



Tax Espresso – Special Alert

Short-Term Economic Recovery Plan (PENJANA): Appendices on Tax-Related Measures

Further to the Prime Minister’s announcement of the “Short-Term Economic Recovery Plan” or “PENJANA” on 5 June 2020 (reported in our [Special Alert @ 6 June 2020](#)), the Ministry of Finance has issued [Appendices](#) (available in Bahasa Malaysia only) to provide further details on the announced tax-related measures.

We highlight some of the measures, together with details provided in the Appendices:

1. Tax relief for COVID-19 related expenses *[Appendix 2 refers]*

In the Economic Stimulus Package 2020 (ESP), it was proposed that disposable Personal Protective Equipment (PPE) such as face masks are eligible for tax deduction under subsection 33(1) of Income Tax Act 1967. Whereas, expenses for non-disposable PPE products can be claimed as capital allowance. But the effective date was not provided.

Under PENJANA, the Government announced that it will expand the above scope of expenses allowed as tax deduction or capital allowance, and extend the period of this incentive. The allowable expenses include the cost of PPEs, COVID-19 screening tests, and thermal scanners.

Further details:

- The expansion of the scope of expenses allowable for tax deduction or capital allowance will be effective from 1 March 2020.
- This incentive is extended for an indefinite period.

2. Individual income tax exemption for employees who receive handphone, notebook and tablet from their employers [Appendix 3 refers]

Currently, gifts and monthly bills for a fixed line telephone, mobile phone, pager or Personal Digital Assistant (PDA) which is registered under the name of the employee is fully exempted from tax pursuant to the Income Tax (Exemption) Order 2009 [P.U. (A) 152/2009]. The exemption given is limited to one unit for each asset category.

It was announced in PENJANA that income tax exemption of up to RM5,000 be given to an employee who receives a handphone, notebook and tablet from his or her employer.

Further details:

- The exemption is effective from the year of assessment (YA) 2020.

Our commentary:

- It is not known if this exemption is given in addition to the existing exemption under P.U. (A) 152/2009 for handphone.*
- It is unclear if this exemption is effective for handphone, notebook, and tablet received from 1 January 2020 to 31 December 2020 (i.e. basis period for YA 2020) or 1 July 2020 (as mentioned in PENJANA booklet) to 31 December 2020 for YA 2020.*
- We expect further clarification to be provided in the exemption order to be gazetted.*

3. Special individual income tax relief on purchase of handphone, notebook and tablet [Appendix 4 refers]

Currently, resident individual taxpayers can claim a lifestyle relief of up to RM2,500 for the following expenses:

- purchase of books, journals, magazines, printed newspapers and similar publications;
- purchase of a personal computer, smartphone or tablet;
- purchase of sports equipment;
- payment for gym membership subscription; and
- payment of monthly bill for internet subscription.

Under PENJANA, a special individual income tax relief of up to RM2,500 will be given for the purchase of handphone, notebook and tablet.

Further details:

- The special individual income tax relief is given in addition to the existing lifestyle tax relief of RM2,500.
- The tax relief is given is for the YA 2020 for purchases made from 1 June 2020 to 31 December 2020.

4. Exemption of Stamp Duty on acquisition of residential property [Appendix 7 refers]

It was proposed that the Home Ownership Campaign (HOC) will be reintroduced and the following stamp duty (SD) exemption will be given:

- On the instruments of transfer: on the first RM1,000,000 of the residential property value; and
- On the loan agreement: full exemption

The conditions for exemption are:

- the residential properties must be valued between RM300,000 and RM2,500,000;
- the sales and purchase agreement (SPA) must be executed between 1 June 2020 and 31 May 2021; and
- the property developer participating in this HOC must provide at least 10% discount for the property.

Further details:

- the SPA must be executed between the purchaser and the property developer registered with REHDA, SHARED A and SHEDA; and
- the purchaser must be a Malaysian citizen.

5. Exemption of Real Property Gains Tax (RPGT) for disposal of residential property *[Appendix 8 refers]*

Gains arising from disposal of residential properties by Malaysian citizens between 1 June 2020 to 31 December 2021 will be exempted from RPGT. Such exemption is given for up to three (3) residential properties per individual.

Further details:

- The exemption does not apply to a disposal of residential property which was acquired through a transfer of property between family members (husband and wife, parent and child, or grandparent and grandchild) by way of love and affection. Such transaction will not give rise to RPGT under Paragraph 3(1)(b) and Paragraph 12, Schedule 2 of the RPGT Act 1976.

Note:

Beginning 1 January 2019, RPGT exemption has been granted to Malaysian citizens who dispose of real property, including low-cost and affordable housing which disposal was made in the sixth year or onwards after the acquisition date of the property and the property's disposal consideration did not exceed RM200,000.00 (You may also refer to our [Tax Espresso @ 8 January 2019](#) on the Real Property Gains Tax (Exemption) Order 2018 [P.U.(A) 360/2018]).

6. Incentives to spur the establishment of new businesses

To encourage the establishment of new businesses, the following incentives will be granted:

- Income tax rebate for establishing a new SME** *[Appendix 12 refers]*
Income tax rebate up to RM20,000 per year for the first 3 years of assessment (YAs) for a Small and Medium Enterprise (SME) that is incorporated and commences operation between 1 July 2020 and 31 December 2021.

