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MALAYSIA TAX POLICY FORUM

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Impact and Implications of Taxation on the Economy

HOW DO THEY AFFECT YOU?

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Projected Revenue from New Tax Regimes in the Year 2024

Tax Regime	Implementation Date	Forecasted Revenue
Capital Gains Tax	1 January 2024 (2-month exemption)	RM 800 Mil
High Value Goods Tax (HVGT)	1 May 2024 (Postponed until further notice)	RM 700 Mil
Increase of 2% in Service Tax & Expansion of Service Tax Scope	1 March 2024	RM 3,450 Mil
Low Value Goods Tax (LVGT)	1 January 2024	RM 200 Mil
		RM 5,150 Mil

Service Tax

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Increase 2% in Service Tax

Effective 1 March 2024, the service tax rate has increased to **8%** for all taxable services, **except** for the following taxable services which will remain at **6%**:-

- **Food and beverage services**
- **Vehicle parking space services**
- **Telecommunication services**

New Taxable Services

Effective 26 February 2024, the scope of taxable services will **expand** to include the following:-

8%

- **Group C: Karaoke centre services**
- **Group G: Maintenance or repair services**
- **Group I: Brokerage and underwriting services (non-financial)**

6%

- **Group J: Logistic services**

Revenue Collection

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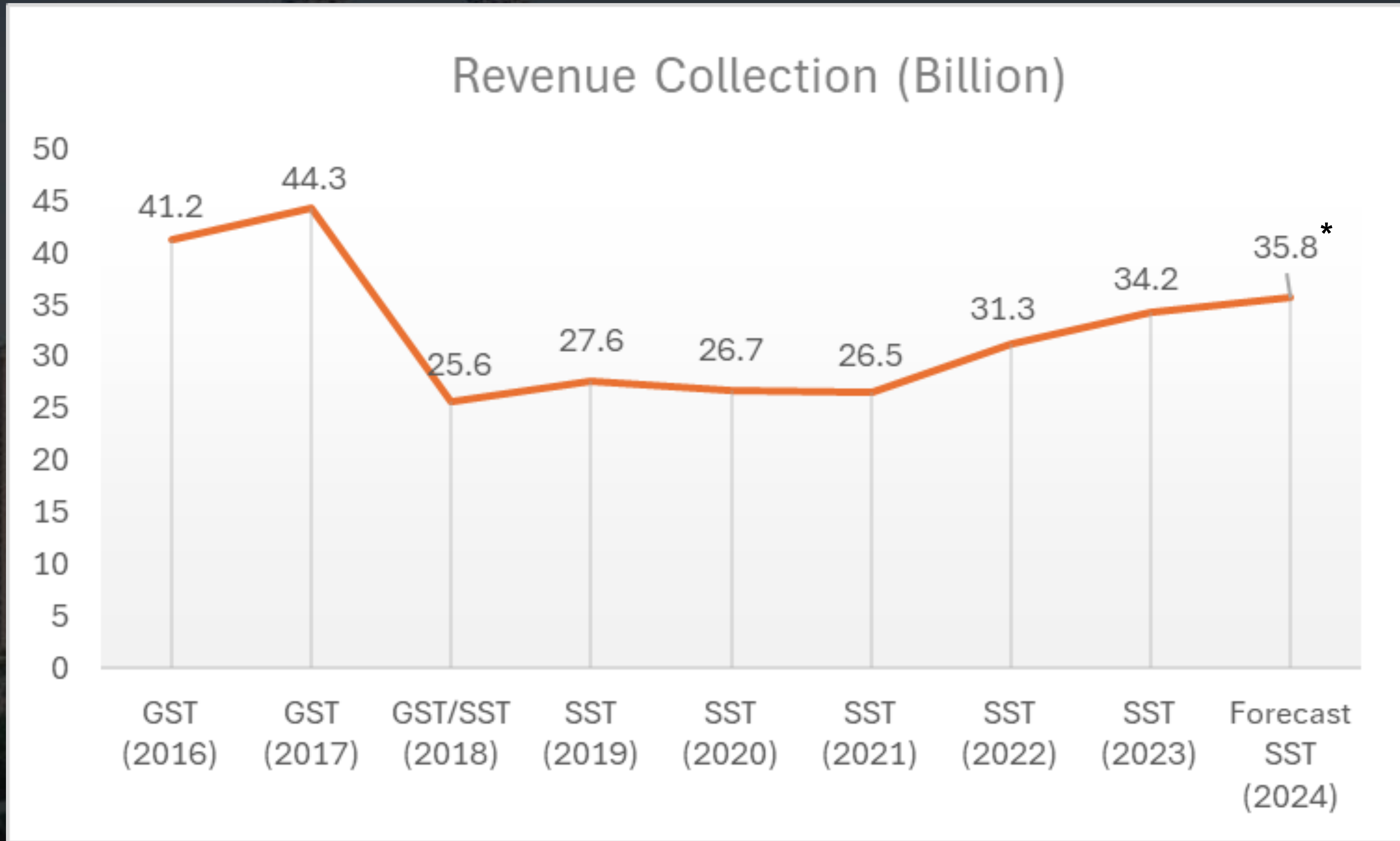
Year	Revenue Collection (Billion)
GST (2016)	41.2
GST (2017)	44.3
GST/SST (2018)	25.6
SST (2019)	27.6
SST (2020)	26.7
SST (2021)	26.5
SST (2022)	31.3
SST (2023)	34.2
Forecast SST (2024)	35.8 *



* Budget estimate, excluding 2024 Budget measures

- Is SST really an effective tax regime?
- Confusion between 6% and 8% Service Tax?
- Cascading tax effect worsening?

