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Crowe Chat Vol.7/2021 (Special Edition)

# Malaysia Budget 2022

Key Highlights of *Belanjawan 2022*

30 October 2021

# Introduction to the Malaysia Budget 2022

Announced on 29 October 2021  
by the Finance Minister,  
**YB Tengku Zafrul Aziz**



Photo: Tengku Zafrul/ Facebook

## Main Pillars

- 1 Rakyat's Well-Being
- 2 Resilient Businesses
- 3 Prosperous & Sustainable Economy

2021	2022
Government Revenue	
RM221bil	RM234bil
Government Expenditure	
RM320.6bil	RM332.1bil
Deficit	
-RM99.6bil	-RM98.1bil
Deficit/GDP	
-6.5%	-6.0%



# Table of Contents

01

## Foreword

By the Managing Partner

02

## Key Highlights of Budget 2022

- Businesses
- Individuals
- Grants
- Financing
- Other Key Initiatives

03

## Budget 2022 Impact:

Details of Proposed Measures,  
Effective Date and Commentary

- Tax measures relating to Businesses
- Tax measures relating to Individuals

# Foreword

2021 had been a year of examination, reflection and anticipation. At the start of the year, many had anticipated that the year 2021 would be associated with economic and social recovery. With ambitious plans in place, including a historic Covid-19 immunisation campaign, Malaysia was expected to benefit greatly from the economic surge as the year progressed.

However, the past 10 months have proven 2021 to be a more challenging year as the worsening health crisis meant a significant delay to economic recovery efforts. The government agenda is now focused on reviving, recovering and revitalizing the economy. It is amidst this backdrop that Budget 2022 was tabled. The Honorable Finance Minister, building on the economic plans outlined in the previous year's budget, laid out the largest budget in Malaysia's history in hopes to accelerate our path to recovery. Budget 2022, themed *Keluarga Malaysia, Makmur Sejahtera*, aims to tackle a wide range of challenges faced by Malaysian families.

Measures such as direct cash aid and the *JaminKerja* salary incentive signal the government's seriousness in tackling issues faced by the most vulnerable in Malaysian society. As we deal with the issues of the day, the government has kept one eye on the future, introducing incentives for digital businesses whilst also reaffirming its climate change objectives through the introduction of the first ever Malaysian voluntary carbon market.

However, these measures have not come without cost. To redress the budget, a host of changes have been proposed. A one-off tax increase in 2022 known as Tax Makmur will be imposed on companies that earn more than RM100 million in year 2022 and the removal of the long-standing tax exemption on foreign source income are some key changes that are most impactful.

Therefore, our initial observation is that this expansionary budget has not only built-in measures to encourage resilience but also looks to take decisive action to address fiscal consolidation in the medium term. Despite its size, Budget 2022 outlines a balanced and pragmatic approach to the nation's finances, where all levels of society would have to come together to contribute towards the betterment of the nation. Given the large number of changes and incentives introduced, it is hoped that the analysis provided herein serves as an essential guide in your business in the months ahead.



**Poon Yew Hoe**  
Managing Partner  
Crowe Malaysia



**Key  
Highlights  
of Budget  
2022**



# Highlights of Budget 2022

## Businesses



### **Tax on Income Received from Outside Malaysia**

Malaysian residents will be taxed on income derived from foreign sources and received in Malaysia with effect from 1 January 2022.



### **Deferment of Income Tax Instalment Payments**

Micro, Small and Medium Enterprises (MSMEs) will be given a deferment for payment of monthly tax instalments for a period of six (6) months until 30 June 2022.



### **Special Revision of Estimate of Tax Payable**

Companies will be given an option to submit a revision of income tax estimates in the eleventh (11<sup>th</sup>) month of the basis period before 31 October 2022.

### **Review of Tax Treatment on Unabsorbed Business Losses**

Unabsorbed business losses from the year of assessment ("YA") 2019 onwards can be carried forward for a maximum period of ten (10) consecutive YAs whilst the accumulated unabsorbed losses up to YA 2018 can be carried forward until YA 2028.



### **Extension of Special Tax Deduction on Rental Reduction for Business Premises**

The special tax deduction on rental reduction for business premises will be extended for another six (6) months for rental reduction from January 2022 to June 2022.



### **Extension of Special Tax Deduction on the Cost of Renovation and Refurbishment of Business Premises**

The special tax deduction of up to RM300,000 for renovation and refurbishment of business premises will be extended to 31 December 2022.



# Highlights of Budget 2022

## Businesses (cont.1)



### **Extension of Tax Rebate for Establishment of New Entities for MSMEs**

The income tax rebate of up to RM20,000 per YA, for the first three (3) YAs will be extended for new MSMEs established and which commenced operations by 31 December 2022.



### **Prosperity Tax on non-SMEs**

A special one-off tax at the tax rate of 33% on chargeable income exceeding RM100 million will be levied on non-SMEs in YA 2022.



### **Tax Compliance Certificate ("TCC")**

Obtaining a TCC issued by the Inland Revenue Board will be a prerequisite for companies to participate in Government procurement starting from 1 January 2023.

### **Tax identification number ("TIN")**

TIN will be implemented beginning year 2022 to broaden the tax base.



### **Extension of Additional Reinvestment Allowance ("RA") Incentive**

Additional RA incentive period for eligible companies involved in manufacturing and selected agriculture activities will be extended to YA 2024.



### **Extension of Tax Deduction for Companies under the Safe@Work Programme**

Companies registered under Safe@Work are given further tax deduction on rental expenses for employee accommodation. This incentive will be extended to 31 December 2022.



# Highlights of Budget 2022

## Businesses (cont.2)



### **Extension of Tax Incentive for the Organisation of Arts, Culture, Sports and Recreation Activities in Malaysia**

The tax incentive in the form of income tax exemption of 50% on statutory income will be extended for another three (3) YAs.



