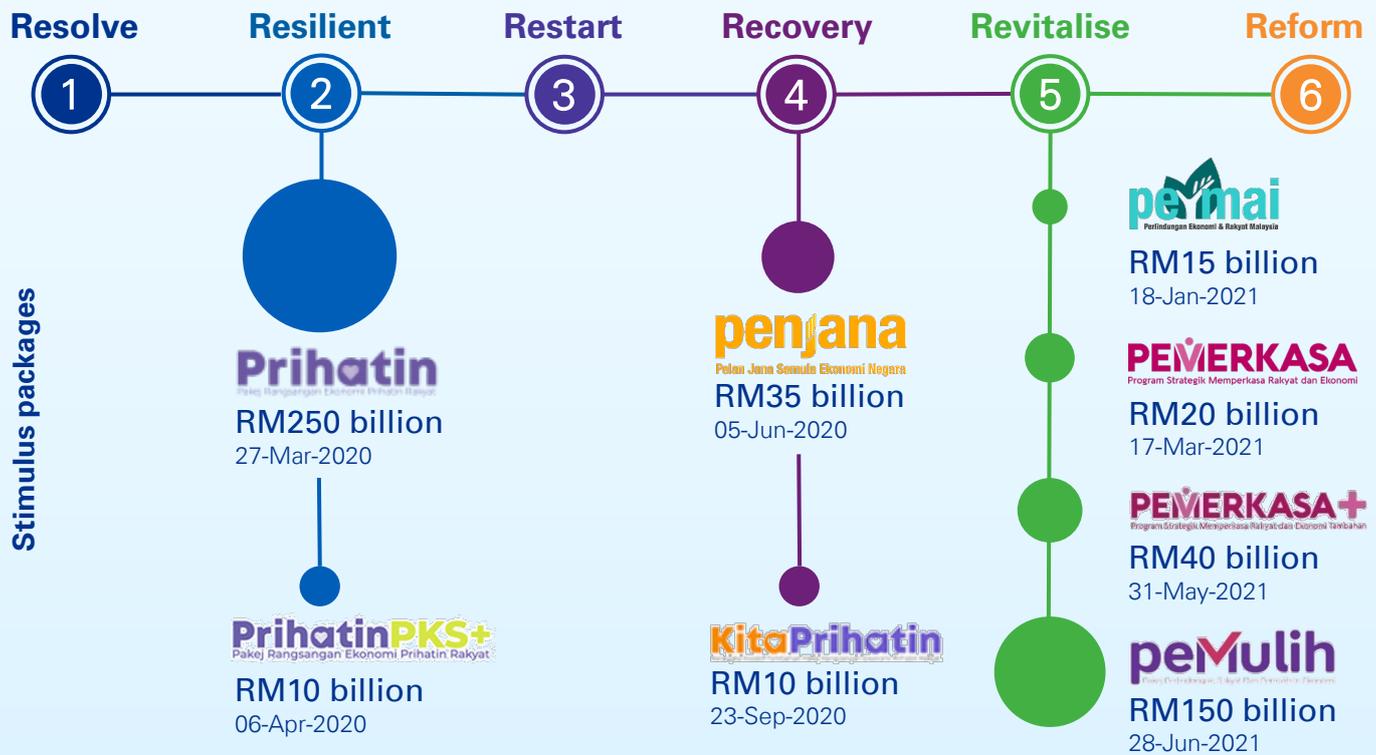
| in RM mil | 2019 | 2020 | 2021e | 2022f |
|-------------------------------------|---------|--------|--------|--------|
| Operating expenditure (OE) | | | | |
| Security | 23,429 | 24,790 | 24,197 | 25,158 |
| Social | 93,494 | 94,740 | 87,548 | 95,967 |
| Economic | 15,605 | 16,737 | 17,992 | 18,799 |
| Gen. Admin | 16,901 | 13,675 | 12,827 | 12,319 |
| Others | 113,914 | 74,658 | 77,036 | 81,257 |
| Development expenditure (DE) | | | | |
| Security | 5,614 | 5,785 | 7,317 | 8,970 |
| Social | 14,484 | 13,827 | 17,347 | 22,671 |
| Economic | 31,300 | 28,712 | 33,767 | 40,205 |
| Gen. Admin | 2,775 | 3,036 | 3,569 | 3,754 |

