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Global Tax Update

Malaysia

Deloitte Tohmatsu Tax Co.

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Tax Espresso (Special Edition 2.0) Highlights in Budget 2016

On 23 October 2015, the National Budget was tabled by our Prime Minister and Minister of Finance. Budget 2016 is the first of a series of five budgets under the 11th Malaysia Plan towards transforming the nation into a high-income advanced economy. Despite the strong headwinds brought by slowdown in global economy especially China, decline in oil and commodity prices, Ringgit depreciation and political instability, our economy is still holding up modestly well due to its diversity, resilience and solid fundamental, judging from the following projected economic data:-

- Relatively strong Gross Domestic Products (GDP) Growth between 4% to 5.0 % for 2016 vis-à-vis 4.5% to 5.0% this year compared with some major economies globally
- Continuous decline in fiscal deficit to 3.1% of GDP for 2016, a reduction from 3.2% and 3.4% in 2015 and 2014 respectively
- Marginal growth in federal government revenue collection to RM225.7 billion for 2016, an increase of RM3.2 billion from 2015
- Higher projected Goods and Services Tax (GST) revenue of RM 39 billion in 2016 compared to the original estimated collection
- Rebound in exports by 1.4% in 2016 after a 0.7% drop this year
- Manageable inflation of 2% to 3% in 2016 compared to 2% to 2.5% this year

Aiming at addressing the day to day challenges facing the people especially the B40 lower income group and M40 middle income group and the growing concerns arising from the disparity in economic and social developments between East and West Malaysia and between rural and urban areas, Budget 2016 is themed “Prospering the Rakyat”. Forming the building blocks are the following 5 priorities i) Strengthening Economic Resilience, (ii) Increasing Productivity, Innovation and Green Technology, (iii) Empowering Human Capital, (iv) Advancing Bumiputera Agenda and (v) Easing the Cost of Living of the Rakyat.

From our analysis of budget allocation of RM267.2b in total and various tax proposals tabled, several sectors would be impacted considerably as follows:

(1) Construction

Construction is one of the biggest beneficiaries of Budget 2016. In the pipelines are several major projects including the RM16b Pan-Borneo Highway, RM28b MRT II, RM10b LRT 3 and the Malaysia-Singapore High Speed Rail of about RM30b is still on the cards. The Master Builders Association Malaysia (MBAM) has projected that the construction sector will grow modestly by 8.4% in 2016. MBAM is however disappointed that its proposal for import duties reduction for heavy construction machinery did not materialize. Hydraulic truck mobile cranes, for instance, are currently levied with 30% duty. The rise in minimum wage from RM900 to RM1,000 for Peninsular Malaysia and RM800 to RM920 for East Malaysia will squeeze the already thin margin of 6%-7% which the industry is currently making.

(2) Property

Some measures were proposed to enhance the provision of affordable houses such as RM1.6b allocation for 175,000 units PR1MA houses and RM200m allocation for the first house deposit financing scheme. However, the wishes from some of the industry players such as reinstatement of Developers' Interest Bearing Scheme (DIBS), reintroduction of 50% stamp duty exemption given to property valued at RM400,000 and below that had expired in 2014 did not materialize. Nonetheless, it is a relief that the long deliberated proposed increase in stamp duty rate to a maximum of 4% and the bringing forward of duty collection date were not tabled. Overall, there were no bold measures introduced to prop up the property sector that is currently facing risk of a hard landing.

(3) Manufacturing

A major incentive proposed is the special reinvestment allowance from years of assessment 2016 to 2018 which would encourage companies to expand and modernize their production facilities. This would immensely benefit the manufacturing concerns that are planning to ramp up their production capacity to meet the increasing overseas demands of their products, thanks to the weakened Ringgit. Apart from the said incentive and double deduction on R&D, there were no notable measures to help the Malaysian businesses enhance their export capabilities. The rise in minimum wage will increase the production cost considerably, particularly of those labour intensive industries.

(4) Tourism

Tourism is another beneficiary in Budget 2016 as the 100% income tax exemption for tour operators that is expiring in 2015 is extended for another 3 years. The introduction of E-visa to 7 countries including China is expected to expedite the immigration process and facilitate more tourist arrivals. With a lower allocation of RM1.2b in 2016, the Ministry of Tourism and Culture would have to optimize its spending to woo a higher foreign tourists target set of 30.5m.

