

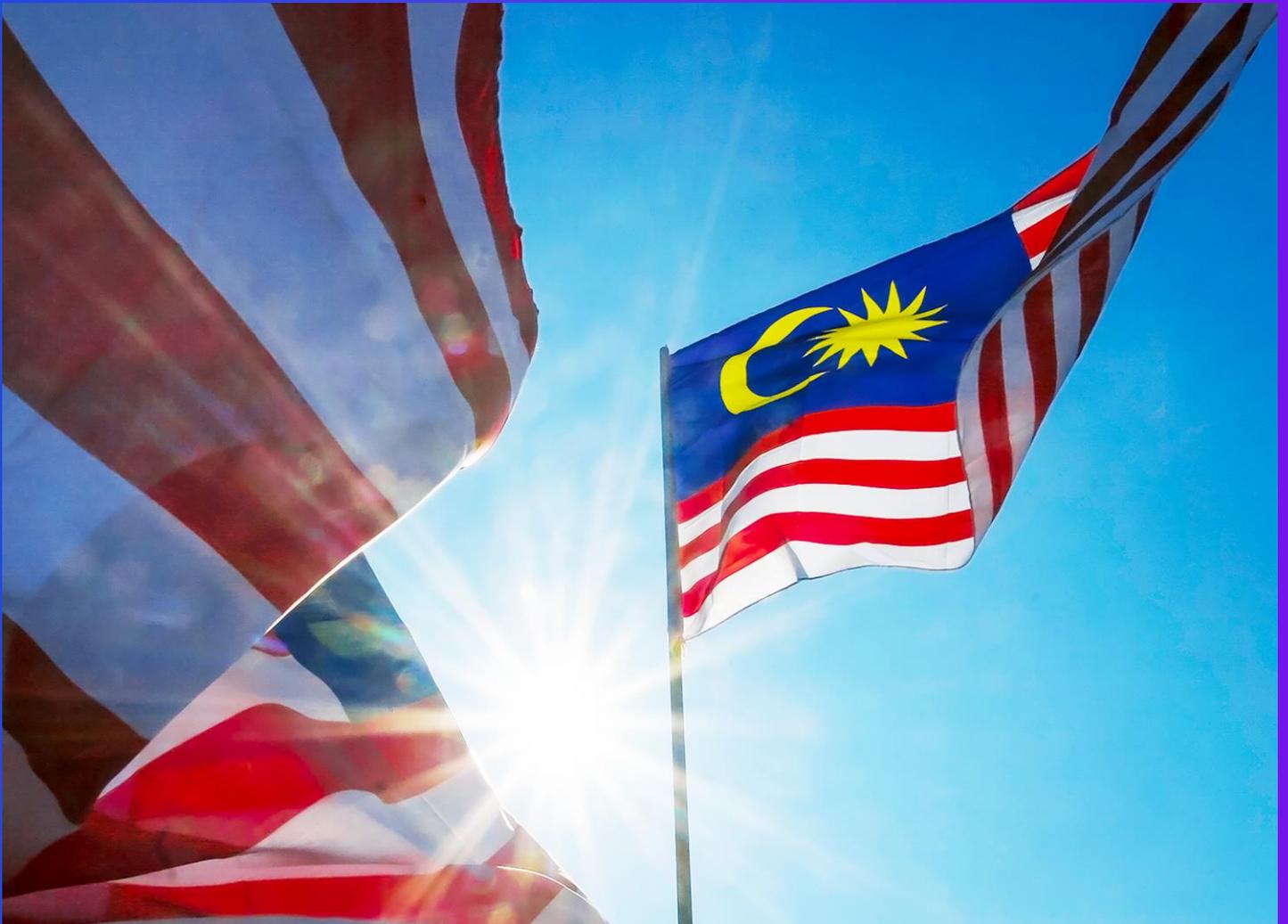


2023 Budget Snapshots

Keluarga Malaysia, Makmur Bersama

—
KPMG in Malaysia

7 October 2022



Overview and Commentary



Friday, 7 October 2022 - As Malaysia braces itself for a possible global recession and a looming general election, our Finance Minister, YB Senator Tengku Dato' Sri Zafrul Tengku Abdul Aziz has announced the nation's 2023 Budget.