Note: e - Estimate data f - Forecast data

Source: Ministry of Finance, Fiscal Outlook and Federal Government Revenue Estimates 2022

COVID-19 stimulus packages

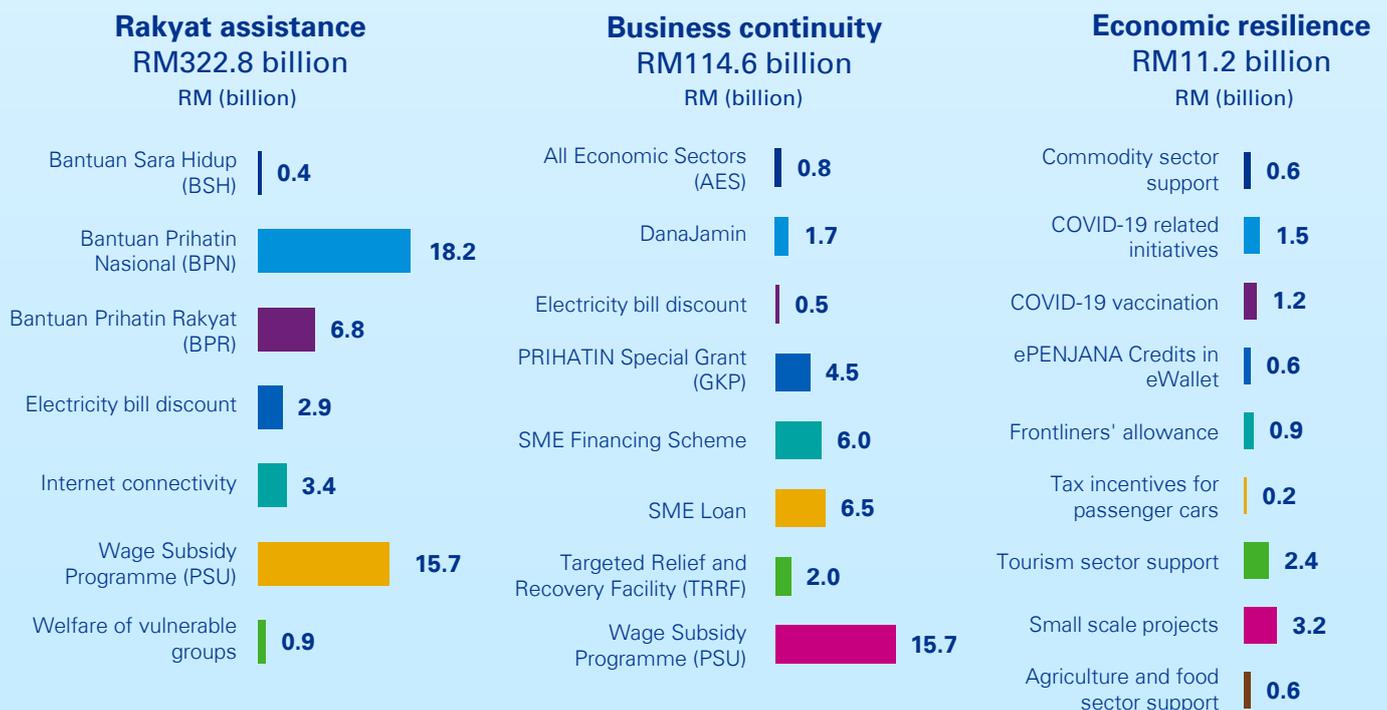
6R National Economy Recovery Strategy



Note: Click at the logo for further details of the stimulus package

Total stimulus packages = RM530 billion (≈ 37.5% of GDP)

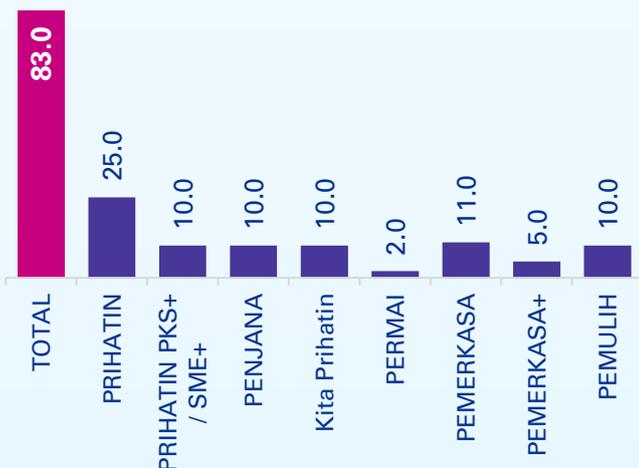
≈ RM448.6 billion has been disbursed (to over 20 million people and 2.4 million businesses)