### **Tax Incentives for Digital Ecosystem Acceleration Scheme ("DESAC")**

Digital technology providers and digital infrastructure providers providing services for activities under DESAC will be given tax incentives.



### **Tax Incentives for Upstream Petroleum Industry**

Companies with Late-Life Assets ("LLA") projects in the upstream petroleum industry will be given tax incentives for LLA Production Sharing Contracts awarded from 1 January 2020 to 31 December 2029

### **Review of Tax Incentives for Scholarships**

The tax incentive given to companies sponsoring scholarships to students will be expanded to include all fields of study at the Technical and Vocational level, Diploma, Bachelor's Degree, Bachelor and Doctor of Philosophy, and the tax incentive period will be extended to YA 2025.



### **Review of Tax Incentives for Structured Internship Programme ("SIP")**

The tax incentive for SIP will be expanded to include students undertaking Masters, Professional Certificates and Malaysia Skill Certificate Level 1 and 2, and the tax incentive period will be extended to YA 2025





# Highlights of Budget 2022

## Businesses (cont.3)



### **Review of Tax Incentives for Anchor Companies under the Vendor Development Programme ("VDP")**

The tax incentives for anchor companies under VDP will be enhanced to include double tax deduction on qualifying operating expenses of up to RM500,000 per YA, extension of tax incentive period for five (5) years for anchor companies that have signed MoU with MEDAC and deductions will be given for three (3) consecutive YAs. This tax incentive will be applicable for anchor companies that sign the MoU with MEDAC from 1 January 2021 to 31 December 2025.



### **Expansion of Scope for Tax Incentives for Green Technology**

Green technology tax incentives will be expanded to include Rainwater Collection and Utilisation System projects and is applicable for applications received by MIDA from 1 January 2022 to 31 December 2023.

### **Extension of Tax Incentive for the Purchase of Tourism Vehicles**

Accelerated Capital Allowance ("ACA") given on capital expenditure incurred for the purchase of tourism vehicles will be extended to YA 2024.



### **Income Tax Exemption for Social Enterprises**

Income tax exemption will be given on all income of a social enterprise accredited by the Ministry of Entrepreneur Development and Cooperation for a period of up to three (3) YAs.



### **Stamp Duty Exemption for P2P Loan or Financing Agreements**

100% stamp duty exemption will be given on P2P loan or financing agreements between MSMEs and investors for agreements executed between 1 January 2022 and 31 December 2026.



# Highlights of Budget 2022

## Businesses (cont.4)



### **Review of Stamp Duty on Contract Notes for Trading of Shares Listed on Bursa Malaysia**

The stamp duty rate on contract notes for trading of shares listed on Bursa Malaysia will be increased to 0.15% and the stamp duty limit of RM200 for each related contract note will be abolished.



### **Extension of Stamp Duty Exemption for Loan Restructuring and Rescheduling**

Stamp duty exemption for loan restructuring or rescheduling will be extended for agreements executed up to 31 December 2022.

### **Extension of Stamp Duty Exemption for Mergers and Acquisitions ("M&A") Related Instruments**

Stamp duty exemption for instruments related to M&A will be extended for applications for M&A received by the Ministry of Entrepreneur Development and Cooperatives up to 30 June 2022 and instruments executed up to 31 December 2022.



### **Review of Stamp Duty Exemption for Perlindungan Tenang Products**

Stamp duty exemption will be given on Perlindungan Tenang products and insurance products or takaful with a premium or contribution value not exceeding RM150 for individuals and RM250 for MSMEs.



# Highlights of Budget 2022

## Businesses (cont.5)



### **Extension of Sales Tax Exemption for Purchase of Passenger Cars**

The Sales Tax exemption period for purchase of passenger cars will be extended to 30 June 2022.



### **Extension of Tourism Tax Exemption**

The Tourism Tax exemption period will be extended to 31 December 2022.



### **Extension of Entertainment Duty Exemption**

The Entertainment Duty exemption period on admission fees to entertainment places in the Federal Territories will be extended to 31 December 2022.

### **Review of Crude Palm Oil ("CPO") Threshold Price and Rate of Windfall Profit Levy**

The threshold price of CPO will be increased by up to RM1,000 per metric tonne and the rates of Windfall Profit Levy on CPO at Sabah and Sarawak will be increased from 1.5% to 3.0%.

### **Import Duty, Excise Duty and Sales Tax Exemption for Electric Vehicles**

Import Duty, Excise Duty and Sales Tax exemption will be given for the importation and sales of electric vehicles

### **Sales Tax Imposition on Low Value Goods**

Sales Tax will be imposed on the sales of Low Value Goods to consumers in Malaysia from 1 January 2023.

### **Service Tax on Goods Delivery Services**

Service tax will be imposed on goods delivery services provided by service providers including e-commerce platforms from 1 July 2022.





# Highlights of Budget 2022

## Businesses (cont.6)



### **Special Voluntary Disclosure Program ("SVDP") for Indirect Taxes**

The SVDP will be introduced by the Royal Malaysian Customs Department for indirect taxes with penalty remissions of up to 100%, and tax remissions in certain cases.



### **Service Tax Exemption on Brokerage Services**

Service tax exemption will be given on brokerage services related to trading of shares listed on Bursa Malaysia from 1 January 2022.



### **Expansion of Scope for Excise Duty on Electronic Cigarettes**

The scope of excise duty will be expanded to include the imposition of excise duty on liquid or gel containing nicotine used for electronic cigarettes.

### **Expansion of Scope for Excise Duty on Sugar Sweetened Products**

The scope of excise duty on sugar sweetened products will be expanded to include additional pre-mixed preparation products.



### **Sales Tax Imposition on Low Value Goods**

Sales Tax will be imposed on the sales of Low Value Goods to consumers in Malaysia from 1 January 2023.



