A3 INCOME TAX – CHANGES AFFECTING COMPANIES AND UNINCORPORATED BUSINESS

A3.1 REVIEW OF EXEMPTION FOR SUBMISSION OF ESTIMATE OF TAX PAYABLE AND SPECIAL ALLOWANCES FOR SMALL VALUE ASSETS

Existing Legislation

Presently, a company resident and incorporated in Malaysia with paid-up capital in respect of ordinary shares of RM2.5 million or less at the beginning of the basis period for a year of assessment first commences operations in a year of assessment is not required to furnish an estimate of tax payable for a period of two years of assessment beginning from the year of assessment in which the company commences operation.

In addition, a company resident and incorporated in Malaysia with paid-up capital in respect of ordinary shares of RM2.5 million or less at the beginning of the basis period for a year of assessment and having annual gross business income not exceeding RM50 million for the basis period for that year of assessment is eligible for special capital allowance claim of 100% on assets valued not exceeding RM2,000 each without capped at RM20,000.

The above exemption would not be applicable if more than:

(a) 50% of the paid-up capital in respect of ordinary shares of the company is directly or indirectly owned by a related company;

(b) 50% of the paid-up capital in respect of ordinary shares of the related company is directly or indirectly owned by the first mentioned company; or

(c) 50% of the paid-up capital in respect of ordinary shares of the first mentioned company and the related company is directly or indirectly owned by another company.

"Related company" means a company which has a paid-up capital in respect of ordinary shares of more than RM2.5 million at the beginning of the basis period for a year of assessment.

Proposed Legislation

It is proposed that the above:

(a) Exemption for submission of estimate for tax payable shall not be applicable;

(b) Limitation for total special allowance claim of RM20,000 shall be applicable;

to a company resident and incorporated in Malaysia with paid-up capital in respect of ordinary shares of RM2.5 million or less at the beginning of the basis period for a year of assessment if more than 20% of the paid-up capital in respect of ordinary shares of the company at the beginning of the basis period for a year of assessment is directly or indirectly owned by one or more companies incorporated outside Malaysia or by one or more individuals who are not citizens of Malaysia.

Reference

Section 107C(4B)(d) of the Income Tax Act 1967.

Schedule 3, Paragraph 19A(4)(d) of the Income Tax Act 1967.

Effective Date

Year of assessment 2024 onwards.

Likely Tax Effects and Implications

This proposal aims to streamline the condition imposed on a company which is a micro, small and medium enterprise (MSME) earlier to enjoy preferential income tax rate. In the same vein, a company with less than 20% foreign shareholding shall continue to be entitled to the exemption for submission of estimate of tax payable for a period of two years of assessment beginning from the year of assessment in which the company commences operation and special allowance claim without RM20,000 restriction.

A3.2 AMENDMENT OF DEFINITION OF FOREIGN TAX UNDER SECTION 2 AND FOREIGN INCOME UNDER SCHEDULE 7 OF THE INCOME TAX ACT 1967

Existing Legislation

Presently, “foreign tax” as defined under Section 2(1) of the Income Tax Act 1967 means any tax on income (or any other tax of a substantially similar character) chargeable or imposed by or under the laws of a territory outside Malaysia and in relation to Paragraph 132(4)(d) or Section 132A of the Income Tax Act 1967 includes other taxes of every kind imposed by or under the laws of that territory.

“Foreign income” as defined under Paragraph 16, Schedule 7 of the Income Tax Act 1967 means income derived from outside Malaysia or in the case of bilateral credit, includes income derived from Malaysia charged to foreign tax.

Proposed Legislation

It is proposed that the definition of “foreign tax” be amended as any tax on income (or any other tax of a substantially similar character) chargeable or imposed by or under the laws of a territory outside Malaysia in which the same income arose.

In addition, it is proposed that “foreign income” be amended as follows:

> “foreign income” means, in relation to –
>
> (a) unilateral credit, income derived from outside Malaysia charged to foreign tax;
>
> (b) bilateral credit, income derived from outside Malaysia and from Malaysia, charged to foreign tax.

Reference

Section 2(1) and Paragraph 16, Schedule 7 of the Income Tax Act 1967.

Effective Date

Year of assessment 2024 onwards.

Likely Tax Effects and Implications

The proposal aims to provide clarity on the meanings “foreign tax” and “foreign income” for the purpose of claiming unilateral and bilateral reliefs.

A3.3 IMPLEMENTATION OF ELECTRONIC INVOICING SYSTEM

Existing Legislation

Presently, there is no requirement or legislation for businesses to adopt electronic invoicing.