Source: [Kewangan Rakyat](#), as extracted on 28 October 2021

Direct fiscal injections of stimulus packages

RM (billion)

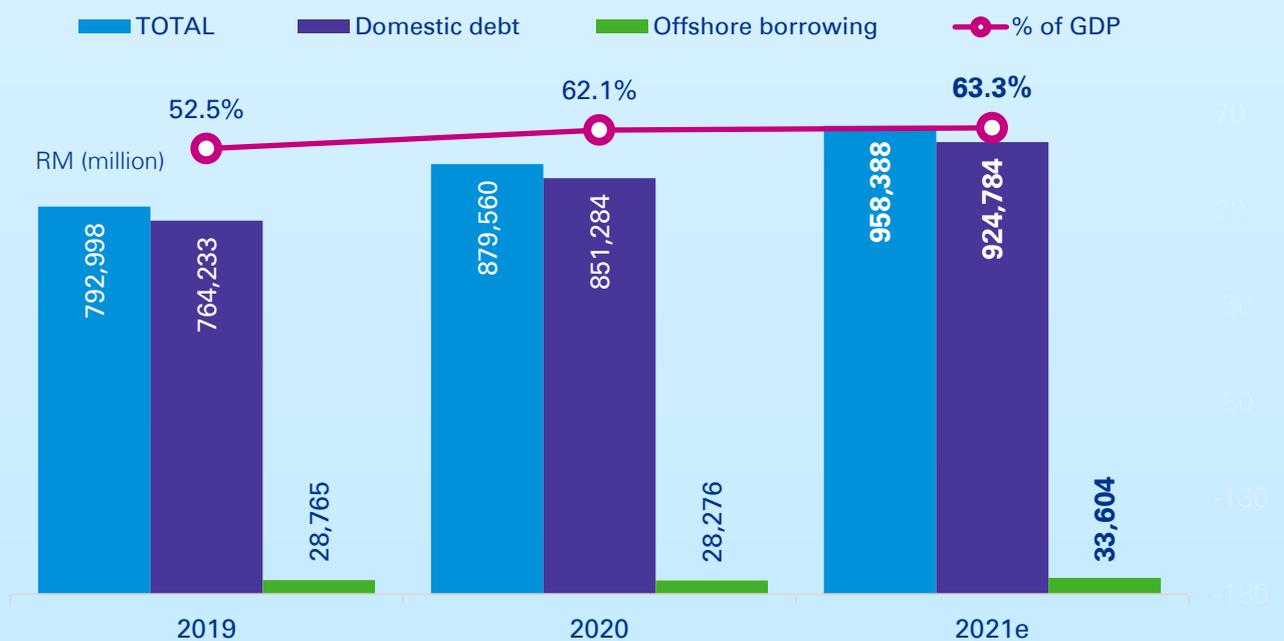


- Eight economic stimulus packages, comprises of fiscal and non-fiscal measures, were introduced to manage COVID-19 pandemic crisis.
- Of the total, direct fiscal injection amounted to RM83.0 billion or 6% of GDP.
- Government has temporarily increased statutory debt limit under the Loan (Local) Act 1959 [Act 637] and the Government Funding Act 1983 [Act 275], from 60% to 65% of GDP until end-2022.

Source: *Kewangan Rakyat*, as extracted 28 October 2021

Federal government debt

- The Federal Government debt is mainly denominated in ringgit (96.5%), while the remaining 3.5% is in foreign currency.
- The COVID-19 pandemic has elevated the Federal Government's debt level due to the provision of additional assistance and stimulus packages. Therefore, the Federal Government overall debt is projected to reach 66% to GDP, while its statutory debt at 63.4% by the end of 2022, lower than the new debt threshold of 65% to GDP as approved by the Parliament.
- Debt management policy will continue to uphold the principles of accountability and transparency while ensuring debt sustainability in the medium term.



