



BDO IN MALAYSIA

2022 PRE-BUDGET STATEMENT HIGHLIGHTS

2 SEPTEMBER 2021

EXECUTIVE SUMMARY

As part of its effort to improve the preparation process of the nation's annual budget and to enhance Malaysia's position in the Open Budget Index, the Ministry of Finance ("MOF") has published its first Pre-Budget Statement ("PBS") on 31 August 2021. The PBS is published to increase transparency in preparing the country's annual budget and to allow the public to have a preliminary view of the direction, approach and expected initiatives that are intended to be in Budget 2022, which will be tabled in Parliament on 29 October 2021.

The PBS provides a review of the 2021 Budget that was prepared based on three main goals:





- (i) **Rakyat's Wellbeing;**
- (ii) **Business Continuity; and**
- (iii) **Economic Resilience;**

The 2021 Budget had an allocation of RM322.5 billion, the largest in the nation's history.

The 2021 Budget encompassed 88 strategic initiatives, of which 77 are long-term, 4 are short-term and 7 are one-off initiatives. As at 31 July 2021, the strategic initiatives that have successfully achieved their objectives include the Biodiversity Protection and Patrol Programme, and the Sustainability Bond for environmental and social purposes.



Current Status of Key Initiatives Implemented Under the 2021 Stimulus Packages

PERMAI	PEMERKASA	PEMERKASA PLUS	PEMULIH
			
<ul style="list-style-type: none"> ▶ 4 initiatives have been completed: <ul style="list-style-type: none"> (i) BPN 2.0; (ii) Telecommunication packages; (iii) Free internet; and (iv) MARA business financing rescheduling initiatives ▶ 6 long-term initiatives, 10 short-term initiatives and 5 one-off initiatives are still ongoing 	<ul style="list-style-type: none"> ▶ Comprised: <ul style="list-style-type: none"> (i) 49 long-term initiatives; (ii) 8 short-term initiatives; and (iii) 6 on-going one-off initiatives 	<ul style="list-style-type: none"> ▶ Comprised: <ul style="list-style-type: none"> (i) 6 long-term initiatives; (ii) 11 short-term initiatives; and (iii) 3 one-off initiatives (iv) All initiatives are still on-going ▶ A key initiative is Targeted Financing Moratorium 	<ul style="list-style-type: none"> ▶ Comprised: <ul style="list-style-type: none"> (i) 16 long-term initiatives; (ii) 32 short-term initiatives; and (iii) 13 on-going one-off initiatives ▶ Key initiatives: <ul style="list-style-type: none"> (i) EPF's i-Citra Withdrawal Facility; and (ii) The food basket programme



MACROECONOMIC OUTLOOK FOR 2022

With the gradual reopening of economic sectors and social activities by end of 2021 and strong external demand, Malaysia's economic recovery is projected to continue well into 2022. The International Monetary Fund ("IMF") and World Bank forecast that Malaysia's economy will expand by 6.0% and 5.0%, respectively in 2022.

With regards to supply, the manufacturing and services sectors are expected to continue driving economic growth with the normalisation of economic activities. Furthermore, the labour market is also expected to recover in 2022 with the revival of consumer sentiment due to improved earnings prospects.

TAX REVENUE PERFORMANCE STATUS FOR 2021

As at July 2021:

- 1) Direct Tax collection: **RM67.4 billion.**
- 2) Indirect Tax collection: **RM24.8 billion.**

Subsequent collections are expected to experience a reduction due to implementation of further Movement Control Order which has affected business activities resulting in loss of income.

MANAGING REVENUE LEAKAGES

- 1) Smuggling activities:
 - ▶ Multi-Agency Working Group, chaired by the MOF, has been further reinforced by the participation of the Malaysian Anti-Corruption Commission and the National Financial Crime Prevention Centre to help formulate strategies.
- 2) Tightening controls on licensing and importation of cigarettes and tobacco products by:
 - ▶ Stopping issuance of new import licenses;
 - ▶ Tightening renewal of cigarette import licences;
 - ▶ Restricting transshipment activities at selected ports; and
 - ▶ Making cigarettes and tobacco products a dutiable item at all Duty-Free Islands.
- 3) Streamlining the definition of related companies for group relief claims.
- 4) Imposition of penalties for failure to provide Transfer Pricing documents.
- 5) Stipulation of the requirement for taxpayers to settle taxes before commencement of any proceedings against the Government or Director General of Inland Revenue Board (“IRB”).



STRATEGIES TO INCREASE TAX REVENUE

The Government is considering the following strategies to increase tax revenue:

- a) Implementation of the Special Voluntary Disclosure Programme for indirect taxes with the Royal Malaysian Customs Department;
- b) Introduction of the Tax Compliance Certificate as a pre-condition for tenderers to participate in Government procurement; and
- c) Implementation of Tax Identification Number and reviewing tax treatments that have been identified as having elements of revenue leakage or harmful practices.