(5) Agriculture

This sector will receive a big boost with RM5.3b allocation. The enticing tax incentive for food production in the form of 100% income tax exemption and deduction of investment cost is extended to 2020 and its scope is widened to include cultivation of coconut, mushroom, seaweed etc. The incentive extension is expected to draw fresh investments, both domestic and abroad, that are much needed for the sector to upscale and upgrade its technology/knowhow to help the country to reduce food import and to promote export of agriculture produce.

Following our above macro-economic commentaries, we bring you herewith some of the salient tax centric proposals of Budget 2016:

<table>
<tr><th>Proposals</th><th>Description</th></tr>
<tr><td>Review of income tax rates for individuals</td><td>Resident individuals
It is proposed that the taxable income bracket and tax rates be revised as follows:
<table><tr><td>Chargeable income (RM)</td><td>Current tax rate (%)</td><td>Proposed tax rate (%)</td></tr><tr><td>400,001 – 600,000</td><td>25</td><td>25</td></tr><tr><td>600,001 – 1,000,000</td><td>25</td><td>26</td></tr><tr><td>Exceeding 1,000,000</td><td>25</td><td>28</td></tr></table>Income tax rates in other income brackets are maintained.

Non-resident individuals
The flat income tax rate for non-resident individuals will be increased from 25% to 28%.
Effective: Year of assessment 2016</td></tr>
<tr><td>Review of spouse (husband / wife) relief</td><td>Spouse relief will be increased from RM3,000 to RM4,000 for individual taxpayer whose spouse has no income and /or pays an alimony to his former wife.
Effective: Year of assessment 2016</td></tr>
<tr><td>Tax relief for parental care</td><td>A new personal relief of RM1,500 for each parent is given to a resident taxpayer subject to the following conditions:
a) Such taxpayer does not claim expenses on medical treatment and care of parents;
b) Parents are residents and aged 60 years and above;
c) Parents have an annual income not exceeding RM24,000 per annum each; and
d) Parents are the legitimate natural parents and foster parents in accordance with the respective law subject to a maximum of 2 persons.
This relief can be shared with other siblings provided that the total relief claimed shall not exceed RM1,500 for each parent.
Effective: Years of assessment 2016 to 2020</td></tr>
<tr><td>Review of child relief below 18 years of age</td><td>Tax relief for each child below 18 years of age will be increased from RM1,000 to RM2,000.
Effective: Year of assessment 2016</td></tr>
</table>

Review of tax relief for children studying at tertiary level	Tax relief will be increased from RM6,000 to RM8,000 for a child aged 18 years and above who pursues full time education at diploma level and above at a recognised institution of higher learning within Malaysia or at a degree level and above at a recognised institution of higher learning outside Malaysia. Effective: Year of assessment 2016
Review of tax relief on fees for tertiary education	Tax relief for resident taxpayer who pursues a course of study up to tertiary level in selected fields of study, or Master or Doctorate level in any field at any institution or professional body in Malaysia recognized by the Government or approved by the Minister of Finance will be increased from RM5,000 to RM7,000. Effective: Year of assessment 2016
Gross income from an employment	Gross income from an employment receivable in respect of any particular period shall be taxed in the year it is received. The requirement to relate the employment income to the particular period is removed. Effective: Year of assessment 2016
Income receivable by an employee who will be leaving Malaysia	Income which is receivable by an employee who will be leaving Malaysia is deemed to have been received for the basis period before the employee leaves Malaysia. The option for taxpayer to tax the employment income in the basis period for the year of assessment it is receivable is removed. Effective: Year of assessment 2016
Tax relief on employees' contribution to social security protection scheme	To enable more employees to benefit from Social Security Organisation (SOCSO), the eligibility for mandatory contribution will be increased from a monthly salary of RM3,000 to RM4,000. Employees will also be eligible to claim a tax relief up to a maximum of RM250 per year on the contribution to SOCSO. Effective: Year of assessment 2016
Extension of exemption on gratuity	New Paragraph 25D is introduced to extend the exemption on gratuity under Schedule 6 to include any sum received by way of gratuity on retirement from an employment under any written law or termination of a contract of employment, regardless of the individual's age and period of service. The sums of gratuity exempted shall not exceed an amount ascertained by multiplying the sum of RM1,000 by the number of completed years of service of the individual. Effective: Year of assessment 2016

<table>
<tr><td>Increase of minimum wage</td><td>The national minimum wage per month will be increased as follows:
<table>
<tr><td>Location</td><td>Current (RM)</td><td>Proposed (RM)</td></tr>
<tr><td>Peninsular Malaysia</td><td>900</td><td>1,000</td></tr>
<tr><td>Sabah, Sarawak, Labuan</td><td>800</td><td>920</td></tr>
</table>
The new minimum wage will be implemented in all sectors except for domestic services or domestic maids.