Proposed Legislation

It is proposed that the requirement for businesses to adopt electronic invoicing be legislated in the Income Tax Act 1967. A summary of the salient points of the proposed provisions are set out below:

1. Definition of Electronic Invoice

"Electronic invoice" means an invoice or any document approved by the Director General, issued by a person in respect of goods sold or services performed.

2. Duty to Issue Electronic Invoice

(a) An electronic invoice must be issued for each transaction in respect of any goods sold or services performed, and it shall be transmitted electronically to and validated by the Director General.

(b) The Minister is empowered to prescribe the persons who shall issue the electronic invoice and the particulars to be included in the electronic invoice.

(c) The conditions and specifications under which an electronic invoice is to be issued shall be as determined by the Director General via issuance of guidelines.

(d) Subject to the conditions as may be determined by the Director General, where a person acquires any goods sold or enjoys any services performed, the person shall issue a self-billed invoice in accordance with the conditions as may be imposed by the Director General and such self-billed invoice shall be treated as an electronic invoice.

(e) The Director General may determine a person to consolidate the number of transactions in respect of any goods sold or services performed into a consolidated transaction invoice and such consolidated transaction invoice shall be treated as an electronic invoice. The person is required to transmit the consolidated transaction invoice to the Director General within a specified time and in accordance with the conditions as determined by the Director General.

(f) Where a person makes an error or mistake in respect of any electronic invoice issued, the person may issue a substitute electronic invoice within three days from the date of issuance of the defective electronic invoice to rectify the mistake or error.

(g) Where any goods sold or services performed by a person involves the issuance of credit note or debit note, the person issuing the credit note or debit note shall make adjustments in ascertaining his chargeable income accordingly.

(h) The provisions of the Personal Data Protection Act 2010 shall not apply to any personal data processed for electronic invoice issued or transmitted to the Director General under the Income Tax Act 1967.

3. Duty to Issue Receipts

a) A person who has issued electronic invoices in respect of goods sold or services performed is not required to issue receipts to buyers.

b) A person who is required to submit a consolidated transaction invoice to the Director General should issue a printed receipt for every sum received in respect of goods sold or services performed.

4. Access to Electronic Invoice Information

The Director General of Customs and Excise or the public officers under his direction and control are given access to electronic invoice information in the performance of their functions.

5. Offences

Where a person fails to issue electronic invoice for each transaction in respect of any goods sold or services performed in a year of assessment (including self-billed invoice and consolidated transaction invoice), the person shall, on conviction, be liable to a fine of not less than RM200 and not more than RM20,000 or to imprisonment for a term not exceeding 6 months or both.

Reference

Section 2 of the Income Tax Act 1967.

Sections 82(2A) and 82(2B) of the Income Tax Act 1967.

New Section 82C of the Income Tax Act 1967.

Section 120(1) of the Income Tax Act 196.7

Section 138 of the Income Tax Act 1967.

Effective Date

Upon the coming into operation of the Finance (No. 2) Act 2023. However, based on e-Invoice Guideline dated 28 October 2023 issued by the Inland Revenue Board, the mandatory implementation date will be in phases as follows:

Category of Taxpayers	Implementation Date
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 RM25 million and up to RM100 million	1 January 2025
All taxpayers	1 July 2025

Likely Tax Effects and Implications

The e-invoicing implementation provides a more reliable audit trail, resulting in increased tax transparency and is viewed as one of the primary strategies to broaden the collection of income taxes and further digitalisation of the tax administration in Malaysia in ensuring a sustainable source of revenue for the Government.

REVIEW OF SUBMISSION OF FORMS E, CP21, CP22, CP22A AND CP22B ELECTRONICALLY

Existing Legislation

Presently, pursuant to Section 83(1B) of the Income Tax Act 1967, where the employer is a company, limited liability partnership, trust body or co-operative society, the Employer's Return (Form E) must be submitted on an electronic medium or by way of electronic transmission in accordance with Section 152A of the Income Tax Act 1967.

Proposed Legislation

It is proposed that Section 83(1B) be deleted and a new Section 83(4A) of the Income Tax Act 1967 will be introduced. Under the new provision, it will be mandatory for every employer to submit the following

prescribed forms on an electronic medium or by way of electronic transmission in accordance with Section 152A of the Income Tax Act 1967:

Prescribe forms	Descriptions	Provisions
Form E	Employer's Return	Section 83(1) of the Income Tax Act 1967
Form CP21	Notification of employee leaving Malaysia for more than 3 months	Section 83(4) of the Income Tax Act 1967
Form CP22	Notification of new employee	Section 83(2) of the Income Tax Act 1967
Form CP22A	Notification of cessation of employment or cessation by reason of death for an employee in private sector	Section 83(3) of the Income Tax Act 1967
Form CP22B	Notification of cessation of employment or cessation by reason of death for an employee in public sector	Section 83(3) of the Income Tax Act 1967

Reference

New Section 83(4A) of the Income Tax Act 1967.

