

Malaysia

Malaysia Proposes Additional Requirement for MSMEs to Qualify for Reduced Tax Rate in Finance Bill 2023

15 March 2023

Report from our correspondent Tze JW, Malaysia

On 14 March 2023, the Finance Bill 2023 was presented for the first reading in the parliament. The Bill includes amendments to the Income Tax Act 1967 (ITA), Real Property Gains Tax Act 1976, Stamp Act 1949 and Petroleum (Income Tax) Act 1967.

The Bill also contains the measures proposed in the retabled Budget 2023 (see [Budget 2023 \(Retabled\): Malaysia Raises Tax Rates for Higher Income, Plans to Introduce Capital Gains Tax on Disposal of Unlisted Shares, to expand tax base \(27 February 2023\)](#)) and additional amendments. The salient amendments are highlighted in the summary below.

Income Tax Act 1967

- From year of assessment (YA) 2024, additional shareholding requirements will be introduced for micro, small and medium enterprises (MSMEs) to qualify for the reduced tax rate as follows:
 - for companies: not more than 20% of the paid-up ordinary share capital being owned directly or indirectly by any companies incorporated outside Malaysia or individuals who are not Malaysian citizens; and
 - for limited liability partnerships (LLPs): not more than 20% of the total capital contribution being contributed directly or indirectly by companies incorporated outside Malaysia or any person who is not a Malaysian citizen.
- The definition of "plant" under the ITA for capital allowance purposes will be amended to remove the exclusion of intangible assets. However, the Ministry of Finance will be empowered to prescribe other assets that should be excluded from the definition of "plant".
- Effective YA 2024, companies, LLPs, trust bodies and co-operative societies must electronically submit their returns, including amended income tax returns and employer returns.
- Effective 1 January 2023, companies will be allowed to accumulate withholding tax on payments made to authorized agents, dealers and distributors on a monthly basis and to remit the withholding tax to the Inland Revenue Board before the end of the following calendar month.
- Effective 1 January 2023, the scope of application of relief under section 97A of the ITA is expanded to cover payments made to authorized agents, dealers and distributors.

Real Property Gains Tax Act 1976

- For transfers of assets between former spouses who are Malaysian citizens as a result of the dissolution or annulment of their marriage pursuant to a court order, the disposal price of the chargeable asset will be considered equal to its acquisition price.
- For transfers of assets owned by an individual (or persons mentioned in schedule 2, paragraph 3(1)(b)(ii) of the Real Property Gains Tax Act 1976) to a company where the disposal price of a chargeable asset will be deemed to be equal to its acquisition price, the company must be incorporated in Malaysia (currently, it also applies to a company incorporated outside Malaysia).

The above measures will be effective upon coming into operation of Finance Act 2023.

Stamp Act 1949

Effective 1 June 2023 or upon coming into operation of the Finance Act 2023, the fixed duty of MYR 10 imposed on certain instruments pursuant to an agreement for discounting invoices or hire purchase receivables or factoring agreement entered into by small and medium enterprises will be expanded to include the government or any government agency that provides financing to small and medium enterprises.

Petroleum (Income Tax) Act 1967

Chargeable persons will be required to electronically furnish certain returns as provided under Petroleum (Income Tax) Act 1967 effective YA 2023.

The full detail of the Bill is available [here](#).

Malaysia - Malaysia Proposes Additional Requirement for MSMEs to Qualify for Reduced Tax Rate in Finance Bill 2023 (15 Mar. 2023), News IBFD.

Exported / Printed on 7 Mar. 2024 by hkermadi@deloitte.lu.