Themed “Keluarga Malaysia, Makmur Bersama”, Budget 2023 will be a responsive budget driven by the 3R – *Responsive, Responsible and Reformist* to protect the well-being of the Rakyat, business continuity, economic prosperity and the efficiency of government services.

Amidst the elevated global recession risk and post Covid-19 struggles, the Malaysian GDP is still expected to grow between 4% to 5% in 2023 (2022: 6.5% to 7%), whilst the fiscal deficit is projected at 5.5% of GDP (2022: 5.8%).

Eclipsing last year's record-breaking budget of RM332.1 billion, 2023 Budget of RM372.3 billion has been earmarked for Operating Expenditure (73.1%) and Development Expenditure (25.5%) while the balance allocated for the Covid-19 Fund existing commitments and contingency savings.

Nonetheless, the Government seems to be optimistic with a projected revenue collection target of RM272.6 billion (2022: RM234 billion), while borrowings are projected to make up 27% of the proposed funding.

Budget 2023 has exemplified the Government's Rakyat centric policy with the B40 and M40 group set to enjoy a boost in cash aids, subsidies and reduce personal income tax rate by 2%. Emphasis have also been placed on the well being of our nation's youth and students with the continuance

of the e-Pemula scheme and the supplementary food program.

On the other hand, the Government has heard the plight of local businesses and have reduced the tax rate for micro, small and medium enterprises (MSME) from 17% to 15%.

In keeping up with advancement of global tax standards, the Government plans to introduce the “Qualified Domestic Minimum Top-up Tax” and “Carbon Tax”, this will no doubt cements Malaysia position in the global economy arena, ensuring a competitive environment to further attract foreign and domestic investments.

Although Budget 2023 will undoubtedly be the nation's most ambitious budget to date, one thing is certain, the Rakyat is at the center of it, and it will be a collective effort for the nation to forge ahead into the coming uncertainty.

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!

Soh Lian Seng

Executive Director

Head of Tax and Head of Tax Dispute Resolution
KPMG Tax Services Sdn Bhd

State of Our Economy

GDP growth

- Economic growth is expected to continue its recovery momentum in 2022, before slowing to 4.0% - 5.0% in 2023.
- Favorable growth in 2022 will be driven by domestic demand, steady expansion in external sector and ongoing recovery in labor market conditions.
- Moderate growth is projected for 2023 backed by strong economic structure and ongoing policy support to mitigate the impact of geopolitical uncertainties and tighten global financial conditions.

YoY GDP growth



Source: Ministry of Finance, Economic Outlook 2023

GDP growth by sectors

- The services and manufacturing sectors remain as the major contributors to the economy supported by external and domestic demand and expansion in all subsectors.
- The construction sector is projected to improve with the acceleration of existing infrastructure projects and higher private investment that would increase demand for more commercial and residential buildings.

YoY GDP growth (%)	2019	2020	2021	2022e	2023f
Manufacturing	3.8	-2.7	9.5	6.3	3.9
Agriculture	1.9	-2.4	-0.2	0.1	2.3
Services	6.2	-5.4	1.9	8.2	5.0
Mining	-0.6	-9.7	0.3	2.1	1.1
Construction	0.4	-19.3	-5.2	2.3	4.7

Source: Ministry of Finance, Economic Outlook 2023

Trade

- Total trade is forecast to rise by 18.2% to RM2.635 trillion in 2022 and grow by 1.3% to RM2.669 trillion in 2023.
- Rebound in gross exports and imports as restrictions eased and economies reopen, as well as strong external demand.
- Moderate trade performance is expected in 2023 following global uncertainties, supply chain disruptions and volatility in commodity prices.