Effective: 1 July 2016</td></tr>
<tr><td>Insertion of new definitions</td><td>The following have been defined in the Malaysian Income Tax Act, 1967 (MITA):
(a) input tax
(b) output tax
(c) sukuk

Effective: Item (a) and (b) from year of assessment 2015, Item (c) on the coming into operation of the Finance Act 2015.</td></tr>
<tr><td>Tax treatment on deferred income/advance receipts and the related refunds</td><td>Currently, pursuant to Section 24(1) of the MITA, income from a business should be taxable in the basis period in which the debt has arisen. For there to be a debt owing, services must be rendered or property must be dealt with.

Following the amendment, whether or not there is any debt owing in respect of the services or property, any sum received by a person in a relevant period in the course of carrying on a business from any services to be rendered or the use or enjoyment of any property to be dealt with subsequent to that relevant period, the sum shall be treated as the gross income of that person from the business in the relevant period that the sum is received. In short, deferred income/advance receipts will be taxable in the year of receipt even if there is no debt arises.

Where the deferred income/ advance receipts brought to tax is refunded in a basis period for a year of assessment, the said amount shall be deducted from the relevant gross income of the relevant person in the basis period for that year of assessment.

Effective: Year of assessment 2016</td></tr>
<tr><td>Notify Inland Revenue Board when interest payable is due to be paid</td><td>With effect from year of assessment 2014, interest payable for a basis period is deductible only if the interest is due to be paid and the deduction would be given in the year the interest is payable.

A person shall notify the Inland Revenue Board (IRB) in writing for a tax deduction on the sum payable which is due to be paid not later than 12 months from the end of the basis period for the year of assessment when the said sum is due to be paid. Upon receipt of the notice, the IRB may reduce the assessment that has been made in respect of such sum.

Effective: Year of assessment 2016</td></tr>
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<tr><td>New non-allowable items</td><td>The following new paragraphs have been introduced:
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<tr><td>Paragraph 39(1)(o)
Effective: Year of assessment 2015</td><td>No deduction for input tax if the person who is liable to be registered under the Goods and Services Tax Act 2014 (the GST Act) fails to do so or if he is entitled to credit that amount as input tax.</td></tr>
<tr><td>Paragraph 39(1)(p)
Effective: Year of assessment 2015</td><td>No deduction for output tax which is borne by a person who is registered or liable to be registered under the GST Act.</td></tr>
<tr><td>Paragraph 39(1)(q)
Effective: 1 January 2016</td><td>No deduction for any remuneration paid for services performed by a public entertainer if withholding tax under Section 109A of MITA has not been paid to the Director General.</td></tr>
</table></td></tr>
<tr><td>Assessments and additional assessments in certain cases</td><td>New subsection 91(6) has been introduced to empower the IRB to make assessment or reduced assessment at any time with regard to adjustment made on input tax paid or to be paid under the GST Act. Assessment is made for the year of assessment to which the adjustment relates, or if the year of assessment to which the adjustment relates cannot be ascertained, the year of assessment in which the IRB discovers the adjustment.

Effective: Year of assessment 2015</td></tr>
<tr><td>Offence and fine for failure to furnish tax returns</td><td>New subsection 112(1A) has been introduced to provide that failure to furnish returns under Section 77(1) or Section 77A(1) for two years of assessment or more, on conviction, the person will be liable to a fine of RM1,000 to RM20,000 or imprisonment for a term not exceeding six months or both and a special penalty treble the amount of tax charged on the chargeable income for those years of assessment.

Effective: Upon coming into operation of the Finance Act 2015</td></tr>
<tr><td>Offence and fine for failure to furnish correct particulars</td><td>Any person who without reasonable excuse fails to furnish correct particulars required by the Director General under Section 77(4)(b) or Section 77A(3)(b) shall be guilty of an offence and shall, on conviction, be liable to a fine of not less that RM200 and not more than RM20,000 or to imprisonment for a term not exceeding six months or to both.

