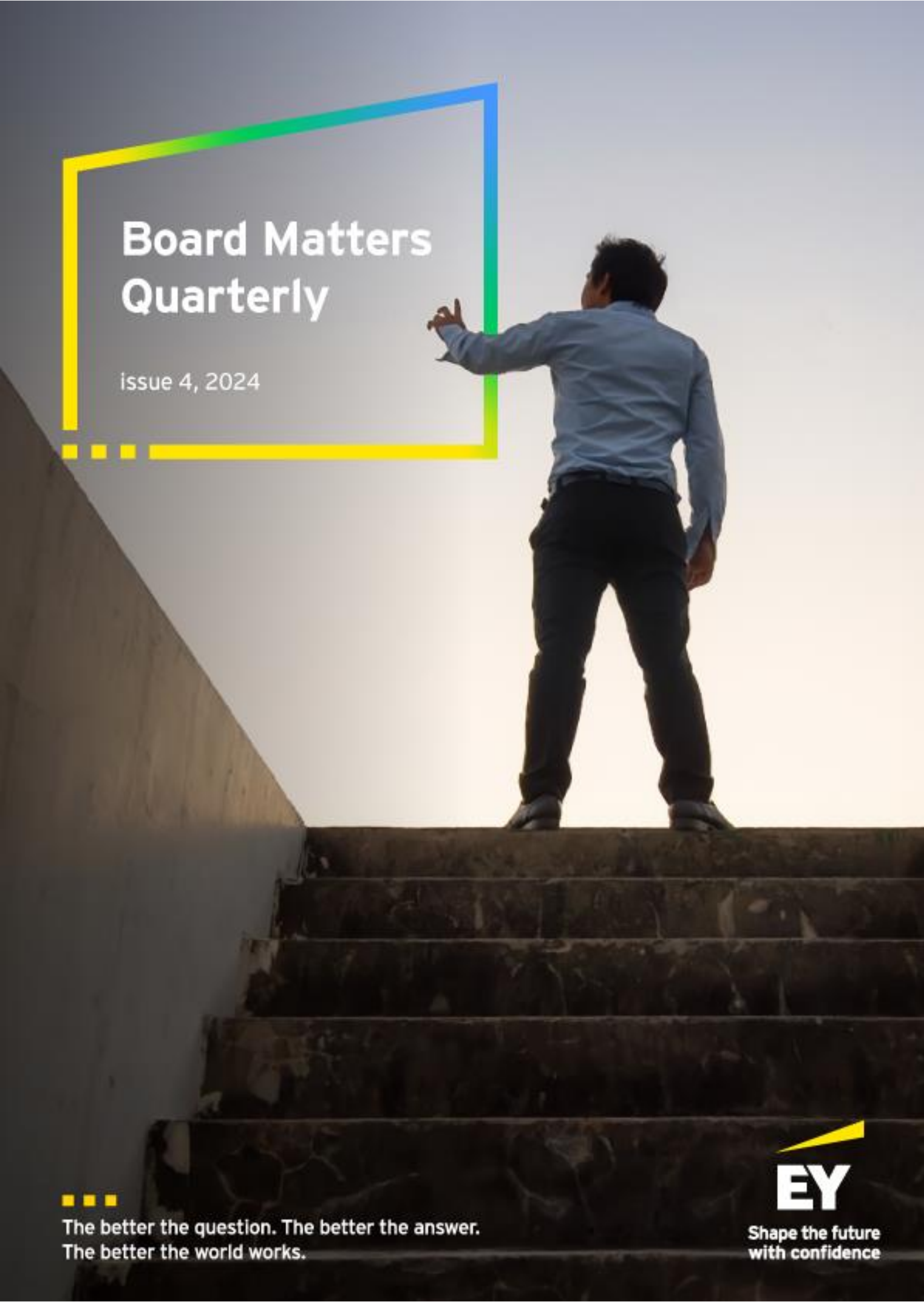
Board Matters Quarterly

issue 4, 2024



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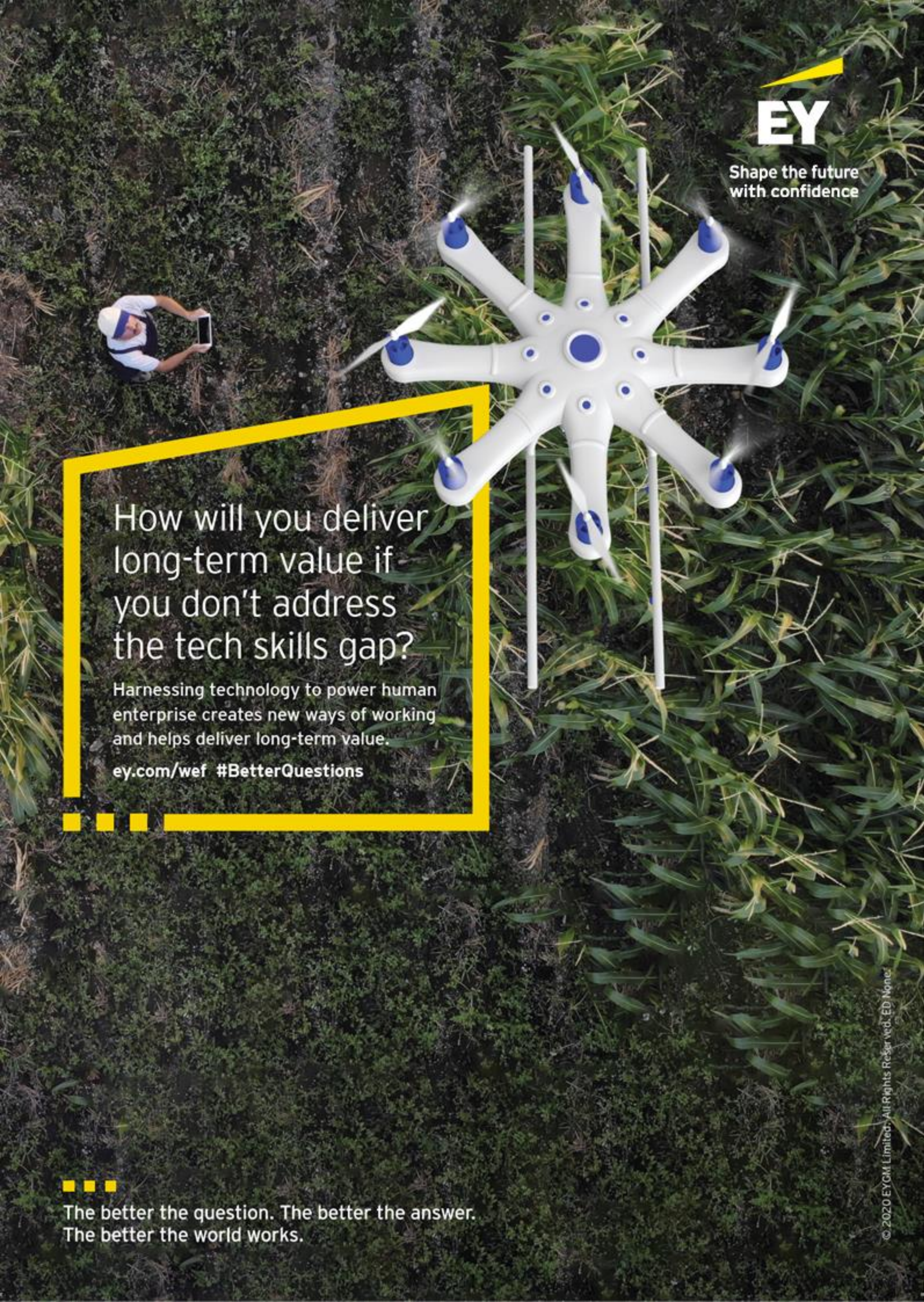
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Issue 4, 2024

Board Matters Quarterly

Board Matters Quarterly offers thought-provoking perspectives and insights into leadership and governance issues for boards and audit committees, providing support to navigate an increasingly complex business environment.

