2017 Budget Expectations

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Personal Tax

In seeking to strike a balance between increasing revenue, stimulating the economy and ensuring the welfare of the Rakyat, is reducing personal tax rate something the Rakyat could look forward to in the coming Budget?

Based on statistics from the Ministry of Finance (MOF), personal tax collection in 2015 only accounted for 12.6% of the government's total revenue. Out of Malaysia's 31.2million population, only 2.1million or 6.7% of our population pay taxes. Therefore, the impact of reducing income tax rate will not likely see significant benefit on the Rakyat per se. The highest personal tax rate of Singapore is 22% for resident individuals on income exceeding SGD320,000 (approximately RM968,000), whereas Malaysia's highest rate is 28% on income exceeding RM1,000,000. Hence, a gradual reduction to 22% and 20% is the way forward for Malaysia.

What changes would you recommend for personal tax to help the Rakyat cope with rising cost of living?

Many people would believe this would be an election Budget, hence some goodies may be dished out. The Government could consider removing the cap of RM6,000 that can be claimed as relief for contributions to the Employee Provident Fund (EPF) and life insurance premiums to encourage more savings for retirement. Segregating the claim of personal relief on medical and education insurance premiums where at present, both are combined and capped at RM3,000 and allowing personal relief to be claimed on housing loan interest to help first time home buyers would be welcomed.

Corporate Tax

What changes would you hope to see in Budget 2017 on the corporate tax to boost foreign direct investments?

Our current corporate tax rate of 24% is one of the highest in ASEAN. Singapore stands at 17% while Thailand, Vietnam, Cambodia and Indonesia (for listed company) is at 20%. To compete with these countries for foreign direct investments, reducing our corporate tax rate gradually to 22% and 20% would certainly help.

We are seeing good response to the Global Principal Hub tax incentive introduced in April 2015. This incentive aimed at attracting multinational companies to set up their regional base in Malaysia, provides preferential corporate tax rate of 0%, 5% or 10% for up to 10 years. To further enhance Malaysia's attractiveness as a principal hub, our government may consider to reduce the personal tax rate for expatriates working in the hub as in Thailand where its rate is reduced to 15%.

What are the measures that the Government should consider to enhance the competitiveness of the Malaysian tax regime, especially on the tax relief for building expenditure?

Industrial building allowance (IBA) is not given for office buildings although the premise is used for business purpose. The Government should consider allowing a claim on any building, as long as they are used for business purpose like in Hong Kong. The authorities should also consider reverting to the old law to allow the owner to claim the IBA on certain buildings such as warehouses, hotels, private schools although they do not operate the businesses themselves. This will help in managing the cost of doing business, boosting our key services sectors like tourism, healthcare and education that have the potential to generate more foreign exchange through export of quality services.

Deloitte's panel of Partners - From left to right – Tax Audits & Investigation Leader Chow Kuo Seng, Transfer Pricing Leader Theresa Goh, Country Tax Leader Yee Wing Peng, Global Employer Services Leader Ang Weina, Real Estate Tax Leader Tham Lih Jiun, and Oil & Gas Tax Leader Toh Hong Peir.

E-business is making a big wave in Malaysia. Do you foresee introduction of special tax law to ensure e-businesses are taxed accordingly?

We expect that the authorities would take a cue from the measures taken by advanced jurisdictions such as Australia and the UK where there are data matching programs with a number of online market operators. Malaysian tax authorities would need to collaborate with other government agencies such as Malaysian Communications and Multimedia Commission and Internet service providers/large e-trading platforms to detect e-business.

It is likely that some changes to tax laws would be introduced so that the tax authorities would have adequate power to request and collect data taking into account other legislations on confidentiality, data protection etc. It will add certainty and transparency in our tax laws for taxpayers to comply with.

I understand that the income tax dispute resolution process in Malaysia could be lengthy. Would the tax appeal regime be reviewed?