Effective Date

Year ending 31 December 2023 and subsequent years – Section 83(1) of the Income Tax Act 1967.
1 January 2024 – Sections 83(2), 83(3) and 83(4) of the Income Tax Act 1967.

Likely Tax Effects and Implications

This new provision is in line with the HASiL's system transformation, digitisation of the tax service, the commitment to improve customer service and promotion of digital services. The implementation of the mandatory use of e-Services is aimed to provide easy, secure and fast access to taxpayers in carrying out their affairs without having to attend HASiL's office; increase the level of efficiency of HASiL's service to taxpayers. As such, it will now be mandatory for every employer to submit the prescribed forms (Forms E, CP21, CP22, CP22A and CP22B) via e-filing.

A3.5 AMENDING EXEMPTION CONDITIONS FOR SUBMISSION OF FORMS CP22A AND CP22B

Existing Legislation

Presently, pursuant to Section 83(3) of the Income Tax Act 1967, where an employer is about to cease to employ an employee who is or is likely to be chargeable to tax in respect of gains or profits from employment, or on the death of an employee, a prescribed form (Form CP22A for the private sector or Form CP22B for the public sector) has to be submitted to the Director General not less than 30 days before the cessation of the employment or after being informed of the death of the employee. Nevertheless, an employer is relieved from the above requirement in respect of an employee whom the employer knows is not retiring from any employment, and where the following conditions are met:

- where the income of the employee is subject to deduction under any rules made pursuant to Section 154(1)(a) of the Income Tax Act 1967; or
- where the total monthly remuneration of the employee is below the minimum amount of income that is subject to the deduction.

Proposed Legislation

It is proposed that the requirement that the employer knows that the employee is not retiring from any employment be deleted.

Reference

Section 83(3) of the Income Tax Act 1967.

Effective Date

1 January 2024.

Likely Tax Effects and Implications

The deletion of the above exemption condition is aimed to reduce the scope of compliance by employers. Employers will no longer be required to submit Forms CP22A or CP22B to notify the Director General of a cessation of employment or a death of an employee as long as the above conditions are met, and the employers will not be required to know that the employee is not retiring from the employment.

A3.6 REVIEW OF CAPITAL ALLOWANCE ON INFORMATION AND COMMUNICATION TECHNOLOGY (ICT) EQUIPMENT AND COMPUTER SOFTWARE

Existing Legislation

Presently, Accelerated Capital Allowance (ACA) with an initial allowance (IA) of 20% and annual allowance (AA) of 20% is given on the following qualifying expenditure incurred by a resident person:

(a) Purchase of ICT equipment and computer software packages

(b) Consultation, licensing and incidental fees related to the development of customised computer software

Proposed Legislation

It is proposed that the rate for the IA be revised from 20% to 40% in respect of the qualifying expenditure mentioned in (a) and (b) above.

Reference

To be gazetted by way of statutory order.

Effective Date

Year of assessment 2024 onwards.

Likely Tax Effects and Implications

The proposed increase in the rate of the IA from 20% to 40% for the qualifying expenditure on the purchase of ICT equipment and computer software packages (including the customised computer software) will accelerate the claim for capital allowances in which the capital allowances on the qualifying expenditure will be fully claimed within 3 years of assessment instead of 4 years of assessment. This proposal is in line with the Government initiatives to stimulate and expedite capital investment in technology-related assets by private sector.

A3.7 THIRD REVISION TO ESTIMATE OF TAX PAYABLE UNDER INSTALMENT PAYMENT SCHEME

Existing Legislation

Presently, a company, limited liability partnership, trust body or co-operative society may apply to revise the instalment payments in the 6th month or the 9th month, or in both months of the basis period for a year of assessment.

Proposed Legislation

It is proposed that a company, limited liability partnership, trust body or co-operative society may apply to revise the instalment payments in the 6th month, the 9th month or the 11th month, or in all 3 months of the basis period for a year of assessment.

However, the abovementioned revisions to the estimate of tax payable do not apply to gains or profits from the disposal of a capital asset which is subject to income tax with effect from 1 January 2024.

Reference

Section 107C(7) and 107C(11C) of the Income Tax Act 1967.

Effective Date

Year of assessment 2024 onwards.

Likely Tax Effects and Implications

This proposal grants a company, limited liability partnership, trust body or co-operative society an additional option to revise their estimate of tax payable in order to make a more accurate estimate for a particular year of assessment.