Note: e - Estimate data f - Forecast data

Source: Ministry of Finance, Economic Outlook 2023

Domestic demand

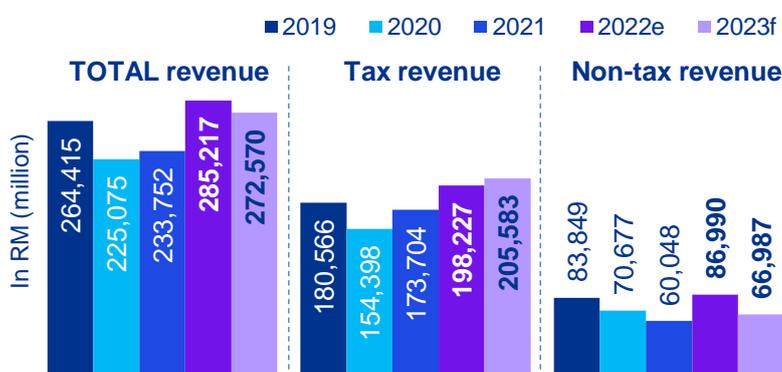
- Domestic demand is set to grow by 6.3% in 2022, before slowing to 5.1% in 2023.
- Public consumption is predicted to increase on account of higher spending on emoluments. Public investment is forecast to expand with the expenditure will be channeled to major projects in the country.
- Meanwhile, the momentum in private consumption will be supported by a steady recovery labor market and economic and social activities. Higher growth in private investment will be attributed to an increase in capital spending in the technology-intensive manufacturing and services sectors.

In %	2019	2020	2021e	2022f	2023f
Public consumption	2.0	3.9	5.3	1.0	2.0
Public investment	10.8	-21.3	-11.3	2.2	2.1
Private consumption	7.6	-4.3	1.9	8.7	6.3
Private investment	1.6	-11.9	2.6	3.0	3.7

Source: Ministry of Finance, Economic Outlook 2023

Federal government revenue

- Revenue is expected to surge by 22% to RM285.2 billion in 2022, before ease by 4.4% to RM272.6 billion in 2023, due to prolonged geopolitical tensions and monetary policy tightening. The anticipated moderation in global commodity prices would result in slower growth of tax revenue.
- Direct tax is estimated to rise attributed to better collection from company, petroleum and individual income tax.
- Indirect tax is forecast to improve by 17.1% in 2022 with steady consumption and trade growth. All components are expected to increase.



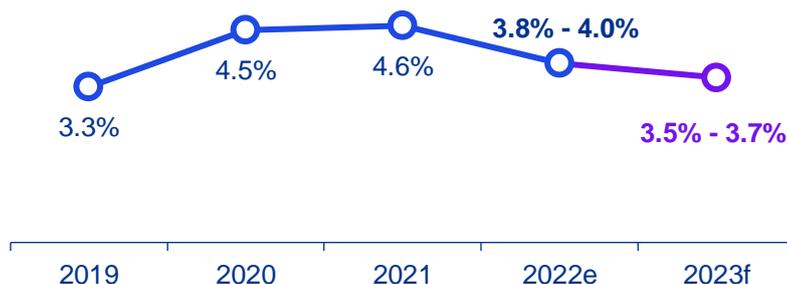
in RM million	2019	2020	2021	2022e	2023f
Direct tax	134,723	112,511	130,116	147,206	152,392
Indirect tax	45,843	41,887	43,588	51,021	53,191

Source: Ministry of Finance, Fiscal Outlook and Federal Government Revenue Estimates 2023

Labor market

- The labor market is anticipated to strengthen in 2022 and 2023, with the total employment is forecast to record 15.6 million persons.
- Unemployment rate continues to trend lower due to stronger demand for workers by business and industries in meeting both domestic and external expansion.

Unemployment rate



Note: e - Estimate data f - Forecast data

Source: Ministry of Finance, Economic Outlook 2023

2023 Budget Highlights

1

Reduction of Income Tax Rate for Micro, Small and Medium Enterprises

Income tax rate for first RM100,000 chargeable income

↓ 2%

- Income tax rate to be reduced from 17% to 15% for the first RM100,000 of chargeable income from Year of Assessment (YA) 2023 for companies with paid-up capital of RM2.5 million and below and annual sales turnover not exceeding RM50 million.
- Chargeable income of RM100,001 to RM600,000 remains to be taxed at 17%; excess shall be taxed at the prevailing rate of 24%.

2

Changes to Income Tax Rate for Resident Individual

↓ 2%

- 13% to 11% for the chargeable income band of RM50,001 to RM70,000
- 21% to 19% for chargeable income band of RM70,001 to RM100,000

↑ 0.5%

- 24.5% to 25% for the chargeable income band of RM250,001 to RM400,000.

3

Unabsorbed Tax Losses

20 years

The ability to carry forward unabsorbed tax losses has been extended to 20 consecutive YAs for companies in sectors with long gestation period such as forest plantations and hydroelectric projects.