1

How Budget 2025 will strengthen the nation's finances and investment environment

2

Cultivating cybersecurity: More than just strategy, it's culture

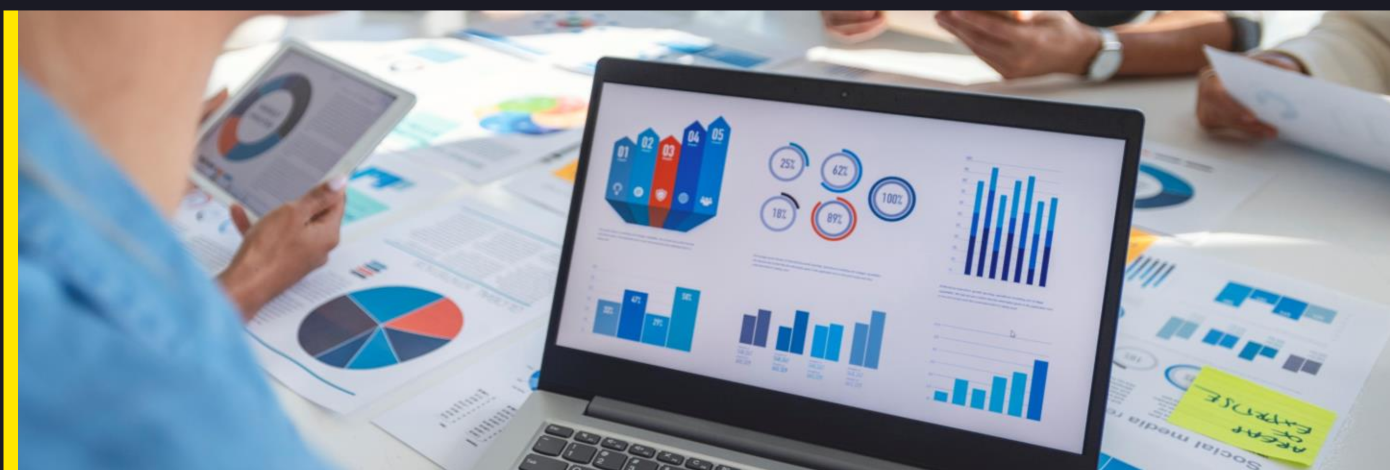
How Budget 2025 will strengthen the nation's finances and investment environment

In a move to strengthen the nation's financial standing, Malaysia's 2025 Budget unveiled by Prime Minister Datuk Seri Anwar Ibrahim on **18 October 2024 introduced measures to help reduce the deficit to 3.8% in 2025 while boosting revenue from RM322 billion in 2024 to RM340 billion in 2025**. Central to this, are the introduction of new taxes, expansion of scope of existing taxes and updated initiatives to attract and retain foreign direct investments.

New and expanded taxes

Firstly, the scope for Sales Tax and Service Tax (SST) continues to be expanded to be more broad-based and with a potential variation in rates, **with effect from 1 May 2025.**

Very little is known at this stage as to the details, but the examples in the Prime Minister's speech suggest food and services will be in-scope, with exceptions for essential food items. If so, this is going to affect the broader population. With the expansion, it will be interesting to know what else is left outside the scope of SST.

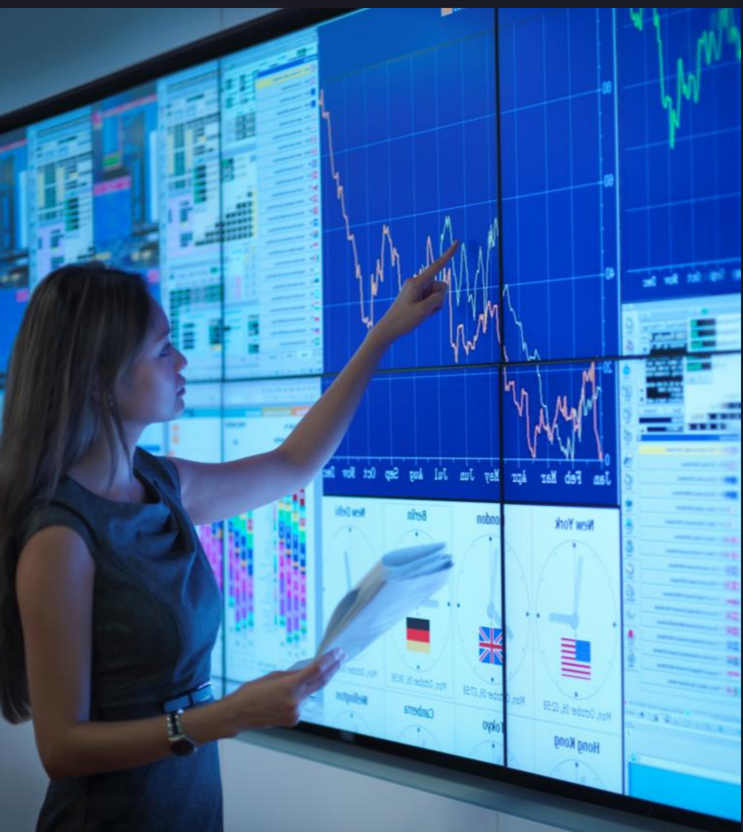


In the past, the Organisation for Economic Co-operation and Development (OECD) and the World Bank have expressed the view that Malaysia should broaden its tax base to improve fiscal stability, including having a goods and services tax (GST)

The OECD Economic Survey 2024 for Malaysia suggested the reintroduction of GST at a low rate to mitigate the issues that plagued its initial rollout in 2015. Consumption taxes such as GST are viewed as a relatively stable revenue source and often less disruptive to economic growth, as they impose fewer distortions on employment and investment.