### **Service Tax on Goods Delivery Services**

Service tax will be imposed on goods delivery services provided by service providers including e-commerce platforms from 1 July 2022.



# Highlights of Budget 2022

## Individuals



### Expansion of Tax Relief on SOCSO Contributions

Tax relief on SOCSO contributions will be increased from RM250 to RM350 and will now include Employment Insurance System contributions.



### Expansion of Tax Relief on Upskilling and Self-Enhancement Course Fees

Tax relief on upskilling and self-enhancement course fees will be increased from up to RM1,000 to up to RM2,000 and will be extended until YA 2023.



### Expansion of Tax Relief on EPF Contributions

Tax relief on EPF contributions will be expanded to include voluntary contributors (self-employed) including pensionable government servants.

### Expansion of Tax Relief on Medical Check-up Expenses

Tax relief of up to RM1,000 on medical check-up expenses for self, spouse and child will be expanded to include examination costs and consultation services related to mental health.



### Extension of Tax Relief for Domestic Tourism Expenses

Special tax relief of up to RM1,000 on domestic tourism expenses will be extended for expenses incurred until 31 December 2022.



### Extension of Tax Relief for Childcare Centres and Kindergartens Fees

Tax relief of up to RM3,000 on childcare centres and kindergartens fees will be extended for another two (2) years for YAs 2022 and 2023.



# Highlights of Budget 2022

## Individuals (cont.1)



### **Extension of Tax Relief on the Purchase of Mobile Phone, Computer and Tablet**

Special tax relief of up to RM2,500 on the purchase of mobile phone, computer and tablet will be extended to YA 2022.



### **Extension of Tax Relief for Deferred Annuity Premium Payments**

Tax relief of up to RM3,000 on deferred annuity premium payments will be extended for another four (4) years until YA 2025.



### **Extension of Special Income Tax Rate for Non-Resident Individuals**

Special income tax rate of 15% given to non-residents holding key positions in companies relocating their operations to Malaysia will be extended for applications received by MIDA until 31 December 2022.

### **Tax Exemption on Recognised e-Sports Tournament Prize Money**

Income tax exemption will be given on income earned from recognized e-sports tournament prize monies won by e-sports athletes.



### **Tax Relief on expenses for EV Charging Facilities**

Tax relief of up to RM2,500 will be given on expenses related to cost of installation, rental, purchasing including hire purchase of equipment or subscription fees for EV charging facilities.



### **Review of Real Property Gains Tax (“RPGT”) rate for individuals, permanent residents and other than companies**

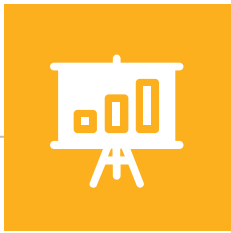
RPGT rate on disposal of real property and real property company shares by an individual, permanent resident and other than a company in the 6th year and thereafter after the date of acquisition will be reduced from 5% to 0%.





# Highlights of Budget 2022

## Government Grants



### **Grants for Rukun Tetangga Areas ("KRT")**

Grant of RM6,000 for each KRT to support the agenda of unity and culture of volunteerism at the community level.



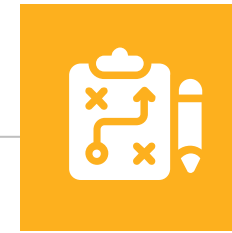
### **Financing for Youth Entrepreneurs**

Bank Simpanan Nasional and Agrobank have earmarked financing of RM150 million to facilitate youths venturing into entrepreneurship.



### **Grants under the Malaysian Incentive Community Empowerment Initiative**

Grants of up to RM10,000 for 2,000 associations registered with The Registry of Societies Malaysia in the category of welfare, social, safety and basic rights.



### **Matching Grants for the Malaysia Co-investment Fund**

Matching grants of RM80 million for the Malaysia Co-investment Fund for funding through equity crowdfunding and peer-to-peer financing platforms.

# Highlights of Budget 2022

## Government Grants (cont.1)



### **Matching Grants for Aerospace Businesses**

Matching grants of RM100 million for Bumiputera SMEs to explore business opportunities in the aerospace segment.



### **SME Digitalisation Grant Scheme**

Enhancement of SME Digitalisation Grant Scheme in 2022 with the total fund increased to RM200 million of which RM50 million is dedicated towards Bumiputera micro-entrepreneurs in rural areas.



### **Matching Grants for Budget Hotels and Repair Grants for Home Stay Owners**

RM30 million is allocated for matching grants for repair purposes for 738 budget hotels registered under MOTAC and repair grants for registered home stay owners.



### **Matching Grants for Arts and Cultural Programs Organisers**

Matching grants of RM50 million for companies who organise programs related to arts and culture.

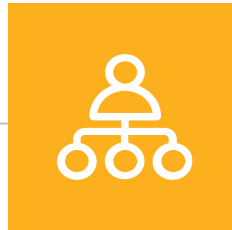
# Highlights of Budget 2022

## Government Grants (cont.2)



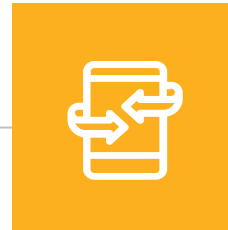
### **Smart Automation Matching Grants**

Smart Automation matching grants of RM100 million for 200 companies in the manufacturing and service sector to automate their business processes.



### **Matching Grants through Collaborative Research in Engineering, Science and Technology**

Matching grants of RM12 million through Collaborative Research in Engineering, Science and Technology in the areas such as Gallium Nitride for application in LEDs and electric vehicles.



### **Technology Transformation Incentive Towards Industry4WRD**

Technological transformation incentive of RM45 million for SMEs as well as mid-stage companies in the manufacturing and services sectors, in line with Industry4WRD.