A3.8 REVIEW OF CONDITIONS FOR INSTITUTIONS/ORGANISATIONS/FUNDS APPROVED UNDER SUBSECTION 44(6) OF THE INCOME TAX ACT 1967

Existing Legislation

Presently, Schedule 6 Paragraph 13(1)(a) of the Income Tax Act 1967 provides that income of institutions/organisations/funds approved for the purposes of Section 44(6) of the Income Tax Act 1967 is exempted from income tax so long as the approval remains in force.

Institutions/organisations/funds must comply to various conditions as stated under the Guidelines for Application of Approval under Section 44(6) of the Income Tax Act 1967 to continue enjoying the above income tax exemption. On the other hand, donors are eligible for a tax deduction (restricted to 10% of the aggregate income) on the donation made to the approved institutions/organisations/funds.

Amongst the approval conditions that must be complied by the institutions/organisations/funds after obtaining approval under Section 44(6) of the Income Tax Act 1967 are that at least 50% of the income earned in the previous year must be spent in the following year for activities to achieve the objectives of the institutions/organisations/funds; and that the institutions/organisations/funds are allowed to participate in business on the basis that not more than 25% of the accumulated funds are utilised on the first day of the year of assessment, as stated under Section 44(7A) of the Income Tax Act 1967. Thereafter, all income generated must be rechanneled into the fund to be used to fulfill its charitable objectives.

The Director General of Inland Revenue (DGIR) may withdraw the approval under Section 44(6) of the Income Tax Act 1967 in the event where the institutions/organisations/funds breach any of the approval conditions as stated in the said guidelines or legislation.

Proposed Legislation

It is proposed that the approval conditions be reviewed as follows:

(i) The accumulated funds utilisation limit of not more than 25% for participation in business activities be increased up to 35%;

(ii) Institutions/organisations/funds may choose any of the following options to continue receiving the Section 44(6) incentive benefits:

Option	Utilisation of Accumulated Funds	Threshold of Charitable Activity Expenditure
1	Up to 25%	At least 50%
2	> 25% and up to 35%	At least 60%

(iii) Approval conditions have been set out in the guidelines and DGIR approval letters to institutions/organisations/funds. In the event any of the conditions are breached, the DGIR will not withdraw the approval under Section 44(6) for institutions/organisations/funds during the validity period. The approval status is upheld to ensure that the donors remain eligible for tax deductions on contributions made to institutions/organisations/funds throughout the approval period; and

(iv) For any breach of conditions within the approval period, the institutions/organisations/funds will not be eligible for tax exemption and the DGIR will raise assessment on all income received by the institutions/organisations/funds in the year of assessment the breach of conditions occured.

Reference

Sections 44(6), 44(7), 44(7A) and Schedule 6 Paragraph 13(1)(a) of the Income Tax Act 1967.

Effective Date

From year of assessment 2024.

Likely Tax Effects and Implications

This proposal aims to enhance tax compliance among institutions/organisations/funds approved under Section 44(6) of the Income Tax Act 1967. The review of the approval conditions gives the institutions/organisations/funds to increase the utilisation of accumulated funds up to 35% for participation in business activities enabling higher returns, however, on the premise that 60% (instead of the existing 50%) of income earned in the previous year is expended for charitable purposes in the basis period for a year of assessment. This tax measure may help to ensure that the income of the approved institutions/organisations/funds continues to be sustainable.

A3.9 REVIEW OF INCOME TAX EXEMPTION ON SHARIAH-COMPLIANT FUND MANAGEMENT SERVICES

Existing Legislation

Presently, Shariah-compliant fund management service companies approved by the Securities Commission Malaysia are given 100% tax exemption on statutory income from fund management services as follows:

Investor category	Year of assessment
Foreign investors in Malaysia	2007 to 2023
Local investors	2008 to 2023
Business Trust investors or Real Estate Investment Trusts (REITs) investors in Malaysia	2014 to 2023

Proposed Legislation

It is proposed that the above exemption be extended for another 4 years from year of assessment 2024 to year of assessment 2027 but the exemption is limited to 60% of statutory income.

Reference

To be gazetted by way of statutory order.

Effective Date

Years of assessment 2024 to 2027.

Likely Tax Effects and Implications

This proposal is in line with the Government's effort to further support the growth of Shariah-compliant fund management services.

REVIEW OF SCOPE OF DEDUCTION FOR DONATIONS MADE TO APPROVED INSTITUTIONS, ORGANISATIONS OR FUNDS

Existing Legislation

Presently, a tax deduction of up to 10% of aggregate income of a person is given on cash donation made by the person to institutions, organisations or funds approved for the purpose of Section 44(6) of the Income Tax Act 1967.

