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Malaysian Budget 2024 – Tax Highlights

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Introduction to Budget 2024

On 13 October 2023, the Prime Minister and Minister of Finance, YAB Dato' Seri Anwar Bin Ibrahim tabled the Malaysian Budget 2024 (**Budget**) themed "Economic Reforms, Empowering the People".

As the next step in the MADANI Economy Framework, the Budget was introduced with three main focuses in mind, namely, (i) enhancing governance; (ii) restructuring the economy; and (iii) elevating the people's standard of living.

Despite the moderate economic growth of 2.9% in the second quarter of 2023 reflecting the difficult global economic situation, the Government of Malaysia (**Government**) is striving to achieve economic growth of 5% in 2024 through the MADANI Economy Framework reforms.

With this in mind, the Government has allocated RM 393.8 billion for this budget, the largest expansionary budget in the country's history thus far, surpassing the RM 388.1 Billion allocated for Budget 2023.

Tax remains a forefront consideration in achieving this outcome with the Government looking to introduce various tax measures aimed at broadening the tax revenue base and encouraging both investments as well as reinvestments. These measures include amongst others, the implementation of Capital Gains Tax, High Value Goods tax, an increase in the Service Tax rate and the introduction of a slew of new tax incentives and extensions of existing tax incentives.

This alert will examine some of the key tax highlights arising from the Budget and our analysis of these proposals.

Key Tax Highlights of Budget 2024

1. **Capital Gains Tax**: Capital Gains Tax will be imposed on gains arising from the disposal of unlisted shares in Malaysian companies from 1 March 2024 onwards. Unlisted shares acquired before this date will be taxed upon disposal at either 10% of the net gains or 2% of the gross sales value, while shares acquired after 1 March 2024 will be taxed at 10% on the net gains.
2. **Foreign Sourced Income**: The Government has proposed that the gains received from outside of Malaysia arising from the disposal of capital assets will also be subject to tax from 1 March 2024 onwards. An exemption may be available if economic substance conditions are satisfied.
3. **Service Tax:** The Service Tax rate will be increased from 6% to 8%. However, essential services such as food and beverage, telecommunications, parking and logistics will continue to be subject to Service Tax at the rate of 6%. The scope of taxable services will also be expanded to include logistics, brokerage, underwriting and karaoke services.
4. **High Value Goods Tax**: High Value Goods Tax will be implemented from 1 May 2024 at the rate of 5% to 10% on certain high-value items (for e.g., jewelry and watches). The scope of goods is to be determined by a threshold and a refund mechanism will be provided to foreign tourists.
5. **E-invoicing**: The mandatory e-invoicing implementation deadline for taxpayers with an annual turnover or revenue exceeding RM 100 million has been deferred from 1 June 2024 to 1 August 2024. Meanwhile, the mandatory e-invoicing implementation for other taxpayers will be done in phases from 1 July 2025.
6. **Global Minimum Tax under Pillar Two**: The expected implementation date for the global minimum tax has been deferred from 2024 to 2025.

These highlights and the other key tax developments arising from the Budget are detailed below.

1. Capital Gains Tax

1.1. Implementation of Capital Gains Tax

Following from the re-tabled Budget 2023 where the Government announced its intention to introduce a Capital Gains Tax (**CGT**), the Budget now provides more details on the proposed CGT regime.

CGT will be imposed on the disposal of unlisted shares in Malaysian companies effective from 1 March 2024 onwards with differing rates depending on the date the shares were acquired. The proposed rates are as follows:

Shares Acquisition Date	CGT Rate
Before 1 March 2024	The taxpayers may choose: ▪ 10% on the net gain of the disposal of shares; or ▪ 2% on the gross sales value.
From 1 March 2024	10% on the net gain of the disposal of shares

To ensure the smooth implementation of CGT and reduce the cost of doing business, the Government proposed that a disposal of unlisted shares will be exempted from CGT where it relates to:

- An Initial Public Offering (**IPO**) exercise approved by Bursa Malaysia;
- An internal group restructuring; and
- Venture capital companies.

Our thoughts

While the Budget helpfully provides some detail on the rate of CGT and the transitioning mechanism, many points remain unclear at this juncture.