Instead, the 2025 Budget proposal is to expand the SST scope. It attempts to replicate the broader base of the GST – but without the benefit of input tax offsets typical of a GST system. More analyses will be done by the Government on the details, but one consideration will be to ensure that the SST will not inadvertently create an increase in the cost of goods and services as well as to the overall cost of living. The Government's commitment to engagement sessions with relevant stakeholders before finalizing the scope of the SST expansion and relevant tax rates is very welcome and will ensure that industry-specific issues are addressed and unintended consequences mitigated in the implementation of the updated SST regime.

Secondly, in an unexpected move, the Government will introduce a 2% tax on dividend income (net of deductions and reliefs) of individual shareholders with annual dividend income exceeding RM100,000 from Malaysian shares, to be effective from 2025, ending 18 years of full dividend tax exemption under the single-tier dividend system. This notably excludes distributions from unit trusts, exempt dividends from incentivized activities, foreign dividend income, and income from funds like the Employee Provident Fund.



Clearly, this is to target high net worth individuals, ranging from those in businesses and professions, passive investors and recipients of share option schemes. It imposes an additional tax on individuals receiving dividends more than RM100,000 even though the dividend-paying company has paid taxes due on its profits and gains. It is unclear how much tax will be raised from this proposal, but this is a new source of taxation and the Government may review its scope and rate in the future as part of the progressive broadening of the tax base.

In the past, under the imputation system dividends were taxed in the hands of shareholders, but the tax paid by the company declaring the dividend was available as a credit against the shareholder's tax. Individuals would have been subject to tax at their applicable individual marginal tax rates, with tax refunds available where the tax credit on their dividend income exceeded their tax payable.

With the new dividend tax, companies will need to consider whether there is an opportunity to mitigate the taxation for individual shareholders, for example, by paying dividends from available exempt accounts created from income that has been exempted from tax due to incentives.

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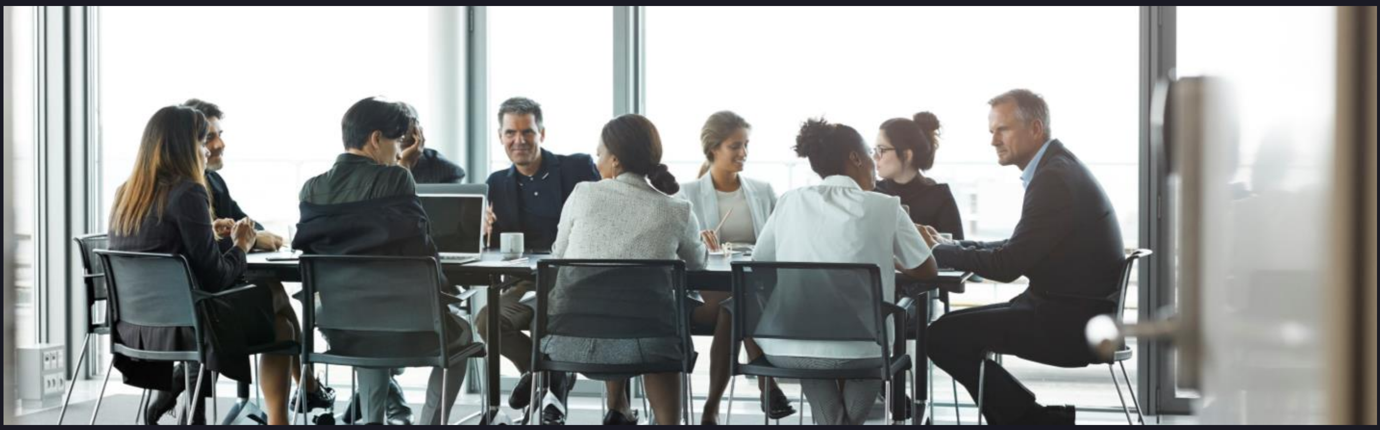


For example, it is not uncommon for high-net-worth individuals and families to use trust structures to protect, manage and distribute wealth. Trust structures would be established after carefully considering the legal, tax, transaction and maintenance cost and other implications. In Malaysia, distributions from a trust are not a dividend, so individuals who are beneficiaries of trusts will hope that the proposed dividend tax will not impact them.