Proposed Legislation

It is proposed that the scope of deduction under Section 44(6) of the Income Tax Act 1967 be expanded to include donations made to approved institutions, organisations or funds which support sports education programmes in collaboration with the Malaysian Ministry of Education.

Reference

Section 44(6) of the Income Tax Act 1967.

Effective Date

Year of assessment 2024 onwards.

Likely Tax Effects and Implications

This proposal aims to encourage individuals and companies to donate to institutions, organisations or funds involved in sports education programs to cultivate a well-informed, proficient, and sports talented future generation.

This will also encourage educational institutions to identify young athletes with potential, providing them with the best training environment as well as good educational opportunities to excel at the national or international level.

A3.11 EXTENSION OF TAX DEDUCTION FOR RENTAL OF NON-COMMERCIAL ELECTRIC VEHICLE

Existing Legislation

Presently, companies renting a motor vehicle, other than a motor vehicle licensed by the appropriate authority for commercial transportation of goods or passengers, i.e. non-commercial motor vehicles, are restricted to the amount of tax deduction under Section 39(1)(k) of the Income Tax Act 1967. Depending on the cost of the vehicle when new, the maximum amounts deductible are as follows:

Cost of vehicle when new	Maximum rental amount allowable
Not exceeding RM150,000	RM100,000
RM150,001 and above	RM50,000

The above tax treatment which is effective since year of assessment 2002 is also applicable to renting of non-commercial electric vehicles (EV).

It has been proposed in 2023 Budget Proposal that rental expenses incurred for non-commercial EV, the maximum rental amount allowable for tax deduction is restricted to RM300,000 effective from the years of assessment 2023 to 2025.

Proposed Legislation

It is proposed that the above tax deduction be extended for another 2 years until the year of assessment 2027.

Reference

To be gazetted by way of statutory order.

Effective Date

Years of assessment 2023 to 2027.

Likely Tax Effects and Implications

This proposal aims to encourage the use of low-carbon vehicles such as EVs and to support green mobility ecosystem in line with the National Energy Transition Roadmap.

A3.12 EXTENSION OF INCOME TAX EXEMPTION FOR SOCIAL ENTERPRISE

Existing Legislation

Income tax exemption is given on all income of Social Enterprises for up to 3 years of assessment based on the validity period of the Social Enterprise Accreditation by the Ministry of Entrepreneur Development and Cooperatives. The exemption is for applications received by the Ministry of Finance from 1 January 2022 until 31 December 2023.

Proposed Legislation

It is proposed that the application period for tax exemption on all income of Social Enterprises be extended for 2 years.

Reference

To be gazetted by way of statutory order.

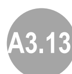
Effective Date

For applications received by the Ministry of Finance from 1 January 2024 until 31 December 2025.

Likely Tax Effects and Implications

A social enterprise is a business that operates with the primary goal of addressing social or environmental issues while generating revenue to fund its own activities. To encourage and support social enterprises which contribute to positive social and environmental outcomes, the Government has been providing financial assistance in the form of tax exemption on all their income since 1 January 2022 with a view to alleviate the tax burdens of these social enterprises.

In line with the MADANI's pillars of sustainability, prosperity and compassion, the Government is extending the time period for accredited social enterprises to submit their applications to the Ministry of Finance to qualify for income tax exemption.



EXTENSION OF TAX DEDUCTION ON ISSUANCE OF SUSTAINABLE AND RESPONSIBLE INVESTMENT *SUKUK*

Existing Legislation

Presently, a tax deduction is allowed on the expenditure incurred by a company on the issuance or offering of a Sustainable and Responsible Investment (SRI) *Sukuk* approved or authorised by, or lodged with, the Securities Commission Malaysia in arriving at the adjusted income of the issuer company from its business from the years of assessment 2016 to 2023. The tax deduction is applicable on the SRI *Sukuk* issued or offered to an investor in compliance with the guidelines relating to sukuk issued by the Securities Commission Malaysia under the Capital Markets and Services Act 2007 which ninety percent of the proceeds raised from the issuance or offering of the SRI *Sukuk* are used solely for the purpose of funding the Sustainable and Responsible Investment Project specified in the guidelines. In addition to this, the SRI *Sukuk* issuer must be a company resident in Malaysia, and incorporated, or deemed to be registered, under the Companies Act 2016 or incorporated under the Labuan Companies Act 1990 to be eligible for the above deduction.

Proposed Legislation

It is proposed that the tax deduction be extended for a period of 4 years until year of assessment 2027.