STRATEGIES TO STRENGTHEN THE TAX SYSTEM

1. Tax Incentive Review

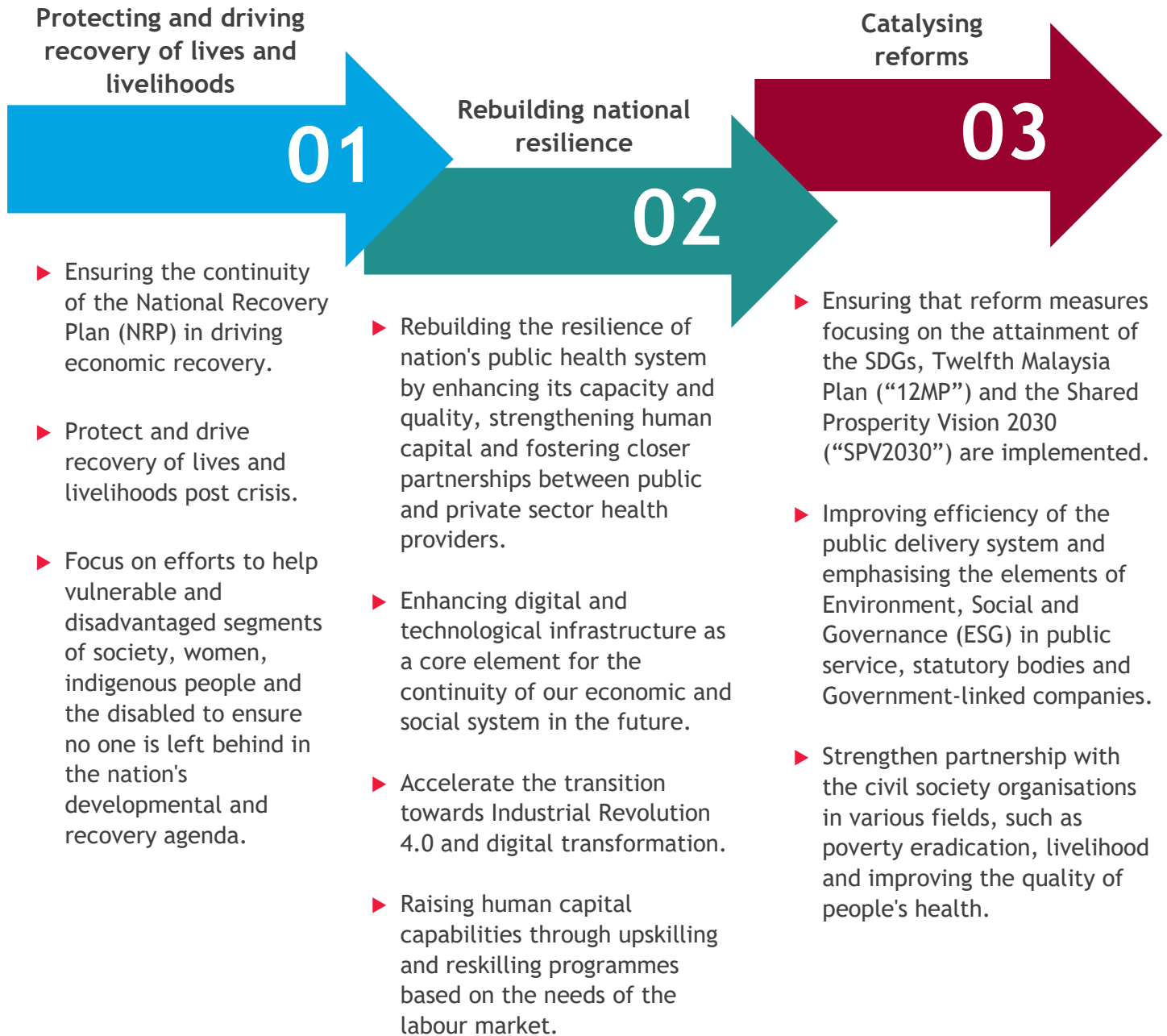
To ensure that tax incentives offered remain relevant to the current business landscape while continuing to maintain the country's competitiveness in attracting quality investments and provide positive returns to the country's economy and fiscal position.

2. Implementation of Medium-Term Revenue Strategies ("MTRS")

MTRS is a comprehensive initiative in ensuring Government's revenue through tax collection is continually managed and sustainably increased in line with GDP growth.



FOCUS OF BUDGET 2022



CONCLUSION

The MOF intends to prepare Budget 2022 based on the expectation that the economy will recover from the COVID-19 effects next year. Hence, the MOF will focus on continuing to protect and restore the lives and livelihoods of the people and businesses, rebuild national resilience and catalyse post-pandemic reforms. Businesses should take note that Budget 2022 will also aim at tighter tax enforcement to manage revenue leakages, strategies to increase tax revenue which includes the Special Voluntary Disclosure Programme for indirect tax, review of tax incentives and other medium term revenue strategies to strengthen the tax system. These strategies are aimed to serve as a catalyst towards the implementation of the 12MP and SPV2030.

BDO TAX SERVICES SDN BHD (114863-K)

Level 8
BDO@Menara CenTARa
360 Jalan Tuanku Abdul Rahman
50100 Kuala Lumpur, Malaysia

T:+603 2616 2888
F:+603 2616 2970
E: marcomms@bdo.my

For further information, we welcome you to speak to any of our tax specialists below:

BEH TOK KOAY
Senior Advisor
tkbeh@bdo.my

DAVID LAI
Executive Director
davidlai@bdo.my

NG SWEE WENG
Senior Advisor
swng@bdo.my

CHRISTOPHER LOW
Executive Director
chrislow@bdo.my

ONG ENG CHOON
Senior Advisor
ongec@bdo.my

WOON YOKE LEE
Executive Director
woonyl@bdo.my

BERNICE TAN
Executive Director
bernice.tan@bdo.my

KOO KIAN MING
Executive Director
kookm@bdo.my

LEE BOON HOOI
Executive Director
leebh@bdo.my

ON BEE YEE
Executive Director
onby@bdo.my

SOH PIN TAU
Executive Director
sohpt@bdo.my

YAP MEI SEI
Executive Director
yapms@bdo.my

TAN SIN HUAT
Advisor
shtan@bdo.my

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