Effective: Upon coming into operation of the Finance Act 2015</td></tr>
<tr><td>Mandatory to e-file Form E, CP 204 & CP 204A</td><td>A company must furnish its Form E, estimate (CP 204) or revised tax estimate (CP 204A) by way of an electronic medium or electronic transmission in accordance with Section 152A of the MITA.

Effective: Year of assessment 2016</td></tr>
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<td>New paragraphs in Schedule 3 (Capital Allowance) of MITA</td>
<td>The following paragraphs have been introduced:
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<td>Paragraph 16B</td>
<td>A person who owned and used the following buildings for the purpose of letting of property (including business of letting of property) would not be entitled to IBA even if the building that he leases out is used as an industrial building (“IB”) as defined in Schedule 3 of the MITA.
➢ licensed private hospital, maternity home and nursing home;
➢ building used for research;
➢ warehouse;
➢ building used for approved service project;
➢ hotel;
➢ airport;
➢ motor racing circuit;
➢ building for the provision of living accommodation for employees employed in the business of manufacturing, hotel or tourism project, approved service project; child care facilities for employees; or
➢ school/ educational institution.
Effective: Year of assessment 2016</td>
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<td>Redefinition of SME eligible for special allowance on small value assets (SVAs)</td>
<td>Currently, the total SVAs (value of each asset is < RM1,300) that qualify for special allowance limited to RM13,000 in a year of assessment does not apply to a SME who is a resident in Malaysia.
In order to enjoy the above incentive without limit, the resident SME must also be incorporated in Malaysia.
Effective: Year of assessment 2016</td>
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<td>Paragraph 61B</td>
<td>Any part of an asset which ceases to be used for purposes of a business due to its replacement with a new part of an asset shall be deemed to have been disposed of under Schedule 3 of the MITA if the part is depreciated separately in accordance with generally accepted accounting principles (“GAAP”). The qualifying expenditure of the part of the asset shall be determined in accordance with the GAAP and the residual expenditure shall be as determined in accordance with Schedule 3.

Effective: Year of assessment 2016</td>
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<td>Implications arising from GST input tax treatment on capital allowance (CA), reinvestment allowance (RA) investment allowance (IA) and investment tax allowance (ITA)</td>
<td>a) Exclusion of GST input tax from qualifying expenditure

GST input tax paid or to be paid by a person to be excluded from the amount of qualifying expenditure for the purpose of CA under Schedule 3, RA under Schedule 7A, IA for service sector under Schedule 7B and ITA under Promotion of Investment Act 1986 (PIA), if the person is:
i. Liable to be registered under the GST Act and has failed to do so; or
ii. Entitled under the GST Act to credit on that amount as input tax.

Effective: Year of assessment 2015

b) Adjustment to input tax under the GST Act

Any adjustment to the qualifying expenditure of an asset as a result of any adjustment to input tax under the GST Act shall only be made in the basis period for a year of assessment in which the period of adjustment related to the asset as provided under the GST Act ends except in the case of a disposal of asset. In the latter situation, the adjustment shall be made in the year of assessment the disposal has been made. Relevant provisions are inserted in Schedule 3, Schedule 7A & Schedule 7B of the MITA and PIA.

