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# TRICOR INSIGHTS

**PRE-BUDGET STATEMENT FOR THE 2022 BUDGET**

On 31 August 2021, the Ministry of Finance (MOF) issued its maiden Pre-Budget Statement (PBS) ahead of the 2022 Budget which is planned to be tabled in Parliament on 29 October 2021.

The publication of the PBS is aimed at enhancing transparency and inclusivity in the annual budget formulation process. It also provides a preview of the 2022 Budget proposals. At the core of the 2022 Budget's formulation process is inclusivity, which is in line with the spirit to drive the Recovery, Resilience and Reform initiative of the Malaysian economy.

The PBS discusses various tax-related measures and below is a summary:

## 1. Strategies to Increase Tax Revenue

- Implementation of a Special Voluntary Disclosure Program (SVDP) for indirect taxes administered by the Royal Malaysian Customs Department (RMCD)
- Introduction of a Tax Compliance Certificate as a pre-condition for tenderers to participate in Government procurement projects
- Implementation of the Tax Identification Number (TIN) as well as reviewing tax treatment identified as having elements of revenue leakage or harmful practice.

## 2. Strategies to Strengthen the Tax System

- Comprehensive review of the tax incentive framework with the following objectives:
  - (i) To provide an incentive framework that is responsive to changes in the business environment and economic landscape
  - (ii) To coordinate the role, focus and uniformity in evaluating investments by investment promotion agencies
  - (iii) To ensure that the tax incentive framework complies with international commitments
  - (iv) To ensure that Malaysia remains a key destination for foreign direct investments
- Medium-Term Revenue Strategy ("MTRS") to ensure that revenue through tax collection is continually managed and sustainably increased in line with Gross Domestic Product (GDP) growth. MTRS has three main components of taxation, namely Tax Policy, Tax Administration and Tax Legal Framework.

The main measure which businesses should pay immediate attention to is the SVDP for indirect taxes. This proposal follows the earlier SVDP which was administered by the Inland Revenue Board between November 2018 to September 2019 in respect of income tax, petroleum income tax, stamp duty and real property gains tax.

Under the indirect tax SVDP, it is expected that penalty reductions will be granted to taxpayers who come forward to make the voluntary disclosure. Though the details are yet to be announced, it is expected that the SVDP will apply in respect of sales tax, service tax, import duty and excise duty. However, it is not clear at this stage if the SVDP will apply to the previous Goods and Services Tax. Further announcements are expected to be made when the 2022 Budget is tabled.

In the meantime, businesses should review their status of compliance with indirect tax obligations. The SVDP is expected to be beneficial in respect of the following areas of non-compliance:

- Failure to register for sales tax, service tax and any other indirect taxes
- Failure to meet indirect tax exemption conditions
- Omission to account for service tax on imported taxable services
- Under-declaration of taxes due to errors in the accounting system
- Under-declaration of duties and taxes due to inaccurate classification
- Unresolved indirect tax audit / investigation cases.

## Comments

- The PBS is a welcomed move by the MOF and shows the Government's efforts in improving transparency and inclusivity as well as possibly dissipating the 'secrecy' that surrounds the annual budget proposals. This will allow various parties to focus their thoughts and present suggestions on the specific matters outlined instead of seeking all kinds of incentives and giveaways for which the Government lacks the fiscal capacity.
- The SVDP on indirect taxes will help taxpayers to manage and regularise their indirect tax affairs and to close any unresolved audit/investigation cases
- The features of the SVDP on indirect taxes such as timeline, penalty rates and the scenarios that will be covered under this SVDP are expected to be announced soon. In order to provide assurance to taxpayers, there should also be clarity on whether all disclosures made will be accepted on a good faith basis and any settlement agreed with the RMCD will be deemed finalised and will not be open to future audit/investigation.
- With a proper mechanism in place, the SVDP will help the Government save substantial costs and time from carrying out audits and at the same time, help in revenue collection in the short-term.
- As for the TIN, this suggestion was already mentioned in the 2020 Budget and was repeated in the 2021 Budget and it is expected that in the 2022 Budget, we will see the relevant legislative changes in the Finance Bill that will be tabled as part of the Budget.
- Subsequent to the issuance of the PBS, the MOF has also uploaded four public consultation papers on its website covering improvement in the Government's procurement policy on goods/services, review of tax incentives, improving the Government's cash assistance programme and on the Fiscal Responsibility Act.

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