4

BEPS 2.0: Pillar Two

Qualified Domestic Minimum Top-up Tax in 2024

15%

- Qualified Domestic Minimum Top-up Tax (QDMTT) is proposed to be implemented in 2024.
- Applicable to multinational enterprises (MNEs) with an annual global turnover of at least Euro 750 million (RM3.5 billion).

5

Definition of “Plant”

Widening of definition of “plant” for capital allowance purposes to include intangible asset such as software.

6

Introduction of Carbon Tax

- The government is planning to introduce carbon tax and will study the feasibility of implementing carbon pricing mechanism in Malaysia.
- Further details including the implementation date have yet to be announced.

7

Review of Green Technology Tax Incentives

Activities other than Solar and Solar + Battery Energy Storage System (BESS)

- 100% Green Investment Tax Allowance (GITA) for qualifying green project, building and asset for 5 years to be set-off against 70% of statutory income.
- 70% Green Income Tax Exemption (GITE) on statutory income for qualifying green services for 5 YAs.

Activities related to Solar

- 60% GITA for qualifying green asset and project for 3 years to be set-off against 70% of statutory income.
- 70% GITE on statutory income for qualifying green services for 3 YAs.

Solar Leasing

- 70% GITE on statutory income for up to 10 years.

For applications received by Malaysian Investment Development Authority (MIDA) from 1 January 2024 until 31 December 2025.



8

Tax Incentive for Manufacturer of Electric Vehicle (EV) Charging Equipment

100% or **100%**

Income tax exemption on statutory income commencing YA 2023 to YA 2032

Investment tax allowance for a period of 5 years to set off against 100% of statutory income

For applications received by MIDA from 8 October 2022 until 31 December 2025.

Tax Incentives for Carbon Capture and Storage (CCS)

Companies undertaking CCS in-house activity

- Investment tax allowance of 100% for 10 years to set-off against 100% of statutory income.
- Full import duty and sales tax exemption on equipment for CCS technology from 1 January 2023 until 31 December 2027.
- Tax deduction for allowable pre-commencement expenses within 5 years prior to the date of commencement of operation.

Companies undertaking CCS services

100% or **70%**

Investment tax allowance for 10 years to set-off against 100% statutory income

Income tax exemption on statutory income for 10 years

- Full import duty and sales tax exemption on equipment for CCS technology from 1 January 2023 until 31 December 2027.
- Tax deduction on fees incurred for use of CCS services for YA 2023 to YA 2027.

For applications received by Ministry of Finance (MOF) from 1 January 2023 until 31 December 2027.



Tax Incentive for Rental of Electric Vehicle (EV)

- Tax deduction for rental of EV is increased to RM300,000 for YA 2023 to YA 2025.

Tax Deduction for SRI-linked Sukuk

Tax deduction on issuance cost for Sustainable and Responsible Investment (SRI) Linked Sukuk from YA 2023 to YA 2027.

Tax Deduction for Smart AI-Driven Reverse Vending Machine

- Special tax deduction for donations or sponsorships of Smart Artificial Intelligence (AI)-Driven Reverse Vending Machine.
- For application received by MOF from 1 January 2023 until 31 December 2024.

Extension of Existing Tax Incentives

Strategic Hubs

- Principal hub tax incentive with 0%, 5% or 10% income tax rate is extended to 31 December 2025.
- Income tax rate of 10% for 5 + 5 years for Global Trading Centre is extended to 31 December 2025.

Intellectual Property

- Income tax exemption of 100% for intellectual property development is extended to 31 December 2025.

Investments

- Income tax exemption equivalent to the amount of investment made by an angel investor is extended to 31 December 2026.
- Income tax exemption equivalent to 50% of the amount invested by individual investors in equity crowdfunding is expanded to include investment through Limited Liability Partnership Nominee Company and extended to 31 December 2026.

Healthcare

- Investment Tax Allowance of 100% of qualifying capital expenditure for 5 years to set-off against 100% of statutory income for medical tourism is extended to 31 December 2025.
- Income tax rate of 0% - 10% (for first 10 years) and 10% (for subsequent 10 years) for companies manufacturing pharmaceutical products including vaccines is extended to 31 December 2025.
- Income tax exemption of 100% of increased value in exports of services to set-off against 70% of statutory income for export of private healthcare services is extended to YA 2025.