If the above adjustment results in:
i. Additional amount - the relevant amount shall be deemed to be part of the qualifying expenditure for the purpose CA under Schedule 3, RA under Schedule 7A, IA for service sector under Schedule 7B and ITA under PIA.
ii. Reduced amount – for purpose of CA, the relevant amount shall be reduced from the qualifying and residual expenditure and if the reduced amount exceeds the residual expenditure the excess shall be treated as part of the statutory business income. For purpose of RA, IA and ITA, the relevant amount shall be deemed to be part of the</td>
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	statutory business income. Effective: Year of assessment 2015 c) Computation or recomputation of ITA under PIA The IRB is empowered to make a computation or recomputation of ITA under PIA or the amount of statutory business income for a year of assessment with regard to adjustment made on input tax under the GST Act, in the basis period for the year of assessment the adjustment is made or at any time as may be necessary to give effect to such adjustment. Effective: Year of assessment 2015
New definition and redefinition of certain words for the purpose of RA	Insertion of definition for a few key words i.e. “automating”, “ceased to be used”, “diversifying”, “expanding”, “machinery”, “modernization” and “plant”. The words “ceased to be used” in relation to an asset is defined to include an asset classified as held for sale under paragraph 61A of Schedule 3. In addition, the following words have been redefined: a) “disposed of” is redefined to include the words “ceased to be used”; b) “manufacturing” is redefined to exclude conversion of materials into a new product by changing of size & shape; c) “simple” generally describes an activity which does not need special skills, special machines, special apparatus or special equipment especially produced or installed for carrying out that activity. Effective: Year of assessment 2016
Extension of stamp duty exemption to revive abandoned housing projects	Existing stamp duty exemption on instruments of loan agreements and instruments of transfer of the revived residential property in relation to abandoned projects which is given to rescuing contractors and original house purchasers is extended for another 2 years. Effective: For loan agreements and memorandums of transfer executed from 1 January 2016 to 31 December 2017 for abandoned housing projects approved by the Ministry of Housing and Local Government
Extension of stamp duty exemption on Shariah financing instruments	To further encourage Shariah financing and to reduce the cost of home ownership, the 20% stamp duty exemption on the principal or primary instrument of financing in accordance with the Shariah principles for home financing be extended for another 2 years. The home financing product must be approved by the Shariah Advisory Council of Bank Negara Malaysia or Shariah Advisory Council of the Securities Commission of Malaysia. Effective: For house financing instruments executed on or after 1 January 2016 to 31 December 2017

Amendment to Real Property Gain Tax (RPGT) Act	a) Insertion of the definition for “input tax” and “output tax” as defined in the GST Act. Effective: Year of assessment 2015 b) Where in relation to a year of assessment a person fails to make a return required under the RPGT Act and in an event additional assessment is raised by the IRB, the IRB is allowed to impose a penalty of treble the amount of any additional tax payable for that year of assessment. Effective: Upon coming into operation of the Finance Act 2015 c) Amount of GST paid by the disposer is deductible if he is not liable to be registered under GST Act or if he is a registered person, he is not entitled to claim input tax. Effective: Year of assessment 2015 d) GST input tax paid by the disposer is not allowable if he is liable to be registered under GST Act but he failed to do so or he is entitled to claim input tax. Output tax borne by the disposer is not allowable if he is a registered or liable to be registered under the GST Act. Effective: Year of assessment 2015 e) If an individual disposes of part of a chargeable asset, the RM10,000 exemption is apportioned based on the portion of the asset disposed of. The higher of this amount or 10% of the chargeable gain is exempted. Effective: Upon coming into operation of the Finance Act 2015
Special reinvestment allowance incentive	To encourage reinvestment by companies which have exhausted their eligibility to qualify for RA, a special RA will be made available to these companies which incur capital expenditure for qualifying project in the years of assessment 2016 to 2018. Effective: Years of assessment 2016 to 2018
Transitional provision -108 balance	108 balance as calculated on 31 December 2013 is reduced by any tax discharged for the year of assessment 2000 (current year basis) and prior years of assessment and tax that has been refunded, on the day the tax is discharged, remitted or refunded. Any excess of tax discharged or refunded in the basis period for year of assessment 2016 and subsequent basis periods will be a debt due to the Government. Such excess is due and payable within thirty (30) days after the service of requisition notice failure which 10% penalty will be imposed. Effective: Year of assessment 2016

<table>
<tr><td>Deduction for cost of issuance of Sustainable and Responsible Investments Sukuk (SRI Sukuk)</td><td>Deduction for expenses incurred on the issuance of SRI Sukuk approved by or authorised by or lodged with the Securities Commission of Malaysia.