Reference

To be gazetted by way of statutory order.

Effective Date

Years of assessment 2024 to 2027.

Likely Tax Effects and Implications

This proposal aims to further promote the issuance of SRI *sukuk* by companies to raise financing on eligible SRI projects with the aim of preserving and conserving the environment, promoting sustainable development and enhancing the quality of life of the community. By extending the tax deduction for SRI *Sukuk*, Malaysia

is aligning itself with global sustainability goals and demonstrating its commitment to environmental and social responsibility. This could enhance Malaysia's reputation as a hub for responsible and sustainable finance and investment.

A3.14 EXTENSION OF TAX EXEMPTION ON MANAGEMENT FEES INCOME FOR SUSTAINABLE AND RESPONSIBLE INVESTMENT FUNDS

Existing Legislation

Presently, companies that provide Sustainable and Responsible Investment (SRI) fund management services to investors, business trusts investors or Real Estate Investment Trusts (REITs) investors in Malaysia approved by the Securities Commission Malaysia are given tax exemption on management fees income for managing SRI funds in Malaysia.

Proposed Legislation

It is proposed that the above exemption be extended for another 4 years from the year of assessment 2024 to year of assessment 2027.

Reference

To be gazetted by way of statutory order.

Effective Date

Years of assessment 2024 to 2027.

Likely Tax Effects and Implications

The SRI funds takes into account not only financial returns but also the social and environmental impact of investments, as it recognizes that businesses have responsibilities beyond just making profits, and that they can contribute positively to society and the planet at the same time. This proposal is in line with Malaysia MADANI’s pillars of sustainability, prosperity and compassion to further strengthen SRI’s fund management services.

A3.15 EXPANSION OF SCOPE OF INCOME TAX EXEMPTION ON THE SUSTAINABLE AND RESPONSIBLE INVESTMENTS SUKUK GRANT AND BOND GRANT SCHEME

Existing Legislation

Securities Commission Malaysia (SC) through the Capital Market Development Fund (CMDF) provides Sustainable and Responsible Investments (SRI) *Sukuk* and Bond Grant Scheme (formerly known as Green SRI *Sukuk* Grant Scheme). The SRI *Sukuk* and Bond Grant Scheme covers all types of SRI *sukuk* and bonds that meet the ASEAN Green, Social and Sustainability Bond Standards approved by the SC. Each Green SRI *sukuk* and bond issuers needs to apply to SC for the grant to finance the external review expenses incurred, subject to a maximum of RM300,000 per issuance.

The recipient of grant under the Green SRI *Sukuk* and Bond Scheme is given income tax exemption on the grant received in respect of applications received by the SC from 1 January 2018 to 31 December 2025.

Proposed Legislation

It is proposed that the income tax exemption be expanded to include SRI-Linked *Sukuk* Grants and bonds issued under the ASEAN Sustainability-Linked Bond Standards (ASEAN SLBS) approved by the SC.

Reference

To be gazetted by way of statutory order.

Effective Date

For applications received by the SC from 1 January 2024 to 31 December 2025.

Likely Tax Effects and Implications

This proposal expands the income tax exemption to SRI-Linked *Sukuk* Grants and bonds issued under the ASEAN SLBS that achieve green, social and sustainable standards in Malaysia. The income tax exemption on the grant will lower the cost of issuance and encourage more issuance of SRI sustainable financing and investment. This could further encourage the issuance of SRI *Sukuk* and bond investments in the capital market and should advance Malaysia's reputation as a sustainable finance and investment hub.

A3.16 INCOME TAX EXEMPTION ON INCOME DERIVED FROM ISLAMIC SECURITIES SELLING AND BUYING

Refer to A2.11.

A3.17 FURTHER TAX DEDUCTION ON EXPENDITURE INCURRED TO PARTICIPATE FOR VOLUNTARY CARBON MARKET

Existing Legislation

Presently, direct expenditure for development of carbon projects incurred by carbon credit trading companies is allowed for tax deduction under Section 33(1) of the Income Tax Act 1967.

Proposed Legislation

It is proposed that a further tax deduction subject to a maximum amount of RM300,000 be given to companies for cost incurred on the Development and Measurement, Reporting and Verification (MRV) related to the development of carbon projects. The further tax deduction is allowed against the carbon credits income traded on Bursa Carbon Exchange.

The development of carbon projects must be registered with an international standards body recognised by Bursa Malaysia and the expenditure on development of carbon projects must be certified by the Malaysia Green Technology and Climate Change Corporation (MGTC).

Reference

To be gazette by way of a Statutory Order.

Effective Date

For application received by the MGTC from 1 January 2024 to 31 December 2026.