Biotechnology and Food Production

- Existing tax incentive for BioNexus status companies is extended to 31 December 2024.
- Existing tax incentive for food production project is extended to 31 December 2025 and expanded to include agricultural based projects on Controlled Environment Agriculture (CEA).

Aerospace and Ship Building

- Existing tax incentive for aerospace industry is extended to 31 December 2025.
- Existing tax incentives for ship building and ship repairing (SBSR) industry is extended to 31 December 2027.



Tax Deduction on Bursa Malaysia Listing Cost

- Extension of tax deduction on cost of listing on ACE and LEAP markets of up to RM1.5million to YA 2025.
- Expanded to cover the cost of listing of technology-based companies on the Main Market of Bursa Malaysia.



15

Reinvestment Allowance (RA) for Hotels and Selected Tourism Projects

Reinvestment allowance **5 years**

RA of 60% on qualifying capital expenditure for a period of 5 years (YA 2023 to YA 2027) to be set-off against 70% of statutory income for renovation, expansion and modernization of 1 to 5-star hotels, theme parks and convention centres.

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Review of Tax Incentive for Tour Operators

Relaxation of conditions to enjoy 100% income tax exemption on statutory income derived from the business of operating tour packages

- Within Malaysia: participation of at least 400 local tourists per year; or
- To Malaysia: With participation of at least 200 inbound tourists per year

Tax incentive is extended YA 2023.



17

Tax Incentive for Automation in Manufacturing and Services Sector

100% Accelerated capital allowance

- Scope of automation to include the adaptation of Industry 4.0 elements.
- Expanded to include agriculture sector.
- Capital expenditure threshold to be increased up to RM10 million.
- Extended to 31 December 2027.

18

Tax Incentive for Chicken Rearing in Closed House System

100% Accelerated capital allowance
+
100% Income tax exemption

on qualifying capital expenditure incurred from YA 2023 until YA 2025 and to be fully absorbed within a year.

19

Further Tax Deduction on Remuneration Paid to Juvenile Inmate and Ex-Inmate

- Further tax deduction for remuneration paid to inmate and ex-inmate of Henry Gurney School under Malaysian Prison Department, protection and rehabilitation institution and registered care centres under the Social Welfare Department from YA 2023 to YA 2025.



20

Special Tax Deduction for Expenditure on Malaysian Handicraft

- Special tax deduction of RM500,000 on the purchase of qualified Malaysian-made handicraft products by hoteliers from 1 January 2023 until 31 December 2023.

21

Income Tax Exemption for Charitable Hospitals

Income tax exemption for Charitable Hospitals registered as Company Limited By Guarantee equivalent to the amount of charitable expenditure incurred.

Donors be given tax deduction of up to 10% of the aggregate income.

22

Stamp Duty on Transfer of Property By Way of Love and Affection

RM10

- Applicable to instrument of transfer of property between family members (husband and wife, parents and children, grandparents and grandchildren) executed from 1 January 2023.
- Recipient of property must be Malaysian citizen.

23

Stamp Duty Exemption on Loan Restructuring or Rescheduling

+ 2 years

- Extension of stamp duty exemption on loan / financing restructuring or rescheduling instruments executed from 1 January 2023 until 31 December 2024.

24

Relief on Medical Expenses Incurred for Self, Spouse or Child

Tax relief expanded to include expenses on dental examination and treatment up to RM1,000 with effect from YA 2023.

25

Expansion on Life Insurance or Takaful Contribution

RM3,000 relief expanded to include voluntary contribution to Employees Provident Fund made by self-employed individuals with effect from YA 2023.