Effective: Years of assessment 2016 to 2020</td></tr>
<tr><td>Extension of double deduction or further deduction for additional issuance costs of retail bonds and retail sukuk</td><td>a) Double deduction for additional issuance costs for retail bonds.
b) Double deduction for additional issuance costs of sukuk under the principles of Mudharabah, Musyarakah, Istisna', Murabahah and Bai' Bithaman Ajil based on Tawarruq.
c) Further deduction for additional issuance costs of sukuk under the principles of Ijarah and Wakalah.
Effective: Years of assessment 2016 to 2018</td></tr>
<tr><td>Extension of tax exemption on income from managing Shariah-compliant funds</td><td>Currently, the statutory income of a company providing the following Shariah-compliant fund management services and certified by the Securities Commission of Malaysia is exempted from income tax:
<table>
<tr><td>Business of providing fund management services to foreign investors in Malaysia</td><td>Effective from years of assessment 2007 to 2016</td></tr>
<tr><td>Business of providing fund management services to local investors in Malaysia</td><td>Effective from years of assessment 2008 to 2016</td></tr>
<tr><td>Business of providing fund management services to business trusts or real estate investment trusts in Malaysia</td><td>Effective from years of assessment 2014 to 2016</td></tr>
</table>
To further promote business management activities of Shariah-compliant funds, the above tax exemptions will be extended for another 4 years of assessment.

Effective: Years of assessment 2017 to 2020</td></tr>
<tr><td>Extension of tax incentive period for Real Estate Investment Trusts (REITs)</td><td>a) Profit distribution from REITs listed on Bursa Malaysia to foreign institutional investors and non-corporate investors (including resident and non-resident individuals and other local entities) that are subject to final withholding tax at 10% from 1 January 2012 until 31 December 2016 will be extended for another 3 years until 31 December 2019

b) Currently non-resident companies receiving profit distribution from REITs listed on Bursa Malaysia are subject to final withholding tax at 25%. The final withholding tax will be decreased to 24% from year of assessment 2016.</td></tr>
</table>

	Effective: Item (a) from 1 January 2017 to 31 December 2019, item (b) from year of assessment 2016
Tax exemption for accredited Independent Conformity Assessment Bodies (ICAB)	To further promote the development of independent conformity assessment services in Malaysia, the following incentives will be given: a) New ICAB i. Exemption of 100% of statutory income derived from qualifying activities for a period of 5 years; or ii. Exemption equivalent to Investment Tax Allowance of 60% on qualifying capital expenditure for a period of 5 years and the allowance can be offset against 100% of the statutory income. b) Existing ICAB Incentive similar to (a)(ii) above. These incentives will be given to the following sectors: machinery and equipment, electrical and electronics, chemicals, aerospace, medical devices and fresh and processed food. Eligible activities for these incentives are testing laboratories, calibration laboratories, certifications, inspection or good laboratory practice. Effective: For applications received by the Malaysian Investment Development Authority (MIDA) from 1 January 2016 to 31 December 2018
Review of tax incentive for food production projects	The following tax incentives available to companies carrying out food production projects and for applications receivable by the Ministry of Agriculture and Agro-Based Industry by 31 December 2015 will be extended for another 5 years:- a) a tax deduction equivalent to the amount of investment in subsidiary company (with at least 70% of shareholding) carrying out new food production project; and b) i) 100% income tax exemption of statutory income for 10 years of assessment for new food production project carrying out by the company; or ii) 100% income tax exemption of statutory income for 5 years of assessment for an expansion of the existing food production project carrying out by the company. Qualifying approved food production projects will also be extended to include planting of coconuts, mushrooms and cash crops; rearing of deer; cultivation of seaweed; rearing of honey (bees and *kelulut*) and planting of animal feed crops as determined by the Ministry of Agriculture and Agro-Based Industry and approved by the Ministry of Finance. Effective: For applications received by the Ministry of Agriculture and Agro-Based Industry from 1 January 2016 to 31 December 2020

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<td>Extension of tax incentives for tour operating companies</td>
<td>Currently, tour operating companies are given 100% tax exemption on statutory income derived from the following business from years of assessment 2013 to 2015:
<table>
<tr><td>Business</td><td>Number of tourists per year</td></tr>
<tr><td>Operation of tour packages within Malaysia</td><td>≥ 1,500 local tourists</td></tr>
<tr><td>Operation of tour packages to Malaysia</td><td>≥ 750 inbound tourists</td></tr>
</table>
To encourage tour operating companies to promote Malaysia as a preferred destination and boost domestic tourism, the above incentives will be extended for another 3 years of assessment.

Effective: Years of assessment 2016 to 2018</td>
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<td>Automatic double deduction for R&D project</td>
<td>A company with paid-up capital not exceeding RM2.5 million will be given automatic double deduction for R&D project expenditures up to RM50,000 for each year of assessment. However, the company is still required to submit R&D project application to the IRB.

