



## Tax Espresso – Special Alert

### Economic Stimulus Package 2020 – Tax related measures

As highlighted in our [Special Alert - Release of the Economic Stimulus Package in light of the ongoing COVID-19 outbreak](#), multiple measures have been introduced to help affected businesses. Below are the key tax-related measures:

#### 1. Deferment of income tax instalment payments for tourism industry

Businesses in the tourism industry such as travel agencies, hoteliers and airlines will be given a deferment of their monthly tax instalment payments for six (6) months, beginning 1 April 2020 to 30 September 2020.

**Effective:** Instalment payments from 1 April 2020 to 30 September 2020. An application for the deferment has to be made online to the Inland Revenue Board (IRB).

**Our commentary:** We expect details on the application for deferment to be provided by the IRB e.g. online application form, approval process, etc.

#### 2. Revision of income tax estimate

Currently a company, limited liability partnership, trust body or co-operative society may in the sixth month or the ninth month, or in both months of the basis period for a year of assessment (YA) furnish to the IRB a revised estimate of its tax payable for that YA.

It is proposed that other affected businesses\* be allowed to revise their tax estimates in the third month of instalment, should the third instalment falls in the year 2020.

*\*In the Appendices to the Economic Stimulus Package 2020, it is stated that a company (instead of other affected businesses) is allowed to revise its tax estimate in the 3<sup>rd</sup> month of instalment. We await more clarification.*

Example:

YA	Basis period	Revision in the 3 <sup>rd</sup> month of instalment
2020	01.12.2019 to 30.11.2020	March 2020
2020	01.01.2020 to 31.12.2020	April 2020
2021	01.02.2020 to 31.01.2021	May 2020
2021	01.03.2020 to 28.02.2021	June 2020

**Effective:** 1 March 2020. An application for the revision has to be made online via the official website of the IRB.

**Our commentary:** We believe that this revision is a concession given in addition to the statutory revision in the sixth and/or the ninth month of the basis period, although it is not clearly stated in the Economic Stimulus Package 2020.

### 3. Tax deduction on PPE provided to employees

To contain the outbreak of COVID-19, companies are encouraged to provide their employees with Personal Protective Equipment (PPE). A disposable PPE such as face masks are eligible for tax deduction under subsection 33(1) of Income Tax Act 1967 (ITA). Whereas, expenses for non-disposable PPE products can be claimed as capital allowance.

**Effective:** Not stated in the Economic Stimulus Package 2020.

**Our commentary:** Whether or not due to the outbreak of COVID-19, any expenses incurred by a company in providing occupational safety and health (e.g. safety helmet, face mask, hand sanitizer, hand soap, etc.) to its employee should qualify for either a deduction under subsection 33(1) of the ITA or capital allowance.

### 4. ACA for machinery and equipment including ICT equipment

To incentivise businesses to undertake investments in 2020, Accelerated Capital Allowance (ACA) will be given for qualifying capital expenditure incurred on machinery and equipment, including Information and Communications Technology (ICT) equipment. Such ACA can be claimed within a two year period at the following rates.

Initial allowance – 20%

Annual allowance – 40%

**Effective:** Capital expenditure incurred between 1 March 2020 and 31 December 2020.

### 5. Special tax deduction on costs of renovation and refurbishment

To promote businesses to undertake renovation and refurbishment in readiness of the subsequent upturn in the economy, costs of renovation and refurbishment of business premises of up to RM300,000 will be given a

tax deduction. This tax deduction does not apply to expenditure which has been given an allowance under Schedule 2 or Schedule 3 of the ITA.

**Effective:** Renovation or refurbishment expenditure incurred between 1 March 2020 and 31 December 2020.

## 6. Service tax exemption for hotels

Any person operating accommodation premises (including hotels, inns, lodging house, service apartment, homestay and any other similar establishment) and providing accommodation services and other services within the accommodation premises are taxable under Group A, First Schedule of the Service Tax Regulations 2018.

It is proposed that the above operators of accommodation premises are exempted from levying service tax on provision of accommodation services and other services within the accommodation premises, for a period of six (6) months from 1 March 2020 to 31 August 2020.

**Effective:** 1 March 2020 to 31 August 2020.

## 7. Further deduction to hotel operators for training expenses

Hotel operators are encouraged to send employees for training in tourism-industry related courses.