### **Matching Grants for Various Social Programmes**

Matching grants of RM100 million for NGOs to fund various social programmes assisting the vulnerable in terms of education, income generation and mental health.



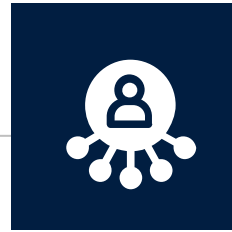
# Highlights of Budget 2022

## Financing



### Equity and Quasi-equity investment scheme

The Government will introduce a RM2.1 billion matching method through equity and quasi-equity investments to help companies facing gearing or leverage problems.



### Funds available for SMEs

RM14.2 billion worth of funds will be made available in 2022 for SMEs, through SME Bank, PUNB, BPMB, AgroBank, MIDF, and MARA as well as through BNM Funds for SMEs.



### Assistance to Listed Companies on Bursa

Companies listed on Bursa Malaysia that were affected by the Covid-19 pandemic will get an injection of additional funds through a Government-owned SPV in the form of equity instruments or other related instruments.



### Business financing guarantee

Syarikat Jaminan Pembiayaan Perniagaan ("SJPP") will enhance the scheme with an additional guarantee limit of RM10 billion to provide guarantees for loans dedicated to Bumiputera businesses.

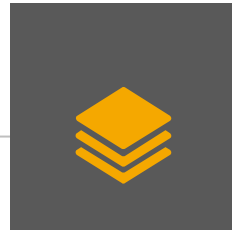
# Highlights of Budget 2022

## Other Key Initiatives



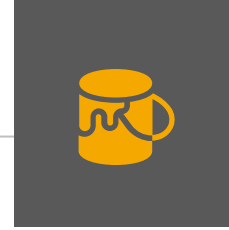
### Bantuan Keluarga Malaysia ("BKM")

- Assistance of RM2,000 for households earning less than RM2,500 per month with three (3) or more children.
- Additional RM500 for single parent households earning a monthly income of up to RM5,000.
- Additional RM300 for senior citizen households.



### Discounts on Repayment of PTPTN Loans

- Discounts for repayment of PTPTN loans from 1 November 2021 to 30 April 2022 will be given at:
- 15% discount for full settlement.
  - 12% discount for at least 50% repayment.
  - 10% discount for repayment through salary deductions or direct debit according to the repayment schedule.



### Incentive for Hiring Unemployed Malaysians

- Employers who hire Malaysians who have not been actively employed will be given incentives in the form of:
- 20% of monthly salary for first six (6) months; and
  - 30% for the next six (6) months.
- Subject to jobs with a monthly salary of RM1,500 and above.



### Incentive for Hiring Unemployed Targeted Groups

- Employers providing jobs with a minimum salary of RM1,200 to disabled persons, Orang Asli, ex-convicts, unemployed women for more than a year, single mothers and housewives will be given incentives in the form of:
- 30% of monthly salary for first 6 months; and
  - 40% for the next six (6) months.

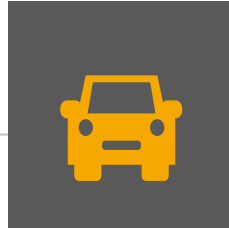
# Highlights of Budget 2022

## Other Key Initiatives (cont.1)



### **Extension of the Job Search Allowance ("JSA") under Employment Insurance System ("EIS")**

Monthly allowance for a minimum of three (3) months up to a maximum of six (6) months at the payment rate of between 30% - 80% based on an assumed monthly wage capped at RM4,000.



### **Subsidy for Child Safety Car Seats**

Subsidy of 50% or up to RM150 will be given for the purchase of child safety car seats by B40 households.



### **Improvement of Incentive for Hiring Apprentices**

Monthly incentive will be improved from RM800 to RM900 for a period of up to six (6) months starting from year 2022 for employers who employ school leavers and graduates aged 18 to 30 years.

# Highlights of Budget 2022

## Other Key Initiatives (cont.2)



### **eStart Programme**

One-off payment of RM150 will be credited into the e-wallet for youths aged 18 to 20 as well as full-time students at institutions of higher learning.



### **Extension of EPF Contribution Rate of 9%**

Minimum employees' EPF contribution rate reduction from 11% to 9% will be extended up to June 2022.



### **Increase of SOCSO Insured Salary Ceiling**

SOCSO insured salary ceiling will be increased from RM4,000 to RM5,000 in 2022.

# Highlights of Budget 2022

## Other Key Initiatives (cont.3)



### Expansion of SOCSO Coverage

SOCSO coverage will be expanded to include nine (9) new categories as follows:

- 1) Artists;
- 2) Hawkers;
- 3) Fisheries;
- 4) Agriculture;
- 5) Travel agents;
- 6) OKU;
- 7) "Orang Asli";
- 8) "Orang Asli" of Sabah Sarawak; and
- 9) Community Rehabilitation supervisors and staff.



### Wage Subsidy Program ("WSP") for Tourism Industry Players

Allocation of RM600 million for WSP initiative for tour operators that experienced at least 30% reduction in revenue.



### Financing Scheme for Microenterprises in the Informal Sector

- Financing at 0% interest for a maximum loan amount of up to RM10,000, with a moratorium period of up to twelve (12) months; and
- Micro credit loans of up to RM75,000 at 0% interest for first six (6) months of the loan tenure, with a six (6) months moratorium.





# Budget 2022 Impact

Tax measures relating to  
**Businesses**

# Budget 2022: Proposed Measures for **Businesses**

## 01

### Tax on income received from outside Malaysia

#### Present

Paragraph 28, Schedule 6 of the Income Tax Act 1967 ("ITA") exempts any person, other than a resident company carrying on the business of banking, insurance or sea or air transport, from tax in respect of income derived from sources outside Malaysia and received in Malaysia for the basis year for a year of assessment.