Effective: Years of assessment 2016 to 2018</td>
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<tr>
<td>Review of allowance for increased exports incentive to Small and Medium Enterprises (SMEs)</td>
<td>Currently, companies with paid-up capital not exceeding RM2.5 million are eligible to claim income tax exemption of 10% and 15% of the value of increased in exports. To encourage these companies to further increase exports, the value added criteria will be revised as follows:
<table>
<tr><td>Exemption of statutory income</td><td>Current value added to be attained</td><td>Proposed value added to be attained</td></tr>
<tr><td>10%</td><td>≥ 30%</td><td>≥ 20%</td></tr>
<tr><td>15%</td><td>≥ 50%</td><td>≥ 40%</td></tr>
</table>
The above tax exemption is restricted to 70% of the statutory income.
Effective: Years of assessment 2016 to 2018</td>
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<td>Petroleum (Income Tax) Act 1967 amendments</td>
<td>Similar amendments in the Income Tax Act 1967 relating to GST input tax and output tax have also been proposed for the Petroleum (Income Tax) Act 1967.</td>
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<tr>
<td>Zero rating of new items</td>
<td>➢ Additional food items proposed to be zero rated under GST:

Organic, soy bean based milk for infants of 0-36 months
Chickpeas, green and white bean, pigeon peas
Lotus root, water chestnut
Mustard seeds
Jiggery powder
Mee kolok (dry)
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	➢ 4,415 new brands of products to be added to the existing list of zero rated medicines as below: ▪ 4,320 brands of controlled drugs which fall / are included under Poisons Groups A, B, C and D under the Poisons Act 1952 ▪ 92 brands of over-the-counter medicines ▪ 3 brands of medical devices Effective: 1 January 2016
Exemption for supply of domestic air travel	Domestic air travel within and between Sabah, Sarawak and Labuan by economy class passengers under Rural Air Services to be exempt from GST. Effective: 1 January 2016
Extension of Approved Trader Scheme (ATS)	Companies undertaking aerospace maintenance, repair and overhaul (MRO) activities will be eligible to apply for the ATS scheme. This is subject to certain conditions. Effective: 1 January 2016
GST relief on the procurement of educational related equipment	Relief will be given on the procurement of teaching materials and equipment by skills and vocational training centres which conduct approved and accredited programs under the National Skills Development Act 2006. Effective: 1 January 2016
GST relief on re-importation of certain equipment	Relief from payment of GST on re-importation of: ▪ Eligible equipment temporarily exported under rental and lease outside the country for upstream oil and gas industry. The list of equipment and conditions are as approved by the Minister of Finance; and ▪ Goods temporarily exported for the promotion, research or exhibition purposes. Effective: 1 January 2016
Relaxation for small farmers under the Flat Rate Scheme (FRS)	The registration threshold under the FRS will be reduced from RM100,000 to RM50,000. The requirements to maintain records will also be simplified. Effective: 1 January 2016
Rebate of GST on prepaid cards	Mobile phone users of prepaid telecommunication services or prepaid cards will receive rebates equivalent to amount of GST paid by way of direct credit to their prepaid accounts. Effective: 1 January 2016 to 31 December 2016
Change in time of supply provisions	Section 13 (4) of the GST Act, will be amended to expand the time of supply for imported services at the earlier of the following dates:

for imported services	a) The date when any payment is made by the recipient; or b) The date when any invoice is issued by the supplier who belongs in a country other than Malaysia or who carries a business outside Malaysia Effective: 1 January 2016
Penalty on late payment of GST	Section 41 of the GST Act, will be amended by introducing new subsections 41 (8), (9), (10) and (11) to impose a penalty, if the taxable person fails to make payment for the tax due and payable. The minimum penalty will be from 5% up to maximum penalty of 25% of the amount of tax due and payable based on the number of days delay. Also, subsection 43 (1) and 43 (8) of the GST Act, will be amended to empower the Director General (i.e. in situations of failure to register, failure to furnish return or furnishing an incomplete or incorrect return), to assess and recover the amount of tax due including penalty imposed under new subsection 41 (8) of the GST Act. Effective: 1 January 2016
Warehousing scheme	Section 70 (1) of the GST Act, will be amended to expand the scope of warehousing scheme by suspending GST on the imported goods when deposited in the warehouse and disregarding supplies of goods made between the warehouses. Effective: 1 January 2016

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