Likely Tax Effects and Implications

The proposal aims to further encourage companies to participate in the voluntary carbon market. This is in line with the Government's aspiration to become a carbon-neutral nation by the year 2050.

A3.18 TAX INCENTIVE FOR FOREIGN FILM PRODUCTION COMPANIES, FOREIGN FILM ACTORS AND CREWS WHO ARE FILMING IN MALAYSIA

Existing Legislation

Presently, there is no tax incentive offered to foreign film production companies, foreign film actors and film crews who are filming in Malaysia.

Proposed Legislation

It is proposed that a special income tax rate of between 0 and 10 percent be given to film production companies, foreign film actors and film crews who are filming in Malaysia. Further details will be released later.

Reference

Likely to be gazetted by way of a statutory order.

Effective Date

The effective date is to be confirmed.

Likely Tax Effects and Implications

This proposal aims to encourage foreign film production companies to do filming in Malaysia by offering special income tax rates to compete with other countries.

A3.19 TAX DEDUCTION ON CONTRIBUTIONS FOR ENVIRONMENTAL PRESERVATION AND CONSERVATION PROJECTS

Existing Legislation

Presently, a tax deduction under Section 34(6)(h) of the Income Tax Act 1967 is given to a relevant person on the provision of services, public amenities and contributions to a charity or community project pertaining to education, health, housing, conservation or preservation of environment, enhancement of income of the poor, infrastructure, information and communication technology or maintenance of a building designated as a heritage site by the Commissioner of Heritage under the National Heritage Act 2005 (Act 645), approved by the Minister.

However, there is no specific tax deduction available for entities under Section 34(6)(h) of the Income Tax Act 1967 for expenses incurred on tree planting activities; and instilling awareness and disseminating information to the public on the importance of protecting mother nature. This is a corporate social responsibility programme encouraged by the Forest Research Institute Malaysia (FRIM), a Government agency.

Proposed Legislation

It is proposed that a tax deduction under section 34(6)(h) of the Income Tax Act 1967 be given to entities contributing or sponsoring activities related to tree planting projects or environmental preservation and conservation awareness projects verified by FRIM.

Reference

Section 34(6)(h) of the Income Tax Act 1967 and to be gazetted by way of statutory order.

Effective Date

For applications received by the Ministry of Finance from 1 January 2024 to 31 December 2026.

Likely Tax Effects and Implications

This proposal aims to encourage the involvement of the private sector to participate in the corporate social responsibility programmes relating to the Government's various efforts and initiatives to preserve and conserve the environment, including reforestation activities such as 100 Million Tree Planting Campaign 2021 to 2025. This is to further protect the nature's sustainability and biodiversity in Malaysia due to the environmental threat posed by the global climate change.

A3.20 TAX DEDUCTION ON ENVIRONMENTAL, SOCIAL AND GOVERNANCE RELATED EXPENDITURES

Existing Legislation

Presently, expenditure incurred for compliance with the Environmental, Social and Governance (ESG) standards is not eligible for tax deduction under Section 33(1) of the Income Tax Act 1967 as such expenditure is not considered to be wholly and exclusively incurred in the production of gross income.

Proposed Legislation

It is proposed that a tax deduction of up to RM50,000 for each year of assessment be given on ESG related expenditure as follows:

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 the Inland Revenue Board (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 MSME
Any reporting requirement related to ESG	ESG reporting by companies to approved regulator by the MOF

Reference

Likely to be gazetted by way of statutory order.

Effective Date

Years of assessment 2024 to 2027.

Likely Tax Effects and Implications

ESG encompasses environmental impact, social responsibility, and governance effectiveness. By providing a tax deduction for ESG expenditures, more taxpayers will be encouraged to comply with the ESG standards towards sustainable and inclusive development, as well as enhancing the governance in tax administration system.

Malaysian companies are mandated to adhere to various ESG standards set forth by regulatory bodies such as Bursa Malaysia, Bank Negara Malaysia and the IRB. Embracing sound ESG practices also enhances the competitive edge of Malaysian companies in the global arena. Recognizing the compliance costs borne by Malaysian companies, the Government is now introducing a special deduction of up to RM50,000 per year of assessment, applicable from YA2024 to YA2027. In addition to ESG reporting, the inclusion of costs associated with e-invoice implementation is particularly timely, given the urgency to expedite such projects by the affected businesses before the Government's targeted implementation date of 1 July 2025.

A3.21 APPOINTMENT OF EMPLOYEES OF A COMPANY OR A BODY OF PERSONS FOR SUBMISSION OF ANY PRESCRIBED FORM VIA ELECTRONIC MEDIUM

Existing Legislation

Presently, taxpayers are allowed to authorise a tax agent to furnish on their behalf any prescribed form through electronic medium.