In particular, further clarification will be required on the following:

- Interaction with Real Property Gains Tax (**RPGT**) – Further clarification will also be required on how CGT will interact with Malaysia's existing RPGT regime. As the disposal of shares in real property companies owned by corporate shareholders are subject to RPGT at rates ranging from 10% to 30% (depending on the period of ownership), clarification will be needed as to whether the disposal of shares in real property companies will be exempted from CGT to avoid double taxation.
- Implementation – Many practical points regarding implementation also remain unclear. Amongst others, how net gains will be determined, what gross sales value means, the method for valuation of the unlisted shares, the treatment of any capital losses, the applicability of any deductible expenditure, the conditions for the exemptions and administrative requirements (e.g., filing of returns and payment) will need to be clarified.
- Legislation – The Budget did not clarify if CGT will be implemented under the Income Tax Act 1967 or if it will be implemented under a separate legislation.

Further details are expected to be announced in the Finance Bill which is typically announced in the month of November or December 2023.

Given the effective date of 1 March 2024, we will likely see a rapid increase in restructurings or equity transfers in the coming months before the effective date as companies seek to fall outside the scope of the tax.

2. Corporate Income Tax

2.1. Foreign Sourced Income to include capital gains

Effective from 1 January 2022, foreign income received in Malaysia by a person who is resident in Malaysia is taxable. Subject to prescribed conditions, exemptions are available for:

- Foreign dividend income received in Malaysia by a resident company, resident LLP and resident individual in relation to partnership business in Malaysia;
- All foreign income received in Malaysia by a resident individual (excluding income from a partnership business).

From the Budget Touchpoints published alongside the Budget announcement, it is proposed that gains received from outside of Malaysia arising from the disposal of capital assets will also be subject to tax from 1 March 2024 and an exemption may be available if economic substance conditions are satisfied.

Our thoughts

The decision of the Government to include gains from the disposal of capital assets as foreign-sourced income appears to be strategically aligned with the updated Guidance on Foreign-Source Income Exemption (FSIE) Regimes (**FSIE Guidance**) by the EU's Code of Conduct Group (Business Taxation) and Malaysia's commitment to abolishing harmful tax practices. The FSIE Guidance explicitly identifies capital gains as a category of passive income which, if exempted without conditions, is harmful.

Our thoughts

Other countries such as Hong Kong which have also been identified as adopting similar tax practices have already sought to propose amendments to their legislation to bring its tax practices in line with the FSIE Guidance.

Under the current treatment of foreign sourced income in Malaysia, foreign-sourced income received in Malaysia by resident individuals is currently exempted from Malaysian income tax until 31 December 2025. More information relating to this proposal will be required to determine its impact on foreign-sourced income received in Malaysia by resident individuals and companies.

2.2. The implementation of e-invoicing

The Government intends to introduce e-invoicing with the intention of enhancing the efficiency of Malaysia's tax administration through digitalization and as part of the Twelfth Malaysia Plan to strengthen digital services infrastructure.

Based on guidelines issued by the Inland Revenue Board of Malaysia, e-invoicing was initially expected to be implemented in phases beginning from 1 June 2024. However, acknowledging the complexities faced by businesses in the implementation of e-invoicing, the Government has deferred the mandatory implementation timeline for taxpayers with an annual turnover or revenue exceeding RM 100 million from 1 June 2024 to 1 August 2024. The mandatory implementation of e-invoicing for all other taxpayers will be in phases, beginning 1 July 2025.

The changes to the timeline as proposed in the Budget are set out as follows:

Current Inland Revenue Board of Malaysia (IRB) Guideline		Proposal in Budget Speech 2024	
Category of taxpayer	**Implementation date**	**Category of taxpayer**	**Implementation date**
Taxpayers with an annual turnover or revenue of more than RM 100 million	1 June 2024	Taxpayers with an annual turnover or revenue of more than RM100 million	1 August 2024
Taxpayers with an annual turnover or revenue of more than RM 50 million and up to RM 100 million	1 January 2025	All other categories of taxpayers	Implementation in phases, beginning 1 July 2025
Taxpayers with an annual turnover or revenue of more than RM 25 million and up to RM 50 million	1 January 2026		
All taxpayers and certain non-business transactions	1 January 2027		

The usage of Tax Identification Numbers (**TIN**) will also be expanded to support the implementation of e-invoicing. The Government expects that the usage of TIN in e-invoicing will assist to widen the tax net and reduce revenue leakages.