#### Proposed

Income tax will be imposed on residents in Malaysia for income derived from foreign sources and received in Malaysia.

#### Effective Date

From 1 January 2022.

#### Commentary

This proposal indicates that Malaysia is committed to amend its preferential tax regimes in compliance with the scope of the OECD Forum on Harmful Tax Practices ("FHTP") to be in line with international tax best practices.

Following the amendment, any income derived from sources outside Malaysia and received in Malaysia will be treated equally and taxable under Section 3 of the ITA, where income tax shall be charged for each year of assessment upon the income of any person accruing in or derived from Malaysia or received in Malaysia from outside Malaysia.

## 01

### Tax on income received from outside Malaysia

In summary, the tax treatments for income of a person in Malaysia are depicted as follows:

Income derived from	Income received in	Present	Proposed
Malaysia	Malaysia	Taxable	Taxable
Malaysia	Malaysia from outside Malaysia	Taxable	Taxable
Overseas	Malaysia from outside Malaysia	Tax exempted	Taxable
Overseas	Overseas	Tax exempted	Tax exempted

The proposed regime may have tax implications for the following examples:

1. A taxable person (resident) in Malaysia who receives royalty income from overseas subsidiaries will be subject to tax.
2. Repatriation of overseas business income (overseas Permanent Establishment) by a taxable person (resident) in Malaysia will be subject to tax.
3. Where a taxable person (resident) in Malaysia provides advances or loans to overseas entities and imposes an interest, the interest income received in Malaysia from the overseas entities will be subject to tax.
4. A taxable person (resident) in Malaysia who receives rental income from properties located overseas will be subject to tax.

Based on the above examples, foreign income received in Malaysia will no longer be exempted under Paragraph 28, Schedule 6 of the ITA. On this note, it may give rise to transfer pricing issues as the residents in Malaysia will need to ensure that the taxable income complies with the arm's length principle under Section 140A of the ITA.

## 01

### Tax on income received from outside Malaysia

Furthermore, some of these foreign income (i.e. interest, royalty, technical fees, etc.) may suffer withholding taxes in the country which made the payment. In such instances, the affected taxpayers may rely on the following:

For countries with Double Tax Agreement (“DTA”) with Malaysia

Pursuant to the DTA and Section 132 of the ITA, the taxpayer may claim bilateral credit relief on the tax suffered in the overseas country which can be used to set-off against the Malaysian tax payable.

For countries with no DTA with Malaysia

Pursuant to Section 133 of the ITA, the taxpayer may claim unilateral credit relief not exceeding half of the tax suffered in the overseas country which can be used to set-off against the Malaysian tax payable.

However, if a taxpayer has not suffered any foreign tax on the foreign income, then the whole of the income will be subject to Malaysian tax.

The proposed measure may adversely affect the country as:

1. Malaysian residents may be discouraged to repatriate funds into Malaysia which may impact the country's economic recovery plans.
2. Multinational companies may be discouraged from setting up their holding companies or treasury companies as foreign source income of these companies entering Malaysia may be subject to tax. This will make Malaysia less competitive as compared to some of our neighbouring countries.

# Budget 2022: Proposed Measures for **Businesses**

## 02

### **Deferment of income tax instalment payments for Micro, Small and Medium Enterprises ("MSMEs") for six (6) months until 30 June 2022**

Present

Companies are required to pay monthly tax instalments based on the submitted estimate of tax payable for a year of assessment.

Proposed

MSMEs will be given a deferment of monthly tax instalment payments for a period of six (6) months.

Effective Date

For monthly tax instalment payments for six (6) months until 30 June 2022.

Commentary

This proposed measure will help to ease the cash flow burden of MSMEs as such temporary cash savings can be channelled towards the recovery of their businesses.

In order to maximise cash flow, MSMEs should plan ahead and make use of the deferment of monthly tax instalments, revision of estimate of tax payable in the sixth (6th), ninth (9th) and eleventh (11th) month of the basis period available to these companies.



# Budget 2022: Proposed Measures for **Businesses**

## 03

### Special revision of estimate of tax payable

#### Present

Companies are allowed to revise the estimate of tax payable in the sixth (6th) and ninth (9th) month of the basis period.

#### Proposed

Companies will be allowed to revise the estimate of tax payable in the eleventh (11<sup>th</sup>) month of the basis period.

#### Effective Date

For revisions made before 31 October 2022.

#### Commentary

This proposed measure affords companies an opportunity to accurately estimate the tax payable for a year of assessment. Thus, companies should be able to avoid penalties for under-estimation of tax payable, or over payment of tax instalments which may lead to unnecessary cash being held by the Inland Revenue Board.

## 04

### Review of tax treatment on unabsorbed business losses

#### Present

From the year of assessment ("YA") 2019, unabsorbed business losses in a YA are allowed to be carried forward for a maximum period of seven (7) consecutive YAs and the balance if any, shall be disregarded. The accumulated unabsorbed losses up to YA 2018 can be carried forward until YA 2025.

#### Proposed

The current tax treatment will be reviewed as follows:

- i. the current unabsorbed business losses that can be carried forward from YA 2019 onwards will be extended from a maximum period of seven (7) consecutive YAs to a maximum period of ten (10) consecutive YAs; and
- ii. the accumulated unabsorbed losses up to YA 2018 that can be carried forward until YA 2025 will be extended until YA 2028.

#### Effective Date

From YA 2019.

#### Commentary

This proposed measure should ease the burden of companies with a long profit gestation period especially those companies being affected by the Covid-19 pandemic and accumulated heavy losses over the past few years.