It is proposed that a further deduction be given for training expenses incurred on employees by hotel operators for tourism-related courses approved by the Ministry of Tourism, Arts and Culture (MOTAC).

**Effective:** Not stated in the Economic Stimulus Package 2020.

## 8. Import duty and sales tax exemption on equipment and machinery for port operators

Currently import duty and sales tax exemption on equipment and machinery is provided to port operators who are enjoying Approved Service Projects (ASPs) incentives. For port operators whose incentive period have ended, they are no longer entitled to import duty and sales tax exemption.

It is proposed that port operators whose ASPs incentive period have ended will be given import duty and sales tax exemption on imported or locally purchased equipment and machinery used directly in port operation subject to the following criteria:

- (a) basic equipment and machinery used directly in port operation; and
- (b) this import duty and sales tax exemption is not applicable to the import or purchase of spare parts and consumables including those used for maintenance purposes.

**Effective:** Application for exemption submitted to Ministry of Finance (MOF) between 1 April 2020 and 31 March 2023.

## 9. Value-added activities carried out in LMW and FIZ

Currently, the value-added activities that are permitted to be carried out in a Licensed Manufacturing Warehouse (LMW) and Free Industrial Zone (FIZ) include research and development, design, marketing (for companies with International Procurement Centre status), distribution (for companies with Regional Distribution Centre status), quality control, testing and

commissioning including calibration and configuration, labelling and packaging, remanufacturing, repairing and servicing. These value-added activities must be approved by either the Headquarters of Royal Malaysian Customs Department (RMCD) or the MOF.

It is proposed that the scope of the value-added activities be expanded to supply chain management, strategic procurement operation and total support solutions.

It has also been proposed that the approval process for all value-added activities carried out by manufacturers in LMW and FIZ be coordinated and approved by the RMCD at State or Zone level only.

**Effective:** 1 April 2020.

#### **10. Stamp duty exemption on loan restructuring and rescheduling agreements**

To ease the financial strain of borrowers in the tourism and other affected businesses, all financial institutions will provide financial relief to viable borrowers (including individuals, such as those with mortgages, whose employment income have been affected) by restructuring or rescheduling the loans, including payment moratoriums.

It is proposed that the stamp duty chargeable will be given a 100% exemption on loan agreements arising from such restructuring and rescheduling of business loans between borrowers and financial institutions, executed from 1 March 2020 to 31 December 2020, provided the original loan agreement has been duly stamped.

**Effective:** Loan restructuring and rescheduling agreements executed from 1 March 2020 to 31 December 2020.

#### **11. Double deduction for establishment of regional office by international shipping companies**

Generally, expenditure incurred prior to commencement of operation is not tax deductible. It is proposed a double deduction be given on pre-commencement expenditure incurred by an international shipping company setting up a regional office in Malaysia.

**Effective:** Applications received by the Malaysian Investment Development Authority (MIDA) before 31 December 2021.

#### **12. Special personal income tax relief on domestic travel**

To promote domestic tourism, a special income tax relief of up to RM1,000 will be provided to individuals for expenses incurred on domestic travel between 1 March 2020 and 31 August 2020. The type of expenses are limited to the following:

- (a) accommodation expenses at premises registered with MOTAC; and
- (b) entrance fees to tourist attractions.

**Effective:** YA 2020.

#### **13. Employees' EPF contribution**

Currently employees' contribution to EPF is at 11%.

It is proposed that the employees' contribution to EPF be reduced by 4% (i.e. from 11% to 7%) for the period 1 April 2020 to 31 December 2020. However, employees have the option to elect to continue deduction at 11%.

**Effective:** 1 April 2020 to 31 December 2020.

#### 14. Review on condition for purchase of duty-free goods for persons entering Malaysia via international airports

To mitigate the impact of the COVID-19 outbreak on affected retail businesses in international airports, the following conditions have been revised:

- (a) the eligibility period for the purchase of duty-free goods by tourists or individuals entering Malaysia is reduced from 72 hours to 48 hours; and
- (b) the threshold for duty-free goods is increased from RM500 to RM1,000. The threshold value is for items other than goods which are already eligible for exemption under the specified limit such as liquor, cigarettes, clothes, shoes, food, and personal electrical appliances.

**Effective:** 1 April 2020. The above revised conditions are only applicable at duty-free shops located at the international airports.



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