Our thoughts

The delay of two months is a welcomed change that provides businesses much needed additional time to get their e-invoicing systems operational. Additionally, it is notable that the Budget proposes to introduce a tax deduction of up to RM50,000 for each year of assessment (**YA**) for Environmental, Social and Governance (**ESG**) related expenditure. The Budget has affirmed that expenditure related to e-invoicing implementation would be considered ESG related expenditure for the purposes of the tax deduction. The proposals surrounding this tax deduction are outlined in further detail below at heading 3.6.1.

Clarification is still required on the implementation timeline and phases for taxpayers which do not meet the RM100 million annual turnover or revenue threshold.

Further, taxpayers are still anticipating the Software Development Kit (**SDK**) announced in guidelines issued by the IRB which is to provide tools, libraries, and resources to aid in integration. The SDK is expected to be released in the fourth quarter of 2023.

2.3. BEPS 2.0: Pillar Two

Several countries are set to roll out Pillar Two of the Organisation for Economic Co-operation and Development's (**OECD**) Base Erosion and Profit Sharing 2.0 project, commonly referred to as the Global Minimum Tax (**GMT**) project, in either 2024 or 2025. The Government has reaffirmed its commitment to the implementation of the GMT in the Budget and has announced that the expected implementation date is to be shifted from the earlier announced timing of 2024 to 2025.

Further, the Government has also confirmed that it will continue to monitor the development of the global minimum tax at the international level.

For context, only multinational enterprise (**MNE**) groups with consolidated revenues exceeding €750 million in at least two out of four immediately preceding fiscal years would be in-scope and subject to the GMT rules.

Broadly, the GMT rules introduces new taxing rights over entities within in-scope MNE groups which are taxed below the globally agreed minimum tax rate of 15%. This is done primarily through the interaction of three mechanisms:

- Qualified Domestic Minimum Top-Up Tax (**QDMTT**) – Under the QDMTT, any top-up tax (due to a difference between the minimum tax rate of 15% and effective tax rate) in respect of profits earned by a local entity will be taxed in the local entity's jurisdiction.
- Income Inclusion Rule (**IIR**) – The IIR essentially provides taxing rights to the jurisdiction of the ultimate parent entity of an MNE Group to the extent that it has not been collected under QDMTT in the jurisdiction of a local entity.
- Under Taxed Profits Rule (**UTPR**) – The UTPR acts as a backstop rule to account for any residual top-up tax not accounted for under QDMTT and IIR.

Our thoughts

Affected MNE Groups should conduct a group-wide assessment to identify risk areas and the impact to operations and cash flow. In particular, MNE Groups enjoying tax incentives should seek to assess the potential impact of these rules on any current tax incentives enjoyed by their subsidiaries.

Further, as some countries will be adopting GMT in 2024, in-scope MNE Groups operating in Malaysia should consider if foreign parent entities are subject to GMT and if they will need to provide information for GMT calculations and consolidated information returns.

3. Incentives / Reliefs

3.1. Tax Incentive for Global Services Hub

The Global Services Hub tax incentive was introduced in the Budget as an outcome-based tax incentive offering companies that establish global service centers a reduced income tax rate of 5% or 10% on service and/or trading income for up to 10 years.

Applications for this incentive will be open from 14 October 2023 to 31 December 2027.

The incentive will apply to both new and existing companies undertaking certain qualifying activities centered around strategic services as follows:

	New Company		Existing Company	
	Tier 1	Tier 2	Tier 1	Tier 2
Exemption years	5+5		5	
Tax incentives	5% tax rate	10% tax rate	5% tax rate on value-added income	10% tax rate on value-added income
Types of income exempted	1. Service income; or 2. Services and trading income.			
Qualifying services	1. Regional P&L / Business Management Unit; 2. Strategic business planning; 3. Corporate development; AND 4. Any 2 qualifying activities under the services category as follows: a. Strategic services; b. Business services; c. Shared services; or d. Other services.			
Conditions (Outcome-based)	1. Annual operating expenditure; 2. High value full-time employees; 3. C-Suite with a minimum monthly salary of RM 35,000; 4. Local ancillary services; 5. Collaboration with higher education institution/TVET; 6. Training for Malaysian students/citizen; 7. ESG elements; or 8. Other conditions as determined by the Minister of Finance.			