Certain advanced jurisdictions, such as Canada and Indonesia have robust tax courts to dispose tax cases more efficiently. In Malaysia, any income tax appeal must go through the appropriate channel, i.e. Special Commissioners of Income Tax, High Court and finally, the Court of Appeal. Whilst Malaysia has special industrial courts, we hope that Malaysia will eventually establish special tax courts to expedite disposition of tax cases.

My company has found errors in our financial reporting system and is in the process of rectifying these errors. Can I benefit from the tax amnesty programme by way of voluntary disclosure?

Under this programme, the penalty can be reduced to 15% or 20% depending on whether the tax undercharged is settled in one lump sum payment or in 6 monthly installments to be paid before 15 December 2016. The tax amnesty programme is valid from 1 March 2016 to 15 December 2016. The tax authorities have verbally indicated that this programme will not be extended but it remains to be seen whether Budget 2017 will consider an extension. Taxpayers should quickly take advantage of the tax amnesty programme while it is still applicable.

Transfer Pricing

To enhance transparency in tax reporting for multinational enterprises ("MNEs"), The Organisation for Economic Co-operation and Development (OECD) has recommended a Country-by-Country Report ("CbCR"). Is this expected to be implemented in Malaysia?

There are expectations that Budget 2017 may introduce formal legislation in Malaysia on CbCR requiring MNEs with annual consolidated group revenue equal to or exceeding EUR750 million to file CbCR. Based on the recommendation by OECD, CbCR would apply to financial years commencing on or after 1 January 2017 and the due date for first CbCR submission would be 31 December 2018.

CbCR comprises three tables, and requires aggregate jurisdiction-wide information relating to the global allocation of income, taxes paid and certain indicators of the location of economic activity among tax jurisdictions in which the reporting MNE group operates. The purpose is to assist tax authorities in assessing whether MNEs have engaged in transfer pricing and other practices that have the effect of artificially shifting income to low or no tax jurisdictions.

Goods and Services Tax

Do you expect major changes to the GST rules in 2017 Budget?

The Government has repeatedly stated that the rate will remain at 6% as it is still managing some opposing voices. Instead, the focus will be more on resolving compliance and administrative issues faced by Malaysian Customs and taxpayers to ensure compliance and collection of the correct amount of GST. On exemptions and further relief, we are not expecting any major announcements, though it would not be surprising to see further but minor additions to the list of zero-rated food and medicaments. Malaysia already has thousands of zero-rated or exempted items, with many of these items not benefitting the B40 and M40 income groups as much as they do the T20. In the longer run, this exemption and zero-rated list should be reduced and simplified to ease compliance.

What is the current position on the GST treatment on sale of commercial property by individuals? Are we expecting a change in the Budget?

Earlier this year, Malaysian Customs released guidance that a person is considered to be in business if the person owns more than two commercial properties, more than one acre of commercial land or commercial property, or land with a market value of more than RM2mil and has an intention to sell. The implication is that the seller must then register, collect 6% GST on the sale and pay this to Customs. This guidance was subsequently withdrawn after some contentions and the position remains unclear as to when an individual who transacts in properties would be brought into the GST net.

We look forward to seeing proposals to add clarity to the relevant provisions in the legislation to enhance the application and compliance of the GST law.

Trans-Pacific Partnership Agreement

Is it true that there will be no import duty and GST levied on imported goods that are listed under the TPPA? Can we expect any import duty reduction ahead of the TPPA implementation?

The TPPA is a trade agreement signed on 4 February 2016 by 12 countries including United States, Vietnam, Singapore, Japan and Malaysia and is pending ratification by some countries. The TPPA offers concession on import duty rates only and does not include GST for Malaysia. However, as GST is calculated based on the CIF (cost, insurance and freight) value of goods plus import duty, any duty reduction will result in lower GST payable.

As the TPPA would ultimately abolish import duty for 99.8% of electrical and electronic products which form the bulk of our imports from some of the member countries where the current import duty is as high as 30%, it would be great news to the consumers if there are proposals in the Budget 2017 announcement to gradually reduce the import duty on such products ahead of the TPPA implementation.

Find out more at Deloitte TaxMax this November 8 at One World Hotel.
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