26

Expenses on Covid-19 Detection Test

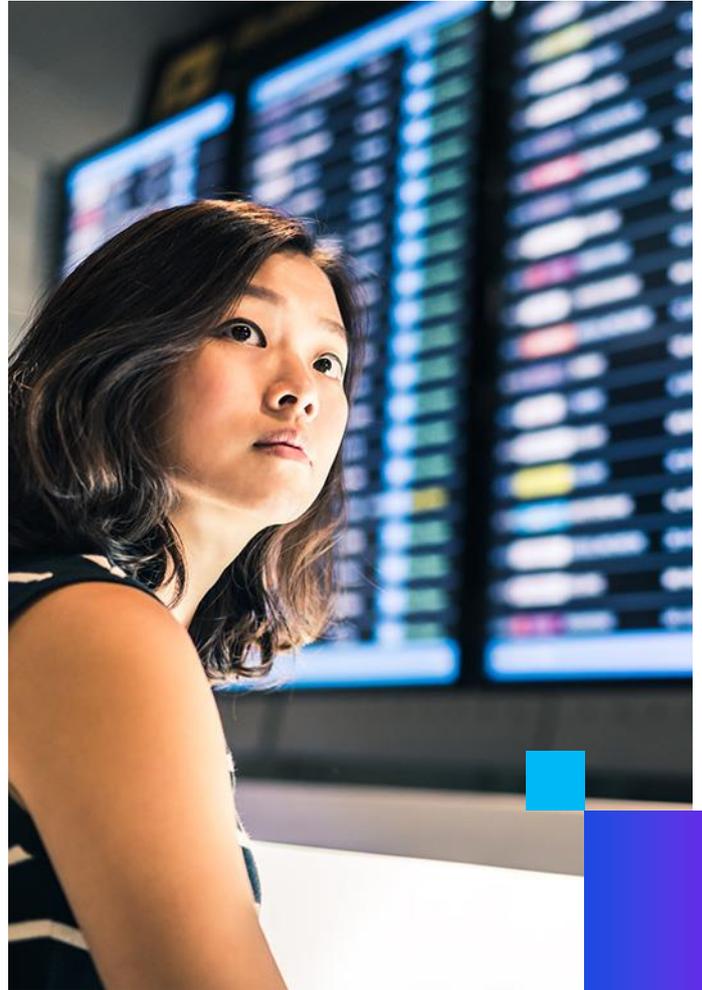
The scope is expanded to include expenses incurred on Covid-19 detection test conducted in a laboratory recognised by the Ministry of Health with effect from YA 2023.

27

Extension of Personal Tax Reliefs

to YA 2024

- RM3,000 relief on fees paid to childcare centers and kindergartens.
- RM8,000 relief for amount deposited into Skim Simpanan Pendidikan Nasional.



28

Woman Returning to Work After a Career Break

YA 2023 → YA 2028

Malaysian women citizens returning to work after a career break will enjoy tax exemption on employment income received from YA 2023 to YA 2028.

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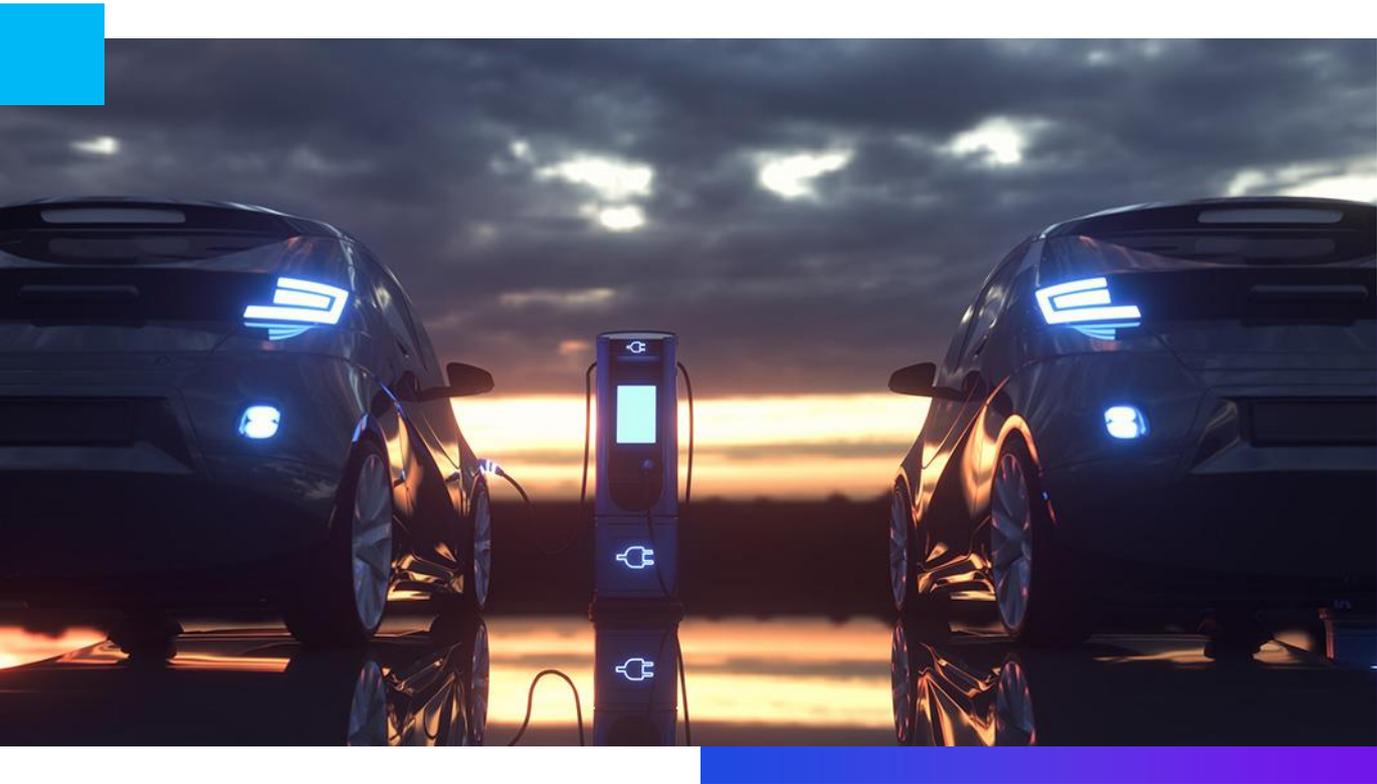
Import Duty and Sales Tax Exemptions on Nicotine Replacement Therapy