Additionally, the proposal includes a preferential income tax rate of 15% for a period of 3 consecutive YAs for 3 non-citizen individuals holding key / C-Suite positions with a monthly salary of at least RM 35,000 appointed by a new company approved with the Global Services Hub tax incentive.

Our thoughts

The introduction of the Global Services Hub Tax incentive serves the purpose of maintaining Malaysia's competitiveness within the global services industry while positioning the country as a pivotal strategic service hub. This initiative is in line with the government's overarching agenda, as outlined in the Twelfth Malaysia Plan, where the global services sector has been designated as a Priority Sector.

By introducing this incentive, the government underscores its commitment to encouraging foreign direct investment and stimulating domestic investment. This approach is a repackaging of the previously established Principal Hub tax incentive, designed for locally incorporated companies utilizing Malaysia as a hub for conducting regional or global business operations.

Notably, the Global Services Hub tax Incentive is outcome-based rather than relying on fixed conditions. Outcome conditions have been reported by the OECD to be used in 75% of economies and typically require companies to achieve certain performance results to be eligible to benefits or continue benefitting from a tax incentive. Such conditions are also typically linked to the resulting characteristics of the investment project, rather than the characteristics of the qualifying investor.

3.2. Reinvestment Incentive under the New Industrial Master Plan 2030

Manufacturing and agricultural Malaysian resident companies which have been in business operations for at least 36 months that are undertaking expansion, diversification, automation and modernization projects are eligible for the Reinvestment Allowance.

The Reinvestment Allowance is given for a period of 15 consecutive YAs beginning from the year the first reinvestment is made and permits eligible companies to offset 60% of their qualifying capital expenditure against 70% of their statutory income.

In an effort to encourage existing companies that have exhausted their Reinvestment Allowance eligibility period and promote investment in high-value activities as outlined in the New Industrial Master Plan 2030, the Government has introduced a new Reinvestment Incentive under a 2-tier outcome-based approach as follows:

ITA	Tier 1	Tier 2
Qualifying Capital Expenditure	100%	60%
Statutory Income to be Set-Off	100%	70%

Our thoughts

The implementation of a tiered reinvestment allowance is a strategic move aimed at bolstering the contribution of the manufacturing and agricultural sectors to Malaysia's overall GDP. It encourages businesses to channel their resources into investments that yield higher value.

A critical question remains on the level of investment required for eligible companies to fall within Tier 1 and Tier 2 and we await further details which may be contained in the Finance Bill.

Nevertheless, the introduction of both the Global Services Hub tax incentive and Reinvestment Incentive as outcome-based incentives indicates a paradigm shift in the way incentives are structured such that investors enjoy incentives commensurate with their investment commitments to Malaysia.

3.3. Capital Allowance on Information and Communication Technology Equipment (**ICT**) and Computer Software

To provide companies with assistance in ensuring that they remain competitive and updated with technological advances, the Budget proposes to revise capital allowances for qualifying expenditure on ICT equipment and computer software.

Effective YA 2024, it is proposed that the initial allowance for ICT equipment and computer software be increased from 20% to 40% while annual allowances of 20% remain unchanged. The capital allowance claim period will also be shortened from 4 years to 3 years.

3.4. Tax Incentive for Automation in Manufacturing, Services & Agriculture Sectors

Presently, manufacturing, services and agricultural companies that have incurred capital expenditure for automation equipment and adaptation of Industry 4.0 elements are given a 100% Accelerated Capital Allowance (ACA) for the first RM 10 million of qualifying capital expenditure, coupled with a 100% income tax exemption for the same capital expenditure.

To enhance agricultural productivity and reduce reliance on foreign labour, the Budget proposed to extend this tax incentive to encompass the commodity sector under the purview of Ministry of Plantation and Commodities. Applications for this incentive are open from 14 October 2023 to 31 December 2027.