High Value Goods Tax

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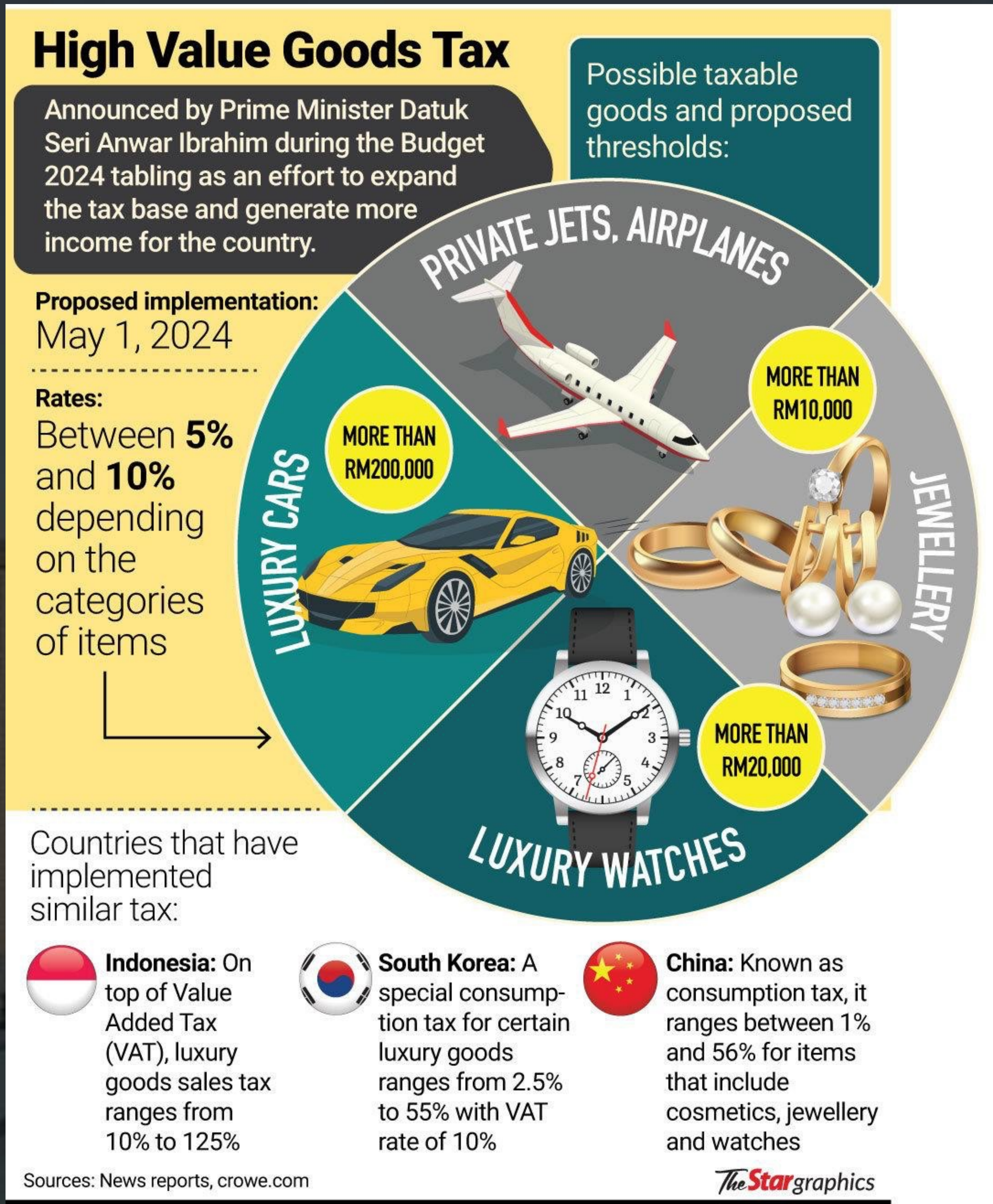

Proposal

Implement High Value Goods Tax at a rate between **5% and 10%** on certain high-value items (e.g. jewellery and watches) based on item price threshold value

Luxury goods set to be more expensive

Expected to be imposed for high-end items

- Private jets
- Luxury watches
- Jewellery
- Luxury cars

The possible thresholds:

- Cars priced beyond RM200,000
- Jewellery above RM10,000
- Watches above RM20,000