## **05** Prosperity Tax, a special one-off tax on high-income generating companies

Present

Small and medium-sized companies ("SMEs") resident and incorporated in Malaysia which have a paid-up capital of RM2.5 million and below at the beginning of the basis period for a year of assessment and gross business income of not exceeding RM50 million are subject to the corporate tax rate of 17% on chargeable income of up to RM600,000 and 24% on the remaining chargeable income exceeding RM600,000.

Meanwhile, non-SMEs are subject to the corporate tax rate of 24%.

Proposed

A Prosperity Tax will be introduced as a special one-off tax that will be levied on non-SMEs generating substantial income during the COVID-19 pandemic period. Under the Prosperity Tax, these non-SMEs will be subject to a corporate tax rate of 24% on chargeable income of up to RM100 million and 33% on the remaining chargeable income exceeding RM100 million.

Effective Date

For YA 2022.

Commentary

With the introduction of the Prosperity Tax, the increased tax collection from the high-income generating companies can be channelled to the citizens or business sectors that require financial support to survive post COVID-19 pandemic period.

Non-SMEs projecting a high chargeable income in YA 2022 may consider reviewing the tax positions. Various measures could be undertaken by these non-SMEs to reduce the effect of the additional 9% tax rate (which represents an increase of 37.5% over the standard tax rate of 24%) such as capitalising on the existing tax incentives, rewarding loyal employees with better bonus or donating to approved institutions to reduce the chargeable income.

## 06

### Tax Compliance Certificate ("TCC")

#### Present

Currently, there is no requirement for companies participating in Government procurements to obtain a TCC issued by the Inland Revenue Board ("IRB").

#### Proposed

The TCC will be a prerequisite for companies to participate in Government procurements starting from 1 January 2023.

#### Effective Date

From 1 January 2023.

#### Commentary

This would represent the Government's initiative in managing and improving the tax compliance of taxpayers across Malaysia. The prerequisite to obtain the TCC for companies to participate in Government procurements is a step in the right direction as it would ensure that first and foremost the Government's vendors are tax compliant in accordance with the relevant tax laws.

To ensure a successful implementation, the IRB should set clear criteria, conditions and procedures for taxpayers to obtain a TCC.

# Budget 2022: Proposed Measures for **Businesses**

## 07

### Tax Identification Number ("TIN")

#### Present

Currently, there is no TIN in Malaysia.

#### Proposed

TIN will be implemented and start to be assigned to taxpayers in the year 2022.

#### Effective Date

From Year 2022.

#### Commentary

As TIN could be automatically assigned to every person, this would lead to an increase in the number of registered taxpayers in the country. If TIN becomes a requirement to be disclosed in transaction documents (i.e. agreements, invoices, etc.), it could allow the IRB to cross-check transactions and identify potential tax evasion cases. By broadening the tax base through the implementation of TIN, it could reduce the number of tax evasion cases which would lead to an increase in tax collections.



## 08

### Extension of Additional Reinvestment Allowance ("RA") incentive

#### Present

Companies involved in manufacturing and selected agricultural activities which incurred capital expenditure on qualifying projects are allowed to claim Reinvestment Allowance for a period of fifteen (15) consecutive years of assessment beginning from the year of assessment for the basis period in which a claim for RA was first made.

Under PENJANA, eligible companies which are involved in manufacturing and selected agricultural activities are eligible for additional RA incentive for three (3) years of assessment from YA 2020 to YA 2022.

#### Proposed

The additional RA incentive period will be extended to YA 2024.

#### Effective Date

For the years of assessment 2023 and 2024.

#### Commentary

Eligible companies which have exhausted the fifteen (15) RA incentive period should consider making full use of the extension of the additional RA incentive period. The additional two (2) years allow eligible companies to plan ahead and prepare the relevant documentations to substantiate the RA incentive claim.

## 09

### Tax incentives for digital ecosystem acceleration scheme

Present

Companies carrying out approved activities under the Multimedia Super Corridor ("MSC") Malaysia are given tax incentives from 1 January 2019 as follows:

- i. Premises located within a MSC location:
  - a. Income tax exemption of 100% for a period of ten (10) years; or
  - b. Investment Tax Allowance ("ITA") of 100% on the qualifying capital expenditure incurred to be set-off against 70% of the statutory income for each YA for a period five (5) years.
- ii. Premises located outside a MSC location:
  - a. Income tax exemption of 70% for a period of five (5) years.

Companies relocating their operations to Malaysia or undertaking new investments in selected service sectors including companies adapting Industrial Revolution 4.0 technology and digitalisation are given the following tax incentives:

- i. New company - Income tax rate of 0% to 10% for a period of up to ten (10) years.
- ii. Existing company with new services segment - Income tax rate of 10% for a period of up to ten (10) years.

These tax incentives are applicable for applications received by the Malaysian Investment Development Authority ("MIDA") from 7 November 2020 to 31 December 2022.

## 09

### Tax incentives for digital ecosystem acceleration scheme

Tax incentives for activities under Digital Ecosystem Acceleration Scheme ("DESAC") will be given as follows:

- i. Digital Technology Provider
  - a. New company – Income tax rate of 0% to 10% for a period of up to ten (10) years.
  - b. Existing company that diversifies into new service activities or new service segments – Income tax rate of 10% for a period of up to ten (10) years.
- ii. Digital Infrastructure Provider
  - a. Investment Tax Allowance ("ITA") of 100% on capital expenditure for qualifying activities for up to ten (10) years. This allowance can be used to set off up to 100%, against the statutory income.

Proposed

Effective Date

For applications received by MIDA from 30 October 2021 to 31 December 2025.

Commentary

This will promote Malaysia as a preferred destination for digital technology providers and digital infrastructure providers to set up facilities or move their operations to Malaysia. This will help boost the national digital ecosystem.

Furthermore, Malaysians employed in these companies can learn the knowledge and know-how which will fast-track Malaysia into becoming a digitally competitive country.

