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Budget 2025 expectations: Deloitte Malaysia's perspectives

Deloitte's Panel of Partners - Top row (From left to right): Vrushang Sheth, Transfer Pricing Executive Director; Thin Siew Chi, Business Tax Executive Director; Mohd Fariz Mohd Faruk, Tax Controversy Leader, Kelvin Yee, International Tax Executive Director; Tham Lih Jiun, Government Grants & Incentives Leader; Senthuran Elalingam, Tax Technology Consulting Leader.

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01 What are the potential measures that the Government could consider to alleviate the financial burden on the middle-income group amidst the increasing cost of living?

Quick-win measures that could be introduced include:

- Expanding the tax bracket with annual chargeable income between RM35,001 to RM100,000.
- Review the current list of reliefs to meet the current needs of our economy, e.g. personal reliefs.
- Consider new tax reliefs for homeownership or retirement savings to address specific financial challenges faced by the middle-income group.

02 Are current immigration policies keeping up with talent and mobility trends?

Immigration and relevant authorities are revamping the immigration application process by implementing a single sign-on platform, simplifying and extending more online processes. Further enhancements can be made to align with the Government's push to attract investors and talents. One consideration is to reduce tiers of pre-approvals which currently starts with the Ministry of Labour, municipal councils, the respective industry approving authority and the immigration department. Malaysia should also consider establishing agreements with other countries for skilled talent exchange, to enhance Malaysia's talent pool while fostering international cooperation.

03 Do you see any impact on tax incentives arising from the implementation of Global Minimum Tax (GMT)?

The GMT is unlikely to cause any significant changes to our tax incentive packages as it currently only impacts multinational enterprises with global revenue of EUR 750 million or more. With Malaysia also implementing Qualified Domestic Minimum Top-Up Tax (QDMTT), this gives Malaysia the right to collect the top-up tax that would otherwise be collected by other countries. The Government can consider allowing flexibility for businesses impacted by the GMT to negotiate for tax incentives that can be customised according to the profile of the investment.

04 What are some expectations from an indirect tax perspective?

The scope for service tax may see some changes in Budget 2025. One potential change could include service tax on digital services to cover all forms of remote services, similar to what Singapore has implemented. Some service tax reliefs may be tightened to enhance service tax collection. However, the ongoing expansion of service tax is not desirable. With every ringgit of revenue collected, there is a ripple effect on the prices paid on goods and services at the retail level, which is difficult to quantify.

The reintroduction of a broad-based consumption tax such as the Goods and Services Tax (GST) should be considered as a replacement to the existing sales tax and service tax. A GST system would address the issues in the current Sales and Service Tax (SST) system while improving the fiscal position of the Government. The cost of living concerns can be addressed through a number of social and policy measures including reduced rates, increased cash transfers, and greater policing of profiteering activities.

05 The tax incentives for several designated economic corridors in Malaysia are set to expire by the end of this year. What measures can we expect from the government to attract targeted investments and boost economic activities in the respective regions?

In addition to streamlining the roles and responsibilities of all Investment Promotion Agencies and centralising investment promotion and marketing under the Malaysian Investment Development Authority (MIDA), we anticipate further consolidation of tax incentives at MIDA to create a more seamless and efficient investor experience by improving the transparency of incentives and speeding up the approval and investment implementation processes.

06 Would there be changes in the tax legislation with the recent implementation of e-invoicing?

Over time, e-invoicing should create a social norm of compliance among taxpayers. E-invoicing enables the Inland Revenue Board (IRB) to have real-time access to taxpayer's transactions thereby enhancing IRB's capabilities in selecting tax audit and investigation cases and allowing a greater focus on tax evasion activities. It is expected that the data collected through e-invoicing will enable the IRB to implement partial pre-filled tax returns aimed at reducing the risk of errors in tax returns submitted by taxpayers. Once e-invoicing is fully implemented, all tax claims may need to be supported with an approved e-invoice, before a claim can be made. As tax compliance becomes more automated, we would like to see more initiatives to make tax operations more progressive, reducing taxpayer's compliance burden. One consideration is to reduce the 5-year time bar for the IRB to conduct tax audit and raise assessment / additional assessment.

07 Are environmental taxes on the cards?

The 12th Malaysia Plan proposes to implement the Extended Producer Responsibility (EPR) for e-waste, packaging materials and single-use plastics. We look forward to seeing a holistic review of the tax framework governing the EPR to support this initiative. For e.g. consider special tax deduction on EPR contribution and tax exemption or enhanced allowances for qualifying waste management activities. On carbon tax, we do not expect any announcement in Budget 2025 until fuel subsidies are fully rationalised.

08 Is Malaysia likely to adopt Amount B of Pillar One, and will it be elective or mandatory?

Multinational enterprises are susceptible to lengthy cross-border tax disputes, especially in relation to baseline marketing and distribution activities. These disputes drain the financial and administrative resources of all parties involved. Amount B of Pillar One provides guidance designed to simplify the application of the arm's length principle to in-country baseline marketing and distribution activities, with the objective of alleviating administrative burden, reducing compliance costs, and enhancing tax certainty. This simplified and streamlined approach provides a pricing framework to determine an arm's length return on sales for in-scope distributors.

Despite this, Malaysia may not be an early adopter. Certain elements are still being deliberated internally at the OECD to align with Inclusive Framework members, and Malaysia is likely to keep a close watch on the implementation process / status in other countries, especially among key trading partner jurisdictions. Should Amount B be implemented, this will likely be through further amendments to the TP Rules and Guidelines. To stay ahead, concerned taxpayers should perform an early impact assessment, especially affected MNE groups with multiple entities in Malaysia or headquartered in countries that may be early adopters of Amount B to identify risk of dispute (structural and / or application), potential mitigation actions, and any impact of Pillar Two implementation.

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