3.5. Incentive for Pengerang Integrated Petroleum Complex

A proposal is set forth to establish a tax incentive framework aimed at transforming the Pengerang Integrated Petroleum Complex (**PIPC**) into a hub for the development of chemical and petrochemical sectors. The tax incentives will be comprised of two distinct components:

1. Tax incentives for Chemical and Petrochemical Product Manufacturers

Companies engaged in the manufacturing of chemical and petrochemical products, that hold a minimum investment of RM 500 million, will be eligible for either:

- A tax incentive at the rate of 5% or 10% on income generated from their chemical and petrochemical manufacturing activities for a period of up to 10 years.
- A 100% Investment Tax Allowance for a duration of up to 10 years that can be set-off against 70% of statutory income for each YA.

2. Tax incentives for Industrial Area Developers within PIPC

Industrial Zone Developers within the PIPC may qualify for a tax rate of 10% on the sale or lease of land or buildings for eligible projects for a period of 10 years.

3.6. Environmental-Related Incentives

3.6.1. Tax Deduction for Environmental, Social and Governance Expenditures

A new proposal, effective from YA 2024 to YA 2027, advocates for tax deductions of up to RM 50,000 to be granted for each YA, encompassing specific expenses related to ESG initiatives. This measure aims to stimulate more corporate participation with ESG standards and enhance the governance of the tax administration system.

ESG Related Expenditure	Description
Enhance Sustainability Reporting Framework	ESG reporting by companies listed on the Bursa Malaysia stock exchange
Climate Risk Management and Scenario Analysis	ESG reporting by financial institutions regulated by the Bank Negara Malaysia
Tax Corporate Governance Framework (**TCGF**) of IRB	Preparation of reports related to TCGF by companies
Transfer Pricing Documentation	Preparation of transfer pricing documentation by companies
E-invoicing implementation	Consultation fee for implementing e-invoicing incurred by Micro, Small and Medium Enterprises
Any reporting requirement related to ESG	ESG reporting by companies to approved regulator by the Ministry of Finance

3.6.2. Review of Green Technology Tax Incentive

In line with Malaysia's aspiration to be an inclusive, sustainable and carbon neutral nation by 2050, the Budget proposes to revise the Green Technology tax incentive as follows:

<table>
<tr><th colspan="4">Green Investment Tax Allowance (GITA) Project (Business Purposes)
(Effective date: For applications received between 1 January 2024 until 31 December 2026)</th></tr>
<tr><th>Qualifying Activities</th><th>% GITA</th><th>% of Statutory Income to be Set-Off</th><th>Incentive Period</th></tr>
<tr><td>Tier 1
1. Green hydrogen</td><td rowspan="3">100%</td><td>100% or 70%</td><td>Up to 10 years (5+5)</td></tr>
<tr><td>Tier 2
1. Integrated waste management
2. Electric vehicle charging station</td><td>100%</td><td>5 years</td></tr>
<tr><td>Tier 3
1. Biomass
2. Biogas
3. Mini hydro
4. Geo thermal
5. Solar
6. Wind energy</td><td>70%</td><td>5 years</td></tr>
</table>

GITA Asset (Own Consumption) **(Effective Date: Verified qualifying capital expenditure for the purchase of green technology assets between 1 January 2024 to 31 December 2026)**			
Qualifying Activities	**% GITA**	**% of Statutory Income to be Set-Off**	**Incentive Period**
Tier 1 1. List of qualifying assets approved by Minister of Finance 2. Battery Energy Storage System 3. Green building	100%	70%	Qualifying capital expenditure incurred from 1 January 2024 to 31 December 2026
Tier 2 1. List of qualifying assets approved by Minister of Finance 2. Renewable Energy System 3. Energy efficiency	60%	70%	

Green Investment Tax Exemption (GITE) Solar Leasing **(Effective Date: For applications received between 1 January 2024 to 31 December 2026)**		
Tier	**Tax Exemption on Statutory Income**	**Incentive Period**
>3MW - ≤10MW	70%	5 years
>10MW - ≤30MW		10 years

3.6.3. Tax Deduction for Voluntary Carbon Market

The Budget proposed a further tax deduction, amounting to a maximum of RM 300,000 to be extended to companies for expenditures associated with the development and measurement, reporting and verification relating to the advancement of carbon projects. This tax relief would be deductible from carbon credit income traded on the Bursa Credit Exchange. The proposal is in line with the Government's aspiration of transforming into a carbon-neutral nation by 2050.