### Review of tax incentives for **Structured Internship Programme**

Double tax deduction is given on qualifying expenditure incurred by companies that implement Structured Internship Program (“SIP”) which is approved by Talent Corporation Malaysia Berhad as follows:

Budget	Exemption period (YA)	Academic level
2012	2012 to 2016	Bachelor's Degree or equivalent
2015	2015 to 2016	Expanded to Diploma and Vocational [Diploma in Malaysian Skills ("DMS") Levels 4 and 5]
2017	2017 to 2019	Extended period and expanded to Vocational [Malaysian Skills Certificate ("MSC") Level 3]
2019	2019 to 2021	Extended period and reserved for students in the level of Bachelor, Diploma and Vocational program (minimum MSC Level 3) in the field of Engineering and Technology based on Industry4WRD
2020	2020 to 2021	Extended period to all academic fields at the Bachelor's Degree level, Diploma, Vocational (DMS Levels 4 and 5) and MSC Level 3

Students and companies who are eligible to claim for this incentive are as follows:

- i. students who are Malaysian citizens;
- ii. students who complete an approved internship program prior to completion of their final semester;
- iii. the minimum internship period is at least ten (10) weeks; and
- iv. the minimum monthly allowance is at least RM500 per student.

## 10

### Review of tax incentives for Structured Internship Programme (cont.)

Present  
(cont.)

The number of students and companies involved in SIP are as follows:

Year	Number of internship students	The number of approved companies
2018	5,454	371
2019	6,284	529
2020	6,434	737
Total	18,172	1,637

Proposed

To encourage continuous involvement of companies and industries in implementing talent distribution strategies through structured internship programs, the tax incentive will be extended for four (4) years and expanded to include students who are undertaking the following levels of study:

- Masters;
- Professional Certificate; and
- MSC Level 1 and 2.

Effective Date

From YA 2022 to YA 2025

Commentary

With the proposed amendments, companies involved in the SIP will be able to gain access to a wider range of students with the required skillsets, therefore generating more employable graduates to fill the current talent shortage in Malaysia.

## 11

### Expansion of scope for green technology tax incentives

In Budget 2020, tax incentives for green technology were reviewed as follows:

*i. Green Investment Tax Allowance (“GITA”)*

Investment tax allowance of 100% on capital expenditure for qualified green activities is extended for three (3) YAs. This allowance is deductible against 70% of statutory business income.

*ii. Green Investment Tax Exemption (“GITE”)*

- a. Income tax exemption of 70% on statutory business income for qualified green service activities is extended for three (3) YAs; and
- b. New tax incentive for solar leasing activities introduced with income tax exemption of 70% on statutory business income up to ten (10) YAs, is given to solar leasing companies certified by the Sustainable Energy Development Authority (“SEDA”).

This tax incentive is granted for applications received by the Malaysian Investment Development Authority (“MIDA”) from 1 January 2020 to 31 December 2023.

Present



## 11

### Expansion of scope for green technology tax incentives (cont'd)

The existing tax incentives will be extended to include Rainwater Collection and Utilisation System project. This project must be certified by the Malaysian Green Technology Corporation (“MGTC”) to qualify for the tax incentives granted as follows:

*i. GITA*

Investment tax allowance of 100% on capital expenditure for qualified activities under the SPAH project. This allowance is deductible against 70% of statutory business income; or

*ii. GITE*

Income tax exemption of 70% on statutory business income for qualified service activities under the SPAH project.

Proposed

Effective Date

For applications received by MIDA from 1 January 2022 to 31 December 2023.

Commentary

This proposed measure will encourage more companies to invest in green technology which will eventually create a better and sustainable living environment. This measure is also to support the agenda for Sustainable Development Goals (SDGs) 2030, i.e. Goal 6: Clean Water and Sanitation, Goal 11: Sustainable Cities and Communities and Goal 12: Responsible Consumption and Production.

## 12 | Review of stamp duty on contract notes for trading of shares listed on Bursa Malaysia

### Present

Contract notes for trading of shares listed on Bursa Malaysia are subject to stamp duty at the rate of 0.1% which is equivalent to RM1.00 per RM1,000. The maximum stamp duty is limited to RM200 per note contract.

### Proposed

The stamp duty rate for trading of shares listed on Bursa Malaysia will be reviewed as follows:

- i. the stamp duty rate on contract notes will be increased to 0.15% (i.e. equivalent to RM1.50 for every RM1,000); and
- ii. the stamp duty limit of RM200 for each relevant contract note will be abolished.

### Effective Date

From 1 January 2022.

### Commentary

With such amendment, careful consideration is needed as the cost of transactions of shares listed on Bursa Malaysia has been increased. For example, previously, if the transaction value of the securities is RM300,000, the buyer of the securities is required to pay RM200 (i.e. restricted). With the proposed amendment, the buyer of the securities is now required to pay RM450.

## 13

### Widening of the scope of imposition of Sales Tax

#### Present

Sales tax is imposed and levied on all taxable goods manufactured in Malaysia or imported into Malaysia.

However, any person importing taxable goods (excluding cigarettes, tobacco and intoxicating liquor) using air courier service through the designated international airports and the taxable goods imported are of a total value not exceeding RM500 per consignment (“Low Value Goods”) is exempted from the payment of Sales Tax.

This Sales Tax exemption is provided under Item 24 in Schedule A of the Sales Tax (Person Exempted From Payment Of Tax) Order 2018 (“A24 Sales Tax Exemption Order”).

#### Proposed

The Sales Tax exemption under A24 Sales Tax Exemption Order will be revoked.

The importation of Low Value Goods as well as locally purchased Low Value Goods (i.e. where the goods are sold by the online sellers to a customer in Malaysia) will be subject to Sales Tax.