Further details:

The above tax rebate is subject to the following conditions:

- SME is registered under the Companies Act 2016;
- SME has paid-up capital of RM2.5 million and below, with annual turnover not exceeding RM50 million per annum;

- the amount of rebate eligible to be claimed by the SME is equivalent to the amount of capital expenditure or operating expenses incurred in each YA subject to a maximum expenditure of RM20,000 per YA;
- unused tax rebate during the current YA cannot be carried forward to the next YA for tax deduction purposes;
- the new entity must use a separate plant, equipment and facilities which are not transferred from existing or related companies; and
- other conditions that will be determined later.

ii) **Stamp Duty exemption on instruments executed for M&A** [*Appendix 13 refers*]

SD exemption will be given to SMEs on instruments executed for mergers and acquisition (M&A) completed between 1 July 2020 and 30 June 2021.

Further details:

- The SD exemption is effective for instruments executed for M&A approved by the Ministry of Entrepreneur Development and Cooperatives ([MEDAC](#)) between 1 July 2020 and 30 June 2021, and the instruments are executed not later than 31 December 2021.
- The above SD exemption is only applicable to the following instruments:
 - a contract or agreement for the sale or lease of property (land, buildings, machinery and equipment);
 - deed of transfer and memorandum of understanding;
 - loan or financing agreement; and
 - the first rental agreement.

7. Special reinvestment allowance incentive [*Appendix 15 refers*]

According to the PENJANA booklet, a special reinvestment allowance (RA) incentive will be given for manufacturing and selected agriculture activity for YA 2020 and YA 2021.

Further details:

- This special RA is given to encourage reinvestment by existing companies which have exhausted their eligibility to qualify for RA or the special RA granted for YA 2016 to YA 2018.
- This special RA is given at 60% of the qualifying capital expenditure incurred within a period of 3 YAs from YA 2020 to YA 2022 (*instead of two YAs from YA 2020 to YA 2021 as mentioned in the PENJANA booklet*).
- This incentive will be given for all manufacturing project and selected agriculture activity as defined in Schedule 7A of the Income Tax Act 1967.

8. Flexible work arrangement incentives [*Appendix 16 refers*]

Further tax deduction will be given to an employer which implements flexible work arrangements (FWAs) or undertake enhancement of their existing FWAs.

Further details:

- The incentive is for three (3) consecutive YAs only. Effective for applications received by Talent Corporation Malaysia Berhad from 1 July 2020 to 31 December 2022.
- The double tax deduction is given for the following expenses:
 - consultation fees;

- capacity building for flexible work arrangements including staff training costs; and
- cost of acquiring 'virtual working environment' software.
- The expenditure shall be confirmed by Talent Corporation Malaysia Berhad and the total amount of expenditure shall not exceed RM500,000 for each YA.

9. Sales Tax exemption for purchase of passenger cars [Appendix 19 refers]

Incentives announced under PENJANA to stimulate the automotive sector and provide financial relief to car buyers:

- Full sales tax exemption on locally assembled cars
- 50 % sales tax exemption on imported cars

Effective: 15 June 2020 to 31 December 2020

Further details:

- Full sales tax exemption is given on completely knocked-down (CKD) passenger cars.
- 50 % sales tax exemption is given on completely built-up (CBU) passenger cars including Multi-Purpose Vehicle (MPV) and Sport-Utility Vehicle (SUV).
- The above sales tax exemptions are subject to the following conditions:
 - Local car assembly companies, local car assembly franchise companies, approved permit (AP) franchise holders and open AP holders must pass on the full sales tax savings to car buyers through the lowering of car selling price; and
 - Submission of a list of models / variants along with the proposed selling price after sales tax exemption for verification by the Ministry of Finance.

Note:

Currently CKD passenger cars and CBU passenger cars including MPVs and SUVs are subject to sales tax at the rate of 10%.

Our commentary:

The sales tax exemption would apply on the sale price by the manufacturer on CKD vehicles and on the import value of CBU vehicles. Some critical considerations include: whether the Government would provide some transitional concessions (i.e. refunds of sales tax that has already been paid) for unsold stock that is currently sitting with distributors, or if there is an expectation that the price of these vehicles would need to be reduced. It is important to note that no exemption for import duty / excise duty has been announced and so import duty / excise duty would still be included in the price of these vehicles.

10. Service Tax and Tourism Tax exemption for hotels [Appendix 20 and 21 refer]

Currently 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.

The above operators of accommodation premises had been 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.

The existing service tax exemption for hotels will be extended for the period from 1 September 2020 to 30 June 2021, and a new exemption for tourism tax from 1 July 2020 to 30 June 2021 has been introduced.

Further details:

- The operators of the accommodation premises are exempted from levying service tax on provision of accommodation services and other related services.
- Tourism tax exemption is given to foreign tourist staying at any accommodation premises registered under the Tourism Tax Act 2017.

Please refer to the [Appendices](#) for further details and other tax matters addressed.



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