Interestingly, it has been proposed that dividends from foreign companies will be exempted from the dividend tax. This may lead to individuals considering whether they should invest via foreign holding companies. However, the pros, cons and risks of doing this will need to be carefully weighed. Some of the considerations would include foreign taxes, maintenance and transaction costs and exposure to future changes in laws and practices in the relevant foreign jurisdictions.

Some questions arise regarding the new dividend tax

- How to determine the RM100,000 threshold, for example should all types of dividends be included such as exempt dividends and foreign dividends? Or will only taxable dividends be taken into account?
- Would foreign shareholders, or other shareholders who are currently not required to file tax returns in Malaysia, now be required to file tax returns?
- Will withholding requirement be imposed on the paying company?
- Availability of deductions such as interest on loans used to acquire shares?

Investment Incentives

There were proposals with respect to promoting foreign direct investments that were sensible and not unexpected.

One is the announcement that the Government will study the feasibility of a Strategic Investment Tax Credit. The impending introduction of the global minimum tax (GMT) in Malaysia in 2025 could result in additional taxes on incentivized multinational companies. Though the details remain uncertain, this announcement indicates that the Government is assessing a measure akin to a qualified refundable tax credit, which will mitigate the additional tax impact from the GMT. This has been eagerly awaited and should help maintain Malaysia's attractiveness with investors from a tax standpoint. Singapore has announced a Refundable Investment Credit, which may be comparable.

> To further attract investors, Malaysia could consider other initiatives such as extended incentive periods, reduced-interest financing assistance or grants for capital expenditure, research and development or training.

The government is keen on attracting foreign direct investment in high value activities which provide economic spillover to the country and is proposing a New Investment Incentive Framework to streamline incentives. More details will be rolled out in the third quarter of 2025. There are currently more than 200 different tax incentives available and a simplification of this is needed.

Further, the proposed consolidation of InvestKL into the Malaysian Investment Development Authority (MIDA) is also welcomed as it provides clarity for investors on which promotion agency to approach and will provide the combined agency with a larger pool of resources and skills to effectively target and support the right investments for the country.

By Yeo Eng Ping and Shalini R Chandrarajah

The views reflected above are the views of the authors and do not necessarily reflect the views of the global EY organization or its member firms. Yeo Eng Ping is EY Asia-Pacific Tax Leader and Partner at Ernst & Young Tax Consultants Sdn. Bhd., and Shalini R Chandrarajah is Associate Partner at Ernst & Young Tax Consultants Sdn Bhd.

Cultivating cybersecurity: More than just strategy, it's culture

In today's digital age, cyber threats lurk around every corner and a single click can open the floodgates to data breaches, financial loss and reputational damage. It's no longer enough to have a top-notch cybersecurity strategy – you need a culture that prioritizes security at every level. After all, as the saying goes, "culture eats strategy for breakfast". Let's explore how to cultivate a cybersecurity culture within your organization that's as robust as your firewalls.

Understanding the cybersecurity culture

Interestingly, it has been proposed that dividends from foreign companies will be exempted from the dividend tax. This may lead to individuals considering whether they should invest via foreign holding companies. However, the pros, cons and risks of doing this will need to be carefully weighed. Some of the considerations would include foreign taxes, maintenance and transaction costs and exposure to future changes in laws and practices in the relevant foreign jurisdictions.

Leadership: Setting the tone from the top

Leadership is like the royalty of the castle. They set the tone for how things are done. When executives demonstrate a commitment to cybersecurity, it sends a message that resonates throughout the organization. Take the CEO of a major bank, for example, who starts every meeting with a brief on cybersecurity. This simple act ensures that security remains a top-of-mind concern for all employees.

Education: Arming the troops

Knowledge is power, and in our castle, it's the sword and shield of every defender. Regular training sessions are crucial. They don't have to be dull lectures. Think interactive workshops where employees learn to spot phishing attempts, much like a game of "spot the spy". By making learning engaging, employees are more likely to absorb and apply the knowledge.