The imposition of Sales Tax on Low Value Goods is to be implemented through a new legal provision in the Sales Tax Act 2018. Under this provision, the sellers (i.e. either from Malaysia or overseas) who sell Low Value Goods to consumers in Malaysia are liable to register for Sales Tax and impose Sales Tax on the Low Value Goods.

#### Effective Date

1 January 2023.

#### Commentary

Presently, only the manufacturers who manufacture taxable goods are liable to register for Sales Tax. With this proposed measure, an online trader (either local supplier or foreign supplier) may also be liable to register for Sales Tax.

# Budget 2022: Proposed Measures for **Businesses**

## 14

### Service Tax on goods delivery services

#### Present

Courier delivery services for documents or parcels not exceeding 30 kilograms by service providers licensed under Section 10, Postal Services Act 2012 are subject to Service Tax under Group I, First Schedule of Service Tax Regulations 2018.

The goods delivery services by service providers not licensed under the Postal Services Act 2012 is not subject to Service Tax.

#### Proposed

Service Tax will be imposed on goods delivery services provided by service providers including e-Commerce platform except for food and beverages delivery services as well as logistic services.

#### Effective Date

1 July 2022.

#### Commentary

This proposed measure is to streamline the Service Tax treatment between courier delivery services and goods delivery services.

## 15

### Introduction of the Special Voluntary Disclosure Program for Indirect Taxes

It is proposed that a Special Voluntary Disclosure Program (“SVDP”) be introduced by the Royal Malaysia Customs Department in the following phases:

- i. In the first phase, a penalty remission incentive of 100% is to be offered.
- ii. In the second phase, a penalty remission of 50% is to be offered.
- iii. Notwithstanding the above, tax remission will also be considered for certain cases.

Proposed

To be announced.

Effective Date

Commentary

Further details on this SVDP have not been made available. However, as mentioned in the 2022 pre-budget statement, this SVDP should allow taxpayers to voluntarily disclose any under-declaration of indirect taxes such as import duties, Sales Tax, Service Tax, Export Duty, Excise Duty, etc.



# Budget 2022 Impact

Tax measures relating to  
**Individuals**

# Budget 2022: Proposed Measures for **Individuals**

## 01

### Review of income tax relief for medical treatment expenses for self, spouse and child

Present

A resident individual is entitled to claim up to RM8,000 on medical expenses for serious diseases for self, spouse and child, as well as fertility treatments for self and spouse. The claim of tax relief must be proven by receipts and certified by medical practitioners registered with the Malaysian Medical Council (“MMC”). The relief also includes the expenses incurred for a full medical check-up and vaccination expenses for a maximum amount of RM1,000.

Proposed

It is proposed that the full medical check-up include the examination cost and consultation services related to mental health. The examination and consultation must be from:

- a) Psychiatrists registered with the Malaysian Medical Council under the Mental Health Act 2001 (Act 615); or
- b) Clinical psychologist registered with the Council of Health Professions Associated Health of Malaysia under the Allied Health Professions Act 2016 (Act 774); or
- c) Counselors registered with the Malaysian Board of Counselors under Counselors Act 1998 (Act 580).

Effective Date

From the YA 2022.

Commentary

Currently, a deduction of RM8,000 is allowed for treatment of serious diseases under paragraph 46(1)(g) of the ITA, with relief for complete medical examination expenses of RM1,000 forming part of that deduction. Based on the proposal, the relief for complete medical examination expenses will cover any expenses related to mental health. There is a potential tax saving of up to RM2,400 (RM8,000 relief x the maximum individual tax rate of 30%) for medical expenses incurred for self, spouse and child.

This proposal aims to alleviate the cost of medical treatment faced by most people who are impacted due to the COVID-19 pandemic.



## 02

### Review of Real Property Gains Tax rate for individuals, permanent residents and other than a company

Real Property Gains Tax (“RPGT”) is levied on gains from the disposal of a real property or shares of a real property company by an individual citizen, permanent resident and other than a company. The holding period and the applicable RPGT rates are summarised as follows:

Disposal	RPGT rates
Within 3 years after the date of acquisition	30%
In the 4 <sup>th</sup> year after the date of acquisition	20%
In the 5 <sup>th</sup> year after the date of acquisition	15%
In the 6 <sup>th</sup> year after the date of acquisition or thereafter	5%

Present

Proposed

The RPGT rate on disposal of a real property or shares of a real property company in the 6th year and thereafter after the date of acquisition will be lowered from 5% to 0%.

Effective Date

From 1 January 2022.

Commentary

The proposed amendment will enable individuals and permanent residents to dispose of their real property (i.e. sub-sale) at a more competitive price. In addition, shareholders of real property companies may consider taking advantage of this to reassess and restructure their businesses (i.e. lower restructuring cost).



# Conclusion

Through the various analysis contained herein, it is clear for all to see that Budget 2022 represents a balanced and pragmatic approach to the nation's finances. The government's attempt to prioritise current needs whilst not abandoning the long-term outlook of the country is indeed commendable.

Therefore, we encourage our clients and stakeholders to take stock of their business and financial positions as they plan ahead for the future. Despite Budget 2022 focusing on economic resiliency, the road ahead for Malaysian businesses remains challenging. New tax measures, whilst necessary, could very well be a double-edged sword and delay the road to economic recovery for some. However, through careful consideration and analysis of the entirety of Budget 2022, we believe our clients and businesses in general can use the opportunities that this expansionary Budget presents to chart a positive way forward over the next 12 months.

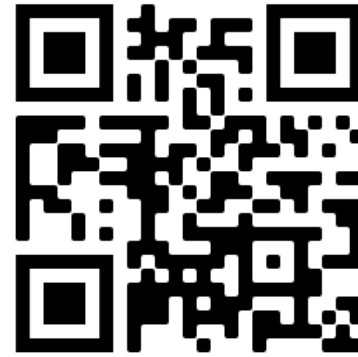






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