Note: e - Estimate data f - Forecast data

Source: Ministry of Finance, *Fiscal Outlook and Federal Government Revenue Estimates 2022*

20 22

Budget Highlights

1

Removal of Tax Exemption on Foreign Source Income

From 1 January 2022

Foreign source income derived by Malaysian tax residents, which is received in Malaysia will be taxable effective 1 January 2022.

3

One-off Special "Prosperity Tax" (Cukai Makmur)

24% Tax rate for first RM100million of chargeable income

33% Tax rate for remaining chargeable income

The above special tax rate applies to all non-SME companies that generate super profits in YA 2022.

2

Tax Losses Carry Forward

10 years

- The ability to carry forward unabsorbed tax losses has been extended from 7 consecutive years of assessment (YA) to 10 YA.
- Unutilised tax losses from YA 2018 and prior YAs can now be carried forward to YA 2028.

4

Special Voluntary Disclosure Program (SVDP) for Indirect Taxes

The SVDP administered by the Royal Malaysian Customs Department (RMCD) will be introduced in phases with the following incentives:

100% Remission of penalty under **Phase 1**

50% Remission of penalty under **Phase 2**

Tax remission will also be considered for specific cases.

5

Extension of Special Reinvestment Allowance (RA)

Until **YA 2024**

A company that has exhausted its 15 consecutive years of RA is entitled to extend its qualifying RA period until YA 2024.

6

Expansion of Green Technology Incentive

+ **RHS**

Rainwater Harvesting System activities

- 100% Green Investment Tax Allowance (GITA) on capital expenditure for qualifying RHS activities to be set-off against 70% of statutory income.
- Income tax exemption of 70% of statutory income for qualifying RHS services activities.

7

Tax Incentive for Social Enterprise

3 years **Income Tax Exemption**

Applications received by Ministry of Finance (MOF) from 1 January 2022 until 31 December 2023.

8

Tax Incentive on Digital Ecosystem Acceleration Scheme

Digital Technology Provider

0% - 10% Income tax rate for 10 years for a **new company**

10% Income tax rate for 10 years for an **existing company that diversifies in new service activities or new service segments**

Digital Infrastructure Provider

100%

Investment tax allowance on capital expenditure for qualifying activities for **10 years** to be set off against **100% of statutory income**

Applications received by Malaysian Investment Development Authority (MIDA) from 30 October 2021 until 31 December 2025.

9

Relocation Incentives for Selected Services Sector

15% Income tax rate for 5 consecutive years

For non-Malaysian citizens holding key or C-suite positions in companies relocating to Malaysia.

Extended to applications received by MIDA until 31 December 2022.

11

Revision of Tax Estimates and Deferment of Tax Instalments

- All businesses are allowed to revise the estimate of tax payable for a YA in the 11th month of the basis period before 31 October 2022.
- Deferment of tax instalment payments for micro enterprises and SMEs for 6 months until 30 June 2022.

12

Exemption of Real Property Gains Tax

5% → 0% For disposal in the 6th year and onwards

Applicable to Malaysian individual citizens, permanent residents and persons other than companies from 1 January 2022.

10

Extension of Existing Tax Incentives

- The special tax deduction for taxpayers who provide a rental reduction of at least 30% to tenants is extended to 30 June 2022.
- Income tax rebate of up to RM20,000 per YA for the first three (3) YAs for new SMEs is extended to 31 December 2022.
- Tax deduction of up to RM300,000 on costs incurred for renovating and refurbishing business premises is extended to 31 December 2022.
- Further tax deduction of RM50,000 on rental expenses for premises used for employees' accommodation under Safe@Work programme is extended to 31 December 2022.
- 50% tax exemption for organizing arts, cultural, sports and recreational activities is extended to YA 2025.
- Double deduction for Structured Internship Programme (SIP) is extended to YA 2025 and with an expansion of qualifying academic levels.
- Double deduction for provision of scholarships is extended to YA 2025 for all fields of study.
- Double tax deduction for qualifying operating expenses incurred by Anchor Company is increased to RM500,000 and is extended to 31 December 2025.

13

Stamp Duty Exemption on Loan / Financing Agreements

100%

Exemption on **peer-to-peer loan / financing agreements between SME and investors** executed from 1 January 2022 until 31 December 2026.