To qualify, the carbon project development must undergo registration with an international standards body recognized by Bursa Malaysia. Additionally, expenditure relating to the carbon project development must be certified by the Malaysia Green Technology and Climate Change Corporation (**MGTC**). Applications for the tax deduction should be submitted to MGTC from 1 January 2024 until 31 December 2026.

3.7. Islamic Financing Related Incentives

3.7.1. Income Tax Exemption for Islamic Financial Activities under Labuan International Business and Financial Centre (IBFC)

Presently, Labuan entities that engage in Labuan trading activities such as amongst others, banking, insurance, trading, management, licensing, and shipping operations are subject to a fixed tax rate of 3% on chargeable profits. Conversely, Labuan entities involved in non-trading activities, such as investment holding and pure equity holding activities, enjoy an exemption from tax pursuant to Labuan Business Activity Tax Act 1990.

To qualify for these preferential tax rates, Labuan entities must also satisfy prescribed substance requirements which vary depending on the type of Labuan business activity undertaken by the entity, including maintaining an adequate number of full-time employees in Labuan and incurring a minimum amount of annual operating expenditure in Labuan.

Under the Budget, it is proposed that an income tax exemption for a duration of 5 years be provided to Labuan entities actively engaged in Islamic financial-related trading activities, including Islamic digital banking, Islamic digital bourses, *ummah*-related companies and Islamic digital token issuers. This proposed measure will come into effect from YA 2024 to YA 2028.

3.7.2. Income Tax Exemption on Income Derived from Selling and Buying of Islamic Securities

The Government proposes to grant a tax exemption on income derived from selling and buying of Islamic securities, effective from YA 2024. This measure aims to stimulate the trading of securities and liquidity of the Shariah-compliant stock market.

3.7.3. Income Tax Exemption for Sustainable and Responsible Investments (SRI) Sukuk Grant and Bonds

Under the SRI Sukuk Grant and Bond Grand Scheme, Green SRI Sukuk issuers may be granted a maximum of RM300,000 to finance external review expenses. Presently, recipients of the SRI Sukuk Grant and Bond Grant Scheme are exempted on the grant from 1 January 2018 to 31 December 2025.

To further incentivise the issuance of SRI sukuk and bonds that fulfil green, social and sustainable standards in Malaysia, it is proposed that the scope of the income tax exemption be expanded to include SRI-Linked Sukuk Grants and Bonds issued under the ASEAN Sustainability-Linked Bond Standards approved by the Securities Commission.

Applications for this incentive will be open from 1 January 2024 to 31 December 2025.

3.7.4. Review of Income Tax Exemptions on Shariah-Compliant Fund Management Services

Presently, a 100% tax exemption is given on statutory income derived from the business of providing Shariah compliant fund management services to local investors, foreign investors, business trust investors and Real Estate Investment Trusts (**REITs**) in Malaysia.

The Government proposes to extend the income tax exemption for an additional 4-year period, commencing from YA 2024 to YA 2027, with a revised tax exemption rate of 60%.

3.8. Tax Incentive Extensions

The following tax incentives have been extended:

Tax Incentive	Period of Extension
Tax Exemption on SRI Fund Management Services Companies providing SRI fund management services are given tax exemption on management fees income for managing SRI funds.	Extended for 4 years from YA 2024 to YA 2027.
Tax Deduction on SRI Sukuk Issuance Tax deduction is given on the issuance cost of SRI Sukuk approved, authorised or lodged with the Securities Commission.	Extended for 4 years from YA 2024 to YA 2027.
Tax Exemption for Social Enterprises All income of an accredited Social Enterprise is eligible for income tax exemption.	Application period for tax exemption to be extended for 2 years from 1 January 2024 to 31 December 2025.
Tax Exemption for Angel Investor Angel investors investing in a tech start-up in the form of ordinary shares are eligible for tax exemption at the aggregate income level.	Extended for 3 years for investments from 1 January 2024 to 31 December 2026.
Tax Deduction for Rental of Electric Vehicles (**EV**) Companies that rent non-commercial EVs are given tax deduction on rental amounts up to RM 300,000.	Extended for 2 years up until YA 2027.

