

Deloitte Budget 2023

Building a sustainable and resilient future



The critical numbers

Federal Government Indirect Tax Revenue



Tax	2021	2022	2023
Sales tax	13,598,380,734	16,256,423,583	17,160,000,000
Service tax	12,017,669,545	15,111,717,670	16,180,000,000
Import duties	2,644,759,544	3,191,911,907	3,168,000,000
Export duties	2,057,063,357	2,621,849,779	1,534,000,000
Excise duties	10,240,566,430	12,555,720,708	12,425,000,000
Tourism tax	1,171,943	1,026,423	200,000,000
Levies	2,056,859,150	3,218,848,941	1,333,000,000
Other indirect tax	971,133,396	2,331,490,170	2,130,000,000
Total indirect tax	43,587,604,099	55,288,989,181	54,130,000,000

Goods and Services Tax

- At present, the Government is not planning to implement GST.
- Decision takes into account the current backdrop of low wages, rising cost of living and inflationary pressures.
- This will be reviewed at a more appropriate time.



Luxury Goods Tax

What we know

- The Government propose to introduce luxury goods tax (“LGT”) with a minimum value.
- The LGT would depend on the type of luxury goods (e.g. luxury branded watches, branded fashion goods, expensive cars, private jets, jewellery etc.).
- A form of progressive tax on high value goods which aims to widen the tax base by primarily targeting high-income earners.
- Countries such as China, Taiwan, Indonesia, South Korea, Norway, Italy and Chile have implemented some form of tax on high value goods.
- LGT is proposed to commence in 2023, although no specific implementation date was mentioned.



Luxury Goods Tax

Questions to ask and what remains to be seen

- What will the definition of “luxury goods” be?
- What is the threshold to be classified as a luxury good?
- Will LGT be implemented through an expansion of the Sales Tax Act 2018 or as a separate Act of Parliament?
- Who will be responsible to charge and collect LGT (e.g. retailers of LGT)?
- What will be the tax rate of LGT?
- When is the point of charging and collecting LGT?
- Will there be any tax exemptions for LGT?



Special Voluntary Disclosure Program 2.0

- The Royal Malaysian Customs Department (RMCD) will run another voluntary disclosure program, which will include a 100% penalty waiver for voluntary disclosures.
- Starting from 1 June 2023 to 31 May 2024.
- SVDP 1.0 ran from 1 January 2022 to 30 September 2022, to declare and make good outstanding indirect taxes owing from past periods up to 31 October 2021.
- SVDP 2.0 possibly to cover taxable periods from November 2021 onwards.
- No details on whether there would be any tax remission offered (between 5% to 30% under SVDP 1.0) or compounds imposed (RM500 or RM1,000 under SVDP 1.0).



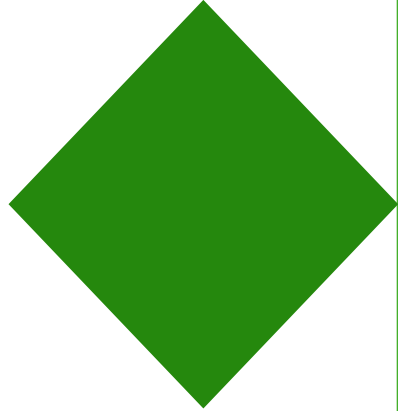
Extension of Import Duty, Excise Duty and Sales Tax Exemption in relation to Electric Vehicles



Current and proposed exemption for imported Completely Built-Up (CBU) and Completely Knocked-Down (CKD) components and locally assembled Electric Vehicles (EV) are as follow:

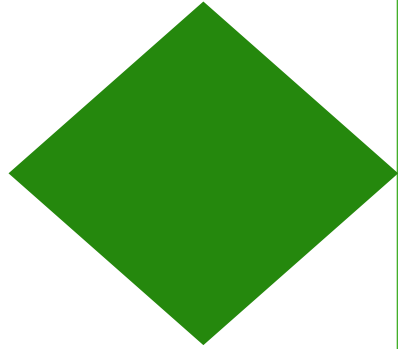
Type of incentive	Current incentive period	Proposed extended incentive period
Full import duty exemption on components for locally assembled EV	1 January 2022 – 31 December 2025	31 December 2027
Full excise duty and sales tax exemption on CKD EV		
Full import duty and excise duty exemption on imported CBU EV	1 January 2022 – 31 December 2023	31 December 2025

Other Indirect Tax Proposals in Budget 2023



- Imposition of excise duty on liquid or gel products containing nicotine used in electronic cigarettes or vape (effective date to be announced)
- Import duty and sales tax exemption for:
 - ✓ nicotine replacement therapy products – nicotine gum and nicotine patch (application received from 1 April 2023 – 31 March 2026)
 - ✓ studio and filming production equipment (application received from 1 April 2023 – 31 March 2026)
- Excise duty and sales tax exemption for disposal of individually owned taxis and hired cars (from 1 March 2023)