- Import duty and sales tax exemptions on nicotine gum and nicotine patch for a period of 5 years.
- For applications received by the MOF from 1 January 2023 to 31 December 2027.

30

Exemptions on Imported CBU Electric Vehicles (EVs)

- Full import duty and excise duty exemptions on imported CBU EVs are further extended until 31 December 2024.
- Exemption on Approved Permit (AP) fee for imported EVs until 31 December 2023.



31

Excise Duty Exemption on Tourism Vehicles

50%

50% excise duty exemption on the purchase of new locally assembled vehicles (CKD) as follows for tourism purposes:

- Hire and drive cars for tourists; and
- Excursion bus.

For applications received by the MOF from 1 January 2023 to 31 December 2024.

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Locally Assembled Bus

+ 2 years

Extension of Sales Tax Exemption

Sales tax exemption for the purchase of locally assembled bus to be extended until 31 December 2024.

For applications received by the MOF from 1 January 2023 to 31 December 2024.

33

Expansion of Excise Duty and Sales Tax Exemptions on Sale, Transfer, Private Use or Disposal of Individually Owned Taxis and Hired Cars

- Excise duty and sales tax exemptions on the sale, transfer, private use or disposal of individually owned taxis and hired cars are expanded to include executive taxis, TEKS1M and airport taxis (budget, premier and family).
- The vehicle age condition is relaxed to at least 5 years from the date of registration.
- For applications received by the Royal Malaysian Customs Department from 1 January 2023.

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Import Duty and Sales Tax Exemptions on Studio and Filming Production Equipment

- Import duty and sales tax exemptions on studio and filming production equipment to equipment providers and production services including post-production, studio and cinema for a period of 2 years.
- For applications received by the MOF from 1 January 2023 to 31 December 2024.



35

Extension of Import Duty and Sales Tax Exemptions Period

- Import duty exemption on raw materials/components and machinery/equipment for BioNexus Status Company is extended until 31 December 2024.
- Import duty and sales tax exemptions under Item 53, Customs Duties (Exemption) Order 2017 and Item 44, Schedule A, Sales Tax (Persons Exempted from Payment of Tax) Order 2018 for shipbuilding and ship repairing (SBSR) companies with *bona fide* status are extended until 31 December 2027.

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Implementation of e-Invoicing

- E-Invoicing to be implemented by the Inland Revenue Board (IRB) in phases beginning from year 2023.
- Pilot project with selected taxpayers.

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

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

Penang

Level 18, Hunza Tower,
163E, Jalan Kelawei,
10250 Penang
Tel: +604 238 2288
Fax: +604 238 2222
Email: 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

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

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

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



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