4. Indirect Tax

4.1. Increase in Service Tax Rate and Expansion to the Scope of Prescribed Services for Service Tax

The Budget proposed a general increase in the service tax rate from 6% to 8%. However, certain essential services such as food and beverages, telecommunications, parking and logistics will continue to be subject to service tax at the rate of 6%.

Further adjustments to the service tax framework have also been proposed through the expansion of the scope of taxable services to include logistics, brokerage, underwriting and karaoke services. This expansion, along with the heightened service tax rate, indicates a determined effort by the Government to boost tax revenues.

Our thoughts
Under the Service Tax Regulations 2018, a person is liable to be registered for service tax only if the total value of their taxable services exceeds or is expected to exceed a prescribed threshold over a 12-month period. Clarification will be needed on the prescribed registration threshold for the new taxable services (e.g., logistics, brokerage, underwriting and karaoke) as well as further details as to what such services would encompass. Companies affected by the increase in service tax rate should conduct an assessment to determine the impact of the rate increase on business costs for budgeting purposes. Further, companies which provide the newly taxable services should consider whether the services come within the service tax scope and making preparations to ensure that it has the relevant systems in place to charge service tax and comply with corresponding invoicing obligations.

4.2. Imposition of High Value Goods Tax (**HVGT**)

In the re-tabled Budget 2023, the Government announced that it was considering implementing a Luxury Goods Tax targeting items such as luxury watches and fashion products.

Further details have been announced in the Budget, where the tax is termed as "High Value Goods Tax".

The HVGT rates range between 5% to 10% on certain high value items such as jewelry and watches based on a threshold value of the goods. The HVGT will be effective from 1 May 2024 onwards.

To promote tourism, foreign tourists will be exempted from HVGT and a refund facility will be provided for foreign tourists.

Our thoughts

A key consideration that remains unanswered is the precise scope of HVGT. The Government will need to clarify the threshold, the types of goods which will be within the scope of HVGT, and who will be responsible for charging and paying HVGT.

A potential approach the Government may adopt is a positive list identifying in-scope goods through the use of specific tariff codes but even this approach may result in issues with classification.

It remains to be seen how effective of a tool HVGT will be in generating revenue and will largely be dependent on the categories of goods in scope. The tax may also be seen as unreliable given the reliance on consumers' personal choices and may encourage domestic consumers to purchase luxury goods abroad where similar taxes do not apply.

The exemption for foreign tourists is a necessary measure in ensuring Malaysia's attractiveness as a tourist destination and more guidance will be required in relation to the refund mechanism afforded to foreign tourists.

4.3. Import Duty and Sales Tax Exemption on Manufacturing Aids

Manufacturing aids refer to goods used in the manufacturing process to accelerate, improve, complement and complete the manufacturing process of finished goods, but are not part of the final product itself.

Presently under the Customs Act 1967 and Sales Tax Act 2018, manufacturers are not entitled to import duty or sales tax exemptions on the importation or local purchase of manufacturing aids.

Recognising the need to boost the competitiveness of the manufacturing sector, eligible manufacturers will be granted exemptions from import duties and sales tax on manufacturing aids effective from 1 January 2024. However, these exemptions will depend on the specific industry and the category of goods. No further guidance has been released at this juncture on the specific industries and category of goods eligible for this exemption.

4.4. Entertainment Duty Exemption in Federal Territories

At present, a 25% entertainment duty is charged on admission fees for various forms of entertainment, including theme parks, stage performances, sports events and competitions as well as film screenings in cinemas.

To support the national creative industry's development, foster cultural unity and strengthen family bonding, the Government has proposed to reduce/waive the entertainment duty for certain entertainment types in the Federal Territories. Applications for this exemption may be submitted to the Ministry of Finance from 1 January 2024 to 31 December 2028.