OTHER INDIRECT TAXES (Upcoming)



- Sales tax on low value goods (was supposed to be effective on 1 April 2023 , latest has been postponed to a date to be determined later)
- Tourism tax on digital platform service providers (effective 1 January 2023)
- Service tax on goods delivery services (currently postponed until further notice)
- Sugar tax: Excise duty on pre-mixed preparations product (currently postponed until further notice)

Recent updates

Recent updates, common issues and pitfalls raised in Customs audits

Updates

- As details on SVDP 2.0 remain scarce, voluntary disclosure procedures and the outcome remain different according to the relevant State Customs' practice.
- Refund application procedures remain different according to State Customs' practice. Some states require written confirmation from the Sales/Service Tax Policy Division if the matter is technical.
- Verification audits (which may escalate to full audits) conducted on newly registered (for sales tax/service tax) companies.

Common issues

- Ambiguity of service tax rules persists as no significant updates to guides e.g. management, IT services, reimbursement/disbursement.
- No clarity whether reimbursement/disbursement rules apply on imported services (for service tax).
- Sales tax policy conditions which may not align with provisions of the sales tax rules e.g. exports involving dropshipping.

Recent updates

Recent updates, common issues and pitfalls raised in Customs audits

Common issues (cont'd)

- Scope of sales/service tax exemptions not sufficient to prevent cascading.
- Old Customs policy/administration not keeping up with current business trends.
- Inconsistency between rules and Customs practices on certain technical/administrative matters persists e.g. goods sold by a LMW to a local company, but goods are not shipped into the principal customs area (whether this should be treated as local sales or not).

Pitfalls

- Failure to account for service tax on imported taxable services remain a common issue.
- Failure to comply with import duty/sales tax exemption conditions.
- Utilising incorrect exemptions for acquisitions.
- Relying on verbal advice only (no written support).
- Relying on Customs' confirmation provided based on inaccurate/incomplete background.

The Deloitte Team



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Eng Yew is the Country Indirect Tax Leader of Deloitte Malaysia. He has over 20 years experience in the areas of customs, excise, sales tax, service tax and GST. Eng Yew currently advises clients on the indirect tax matters including impact of proposed transactions and arrangements, indirect tax reviews & due diligences, managing duties exemption for large scale projects, client representation with the relevant tax authorities and advising, GST impact and implementation.

He is also involved in Customs related engagements for matters such as (but not limited to) compliance, tariff classification, valuation, Free Trade Agreements, rules of origin, due-diligence, Customs audit and duty relief and exemption for several MNCs and local Malaysian companies.

Eng Yew actively contributes to Chartered Tax Institute of Malaysia ("CTIM"). He is currently a member of the CTIM's Technical and Public Practice Committee, Examination Committee and also GST committee. He is also involved in representing The National ICT Association of Malaysia on service tax-related discussions for information technology-based businesses.

Eng Yew has a working relationship and liaison with the various authorities including the Ministry of International Trade and Industry, the Royal Customs and Excise Department, the Malaysian Industrial Development Authority and the Ministry of Finance.

Eng Yew also advises clients in various industries, including information technology, oil and gas, telecommunication, financial services, transport, healthcare, plantation, construction, media, trading, manufacturing and services.



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Nicholas is a Director in Deloitte currently involved in both indirect tax and Customs matters. His experience encompasses provision of advices on sales tax and service tax ("SST") implications of business arrangements and transactions and engaging in SST implementation projects. Nicholas is also actively engaged in SST and Customs related assignments involving valuation matters, exemptions, compliance, classification, Free Trade Agreements, import facilities i.e. AEO, free zones, etc., ruling applications and due-diligence. Prior to GST, he has assisted clients with respect the old SST regime which covers advisory, classification, return preparation, rulings and exemption applications.

Nicholas' experience also includes assisting with SST implementation projects, conducting health checks on clients from the SST and Customs perspective which includes providing advice on best practices to be undertaken to mitigate risks and improve existing practices for better compliance for several MNC companies. He was also involved in assisting businesses with their VAT implementation in the Kingdom of Saudi Arabia.

Throughout his career, he has worked with clients of various industries including manufacturing, automotive, air transport, trading, logistics, insurance, information technology, oil and gas upstream services, telecommunications, finance and other services.

Nicholas is actively contributing to the Chartered Tax Institute of Malaysia on Customs-related policy issues. He has also completed the Customs-organised Executive Customs Agent Course (12/2019) with distinction. Nicholas is also currently a fellow member of the ACCA.



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