Source from The Star Newspaper

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High Value Goods Tax In Other Countries

Country	Luxury Goods Tax	Rate of Tax
Singapore	Luxury cars	Proposed to increase to 320%
Indonesia	Motor vehicles, luxury residences, etc.	10% to 95%
Vietnam	Cigarettes, tobacco products, liquor, luxury cars, playing cards, etc.	7% to 75%
China	Alcoholic beverages, luxury cosmetics, diesel fuel, fireworks, jewellery, motorcycles, motor vehicles, petrol, luxury watches, tobacco, golf equipment, yachts, etc.	1% to 56%
Korea	Luxury watches, luxury bags, jewellery, fur clothing, etc.	2.5% to 55%
Thailand	Motor vehicles, boats, perfume products and cosmetics, alcoholic beverages, cigarettes, etc.	0% to 40%
Philippines	Jewellery, high-end bags and watches, luxury cars, private jets, upscale residential property, etc (exceeding certain threshold)	Proposed to increase to 25% in recent bill

- How “high value goods” are defined?
- Unsure of the rate and coverage?
- Pending comprehensive list of the taxable items and their thresholds?
- Any tax refund mechanism for foreign tourists?
- Bringing back high-value goods from abroad is subject to HVGT?

Latest Transfer Pricing Rules

P.U. (A) 165/2023

– Income Tax (Transfer Pricing) Rules 2023

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WEF YA 2023

1. Definition of Contemporaneous Transfer Pricing Documentation ("CTPD")

- Refers to TP documentation which is brought into existence **prior to the due date for furnishing a return** in the basis period for a YA in which a controlled transactions is entered into.

2. Contents of CTPD

- CTPD **must include information on the Multinational Enterprise Group** that are relevant to the taxpayer's business in Malaysia.
- Detailed guidance in relation to contents of CTPD are now inserted into TP Rules 2023.
- **Require to insert the date** on which the contemporaneous transfer pricing documentation is completed.

3. Indication of non-applicability of CTPD content

- **Required to indicate** in the CTPD which are the information, data or documents as set out in the TP Rules 2023 that are **not applicable to the taxpayers**.

4. Selection of most appropriate TP method

- Selection of most appropriate TP methodologies – **no longer based on hierarchy basis**
  - ✓ Traditional transactional method
  - ✓ Transactional profit method
  - ✓ Other methods allowed by IRB which provides the highest degree of comparability

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WEF YA 2023

5. Director General ("DG")'s power to review and replace the TP method

- DG is **granted the power to review and replace the selected method used by taxpayer with other most appropriate method** if DG has reason to believe the taxpayer's selected method is not the most appropriate method in determining the arm's length price.

6. Definition on arm's length range

- Unprecedented, the arm's length range is defined on a **narrower range from 37.5 percentile to 62.5 percentile**.

7. DG's power to make TP adjustment

- The DG is given a power to **apply the TP adjustment to the median** if the taxpayer's result is outside the arm's length range.

8. Timeline to furnish CTPD

- Stated in the Rules, CTPD is required to presented to the IRB upon request **within fourteen days (14 days)** from the date of notice.

9. Removal of offsetting adjustment & imposition of surcharge

- Such request for the **offsetting of adjustments has been removed** in this Transfer Pricing Rules 2023.
- Imposition of surcharge of up to 5% of the increased income or reduced deduction or loss.

Capital Gains Tax

Capital Gains Tax (CGT)

Malaysia

- Study on introduction of CGT from 2024
- Disposal of unlisted shares by companies
- At a low tax rate

✓ Countries which tax capital gains

✗ Countries which do not tax capital gains

As at 2022

132 countries*

tax capital gains

Out of 151 countries listed on PwC Worldwide Tax Summaries

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Tax Imposition on Gains of Capital Asset Disposal

Effective from 1 January 2024**, company, limited liability partnership, trust body and co-operative society** which receives gains or profits from the disposal of capital asset consisting of:

i. **shares of a company** incorporated in Malaysia **not listed on the stock exchange**; or

ii. shares of a controlled **company incorporated outside Malaysia** which owns real property situated in Malaysia or shares of another controlled company or both.

iii. **capital assets situated outside Malaysia**, which are then **remitted into Malaysia**.

Tax Rate

(i)	**10% on the net gain from disposal**
(ii)	
(iii)	**Prevailing income tax rates**

Exemption Period

(i) & (ii) Exempted from CGT for the period of 1 January 2024 to 29 February 2024

(iii) Exempted from CGT for the period of 1 January 2024 to 31 December 2026, subject to economic substance requirement

It is not required to submit Capital Gains Tax Return Form (CGTRF) for the disposal of capital assets within the above periods.

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EXCEPTION

Initial Public Offering (IPO)

A company disposing of unlisted shares while going for IPO is being exempted from CGT

Internal Restructuring

Disposal of unlisted shares for internal restructuring (merger & acquisition) is being exempted from CGT

Venture Capital

Venture capital companies that dispose of unlisted shares are being exempted from CGT

To be gazetted soon?

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