The reduced/waived entertainment duty rates under this exemption are as follows:

<table>
<tr><th rowspan="2">Type of Entertainments</th><th colspan="2">Entertainment Duty Rate</th></tr>
<tr><th>Current</th><th>After Exemption</th></tr>
<tr><td>Stage performance by international artist / light show / circus</td><td rowspan="6">25%</td><td rowspan="4">10%</td></tr>
<tr><td>Film screening (cinema) / theatre</td></tr>
<tr><td>Exhibition / zoo / aquarium</td></tr>
<tr><td>Sports event / E-sports / bowling / snooker / pool / billiard / karaoke</td></tr>
<tr><td>Theme park / family recreation centre / indoor games centre / simulator</td><td>5%</td></tr>
<tr><td>Stage performance by local artist</td><td>0%</td></tr>
</table>

4.5. Review of Excise Duty Rate on Sugar Sweetened Beverages

In line with the efforts to improve the health and well-being of the people, the Government plans to raise the excise duty on specific sugar sweetened beverages. The proposed rate is an increase from RM 0.40 to RM 0.50 per litre.

Sugar sweetened beverages are beverages matching the following tariff code descriptions which exceed the stated sugar content thresholds.

<table>
<tr><th>Tariff Code</th><th>Types of Beverage</th><th>Sugar Content Threshold</th></tr>
<tr><td rowspan="2">22.02</td><td>Beverages including carbonated drink containing added sugar or other sweetening matter or flavoured and other non-alcoholic beverages.</td><td>> 5g/100ml</td></tr>
<tr><td>Flavoured milk-based beverages containing lactose</td><td>> 7g/100ml</td></tr>
<tr><td>20.09</td><td>Fruit juices and vegetable juices whether or not containing added sugar or other sweetening matter</td><td>> 12g/100ml</td></tr>
</table>

4.6. Non-Implementation of Goods and Services Tax (**GST**)

In April 2015, GST was first introduced in Malaysia at a rate of 6%, aiming to create a more efficient, effective, transparent and business-friendly tax system. However, by 2018, the GST was replaced with the Sales and Services Tax (**SST**) to alleviate tax pressures on Malaysians. Since then, there have been suggestions that the Government is considering the re-introduction of GST, given its wider scope and higher potential of boosting government revenue compared to SST.

The Budget has not sought to reintroduce GST and the focus has instead shifted towards raising the rate of service tax and expanding its coverage to boost tax collections.

5. Stamp Duty

5.1. Review of Stamp Duty for Transfer of Property Ownership By Renunciation of Rights

Presently, when a property is transferred through inheritance, either through a will, *faraid* or Distribution Act 1958 (**DA**), a fixed stamp duty of RM 10 applies for a transfer from the administrator to an eligible beneficiary, in accordance with Item 32(i) of the First Schedule to the Stamp Act 1949 (**SA**).

However, if an eligible beneficiary renunciates his or her rights to another eligible beneficiary or non-beneficiary, ad valorem duty will be imposed under Item 66(c) of the First Schedule to the SA.

It is proposed that an eligible beneficiary who renunciates his or her right to another eligible beneficiary in accordance with a will or *faraid* or the DA will be charged stamp duty at the fixed rate of RM 10. This proposal is to apply to instruments transferring property ownership executed from 1 January 2024 onwards.

Type of Matter	**Stamp Duty Rate**	
	Current Stamp Duty Rate	**Proposed Stamp Duty Rate** (1 Jan 2024 onwards)
Transfer of property ownership – renunciation of rights to another eligible beneficiary	*Ad valorem* stamp duty of 1 % to 4%	Fixed duty of RM10

5.2. Review of Stamp Duty for Property Ownership by Non-Citizen

At present, both foreign-owned companies and non-citizen individuals can buy properties in Malaysia and are charged the same ad valorem stamp duty rate on instrument of transfer as imposed on Malaysian citizens.

To better regulate property prices, the Government intends to implement a flat rate stamp duty of 4% on instruments of transfer executed by foreign-owned companies and non-citizen individuals (except Malaysian permanent residents) from 1 January 2024 onwards. This represents an increase in stamp duty costs for foreign-owned companies when transferring real property in Malaysia.

Sales Price / Market Value of Property (whichever is higher)	**Stamp Duty Rate**	
	Current Stamp Duty Rate	**Proposed Stamp Duty Rate** (1 Jan 2024 onwards)
First RM100,000	1%	4%
RM 100,001 to RM 500,000	2%	
RM 500,001 to RM 1,000,000	3%	
RM 1,000,001 and above	4%	

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