+ 1 year

Extension of stamp duty exemption on **loan / financing restructuring or rescheduling instruments** executed from 1 January 2022 until 31 December 2022.

14

Stamp Duty on Contract Notes on Trading of Bursa-Listed Shares

Stamp duty ↑ 0.05%

- Stamp duty rate on contract notes increased from 0.1% to 0.15% (equivalent to RM1.50 for every RM1,000).
- Stamp duty cap of RM200 for each relevant contract note to be abolished.
- Effective from 1 January 2022.

15

Stamp Duty Exemption on Mergers and Acquisitions

+ 1 year Extension for SME

- Applicable to the following instruments:
 - contract or agreement for the sale or lease of property (land, buildings, machinery and equipment);
 - instrument of transfer and memorandum of understanding;
 - loan or financing agreements; and
 - the first lease agreement.
- For applications received by Ministry of Entrepreneur Development and Cooperatives from 1 July 2021 to 30 June 2022 and instruments executed not later than 31 December 2022.

16

Imposition of Excise Duty on Gel or Liquid Used for Electronic Cigarettes and Vaping

RM1.20

Introductory rate of excise duty per millilitre on nicotine contained in gel or liquid used for electronic cigarettes and vaping

RM0.40 → RM1.20

Increase in rate of excise duty per millilitre on non-nicotine contained gel or liquid used for electronic cigarettes and vaping

Effective from 1 January 2022.

17

Exemptions on Purchase of Electric Vehicles (EVs)

- Full import duty exemption on components for locally assembled EVs
From 1 January 2022 to 31 December 2025
- Full excise duty and sales tax exemption on CKD EVs
From 1 January 2022 to 31 December 2025
- Full import duty and excise duty exemption on imported CBU EVs
From 1 January 2022 to 31 December 2023

18

Expansion of Excise Duty on Sugar Sweetened Beverages

The imposition of excise duty on sugar sweetened beverages to be expanded to include pre-mixed preparations of chocolate or cocoa based, malt, coffee and tea such as 2-in-1 or 3-in-1 pre-mixed beverages effective from 1 April 2022.

19

Extension of Sales Tax Exemption on Purchase of Passenger Cars

Until June 2022

The Sales Tax exemption of 100% on locally assembled passenger cars (CKD) and 50% on imported passenger cars (CBU) are further extended until 30 June 2022.

21

Extension of Tourism Tax and Entertainment Duty Exemption

+ 1 year

The exemptions for the following are further extended until 31 December 2022:

- Tourism tax
- Entertainment duty on admission fees to entertainment venues such as theme parks, stage performances, sports events and competitions as well as cinemas in the Federal Territories.

20

Imposition of Service Tax

- Service Tax to be imposed on goods delivery services provided by service providers including e-commerce platform except for food and beverages delivery services and logistic services effective from 1 July 2022.
- Service Tax to be exempted on brokerage services related to trading of shares listed on Bursa Malaysia effective from 1 January 2022.

22

Sales Tax on Low Value Goods

Imposition of sales tax on goods not exceeding RM500 from abroad sold online by traders (local and overseas) and delivered to consumers in Malaysia via air courier service effective from 1 January 2023.

23

Extension of Personal Tax Reliefs

To 2022

- RM2,500 relief on purchase of smartphone, personal computer or tablet.
- RM1,000 relief on domestic travel expenditure.

To 2023

- RM3,000 relief on fees paid to childcare centres and kindergartens.

To 2025

- RM3,000 relief for contribution to deferred annuity.

24

EPF and SOCSO Contributions

- Tax relief for SOCSO contributions is increased to RM350 and expanded to include employee's contributions through the Employment Insurance System.
- RM4,000 tax relief for EPF contributions to include voluntary contributions by self-employed individuals and pensionable civil servants.

25

Expenses for Full Medical Check-Up

- RM1,000 tax relief expanded to include cost of check-up or consultation service related to mental health from psychiatrists, clinical psychologists and registered counselors.

26

Education Fees

- Tax relief for fees paid for up-skilling or self-enhancement courses is increased to RM2,000 for YA 2022 and YA 2023.
- RM7,000 tax relief for professional courses in accounting, finance, Environmental Social and Governance (ESG).

27

Electric Vehicle (EV) Charging Facilities

- Income tax relief of RM2,500 for costs relating to EV charging facilities for YA 2022 and YA 2023.

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