Proposed Legislation

It is proposed that a new provision be introduced to allow the individuals referred to in Section 75(1) of the ITA 1967 who are responsible for performing on behalf of a company or a body of persons in granting authorisation in writing to their employees to furnish any form prescribed under the ITA 1967 through electronic medium.

Reference

Section 152A(3A) of the Income Tax Act 1967.

Effective Date

Upon coming into operation of the Finance Act 2024.

Likely Tax Effects and Implications

This proposal will facilitate employees of an organisation to file any prescribed forms on behalf of their organisation electronically and will solve the current difficulties faced by most of the organisations which rely on their directors to file the prescribed forms.

A3.22 DUTY TO PROVIDE INFORMATION AND FURNISH DOCUMENTS FOR ASCERTAINING CHARGEABLE INCOME AND TAX PAYABLE

Existing Legislation

Presently, the Inland Revenue Board has implemented an online platform to submit tax working sheets electronically. The online platform is known as Malaysian Income Tax Reporting System (MITRS).

The MITRS implementation is in stages beginning with companies which are under tax audit or investigation with effect from 1 September 2020. Subsequently, the MITRS implementation has been expanded to include categories which are “other than companies”, such as cooperative societies, individuals with business income, partnerships and associations, with effect from 9 January 2023.

Proposed Legislation

It is proposed that where a person has furnished to the Director General a return in accordance with Sections 77 or 77A of the Income Tax Act 1967, that person shall provide information and furnish documents as may be determined by the Director General for the purpose of ascertaining the taxpayer’s chargeable income and tax payable on an electronic medium or by way of electronic transmission within 30 days after the due date for furnishing of the return.

It is also proposed that in the event, there is a failure to comply with the above requirement, any person who without reasonable excuse, shall be guilty of an offence and shall be liable to a fine of not less than RM200 and not more than RM20,000 or to imprisonment for a term not exceeding 6 months or to both.

Reference

New Section 82B, Section 120(1)(d) and Section 152A of the Income Tax Act 1967.

Effective Date

From year of assessment 2025.

Likely Tax Effects and Implications

This proposal aims to facilitate the electronic submission of documents to Inland Revenue Board as a requirement under the Income Tax Act 1967, failing which it is an offence and fined accordingly under Section 120 of the Income Tax Act 1967.

Based on our understanding, the relevant documents could be financial statements, tax worksheets, amongst other documents as determined by the Director General.

The above proposal provides a more streamlined and efficient process of tax reporting for taxpayers as well as helps to reduce the costs and paper wastage through paperless submission.

A3.23 POWER OF DIRECTOR GENERAL TO ISSUE GUIDELINES

Existing Legislation

Presently, there is no provision in the Income Tax Act 1967 to empower the Director General of Inland Revenue Board (IRB) to issue tax guidelines. In practice, from time to time, the Director General may issue relevant operational and technical guidelines with a view to provide clarifications on certain tax provisions or facilitate compliance of tax law to the taxpayers.

Proposed Legislation

It is proposed that the Director General is empowered to issue guidelines as the Director General thinks expedient or necessary to clarify on the provisions of the Income Tax Act 1967 or to facilitate the compliance of the tax legislations or any other matters relating to the Income Tax Act 1967.

The Director General may also revoke, revise or amend the whole or any part of any guidelines issued.

Reference

New Section 134A of the Income Tax Act 1967.

Effective Date

1 January 2024.

Likely Tax Effects and Implications

This proposal aims to empower the Director General to determine the conditions and specifications in complying with certain provisions in the Income Tax Act 1967. The first application of the new Section 134A of the Income Tax Act 1967 is seen in the new Section 82C of the Income Tax Act 1967 relating to the requirement for businesses to issue an electronic invoice (e-invoice) for each sales transaction. As the details relating to e-invoice implementation are voluminous, Section 82C of the Income Tax Act 1967 stipulates that *"the conditions and specifications under which an electronic invoice is to be issued shall be as determined by the Director General under the guidelines issued in accordance with Section 134A".*

With the empowerment under the new Section 134A of the Income Tax Act 1967, guidelines issued by the Director General would be binding on the IRB and the IRB officers would need to adhere to the guidelines.

The guidelines issued under the new Section 134A of the Income Tax Act 1967, similar to the Public Rulings issued pursuant to Section 138A of the Income Tax Act 1967, are to provide clarification, explain the IRB's interpretation of the relevant legislation, and to facilitate the compliance of the legislations.

The guidelines and Public Rulings however are not part of legislation and would not have the force of law.