Communication: The herald's cry

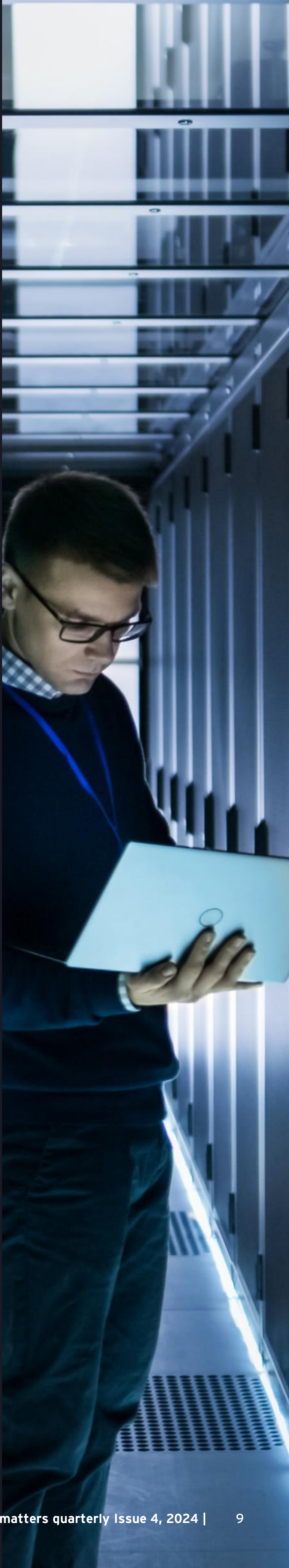
Clear and consistent communication is the herald's cry that keeps everyone informed. Whether it's a newsletter, intranet post, or a simple email, sharing stories of both successful thwarting of attacks and cautionary tales of breaches can be powerful. For instance, a company might share how a vigilant employee prevented a malware attack by questioning an unusual email request.

Empowerment: Mobilize the citizens

Every person in the castle has a role to play in its defense. By empowering employees to make smart security decisions, you're arming your citizens. This could be as simple as giving them the authority to report suspicious activity without fear of reprimand. A real-life example is a tech company that rewards employees for identifying security flaws, turning every staff member into an active guardian of the company's digital realm.

Responsibility: The knight's oath

Just as knights take an oath to protect the realm, employees should understand their responsibility in maintaining cybersecurity. This means incorporating security practices into everyday routines, like locking screens when away from desks or using complex passwords. It's about making security second nature, just as a knight instinctively reaches for their sword when danger approaches.



Accountability: The council of elders

In our metaphorical castle, the council of elders holds people accountable. In a company, this could be a dedicated cybersecurity team that regularly checks in with departments to ensure they're following protocols. They're not there to punish but to guide and help fortify the defenses.

Inclusivity: The round table

Cybersecurity isn't just the realm of IT; it's a company-wide concern. Think of the round table, where everyone, from knights to advisors, has a seat. Similarly, creating cross-functional teams that include members from various departments can foster a sense of shared responsibility and inclusivity.

Adaptability: The evolving fortress

Just as castles were updated to respond to new siege tactics, your cybersecurity culture must adapt to the changing threat landscape. This means staying abreast of the latest cyber threats and updating policies and practices accordingly. It's a continuous process of improvement, much like fortifying a castle's defenses after each battle.

Recognition: Celebrating the victories

Recognizing and celebrating successes in cybersecurity can boost morale and reinforce the importance of everyone's role. For example, a retail company might celebrate a quarter without incidents by acknowledging the collective efforts of its staff, reinforcing the value of their vigilance.

Conclusion: The united front

Cultivating a culture of cybersecurity is about creating a united front where everyone understands their role in protecting the company's digital assets. It's about moving beyond policies and protocols to instil a mindset where security is as natural as breathing. When employees at all levels take pride in being the guardians of their company's cyber castle, the organization becomes a much tougher nut for cyber criminals to crack.

Remember, in the realm of cybersecurity,
it's not just the strength of your walls but the vigilance of your people that keeps the kingdom safe. So, rally the troops, empower your citizens and let the banners of a strong cybersecurity culture fly high above your castle walls.

By Jaco Benadie

The views reflected in this article are the views of the author and do not necessarily reflect the views of the global EY organization or its member firms. Jaco Benadie is Partner at Ernst & Young Consulting Sdn. Bhd.

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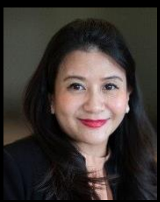

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