

# Budget question & answer

**Q:** MY annual EPF contribution is RM10,000 per annum, but I do not have any life insurance. I heard in the Budget 2019 announcement that the personal relief for contribution to EPF and payment of life insurance premium is now RM4,000 and RM3,000 respectively. Does it mean that I am in a worse off position?

**A:** Yes, it appears so. Under the current scheme, you can claim tax relief of RM6,000, but under the new scheme, your tax relief is only RM4,000. Hence, you may consider to look into life insurance coverage to optimise the tax relief.

**Q:** I heard that property price will reduce due to the SST exemption granted to construction material and service. I'm planning to buy my first home which cost approximately RM1.5 million in year 2019. Is there any change on the stamp duty rates further to the recent budget announcement?

**A:** It is proposed that stamp duty be increased by 1pc from the existing 3pc to 4pc for property priced above RM1 mil with effect from 1 January 2019. If you purchase the property in 2019, you will pay additional stamp duty of RM5,000 for property value at RM1.5 mil. You may consider buying the property this year.

**Q:** Our company in Labuan has both trading income and royalty income. What is the impact of the proposed changes to the Labuan tax regime? Is it all bad news?

**A:** The Budget proposes that Labuan IBFC activities will be subject to substantive conditions as determined by a committee. However, it is still unclear what the conditions may be. The election for income tax at the fixed rate of RM20,000 shall be abolished and hence, the trading activities carried out by entities licensed under Labuan laws shall only be taxed at 3pc. Meanwhile, income from intellectual property assets held by a Labuan entity, such as your royalty income, is to be subject to tax at the prevailing rate under the Income Tax Act 1967, i.e. 24pc.

Not all bad news, though, as the restrictions on transactions conducted in Ringgit Malaysia and between a Labuan Entity and resident of Malaysia are proposed to be lifted. However, residents who transact with a Labuan entity are limited in their tax deduction on expenditure incurred at the rate of 3pc of the allowable expenditure.

**Q:** Sherine intends to dispose her house at Kota Marudu which she has owned for more than 6 years. She was informed that the disposal will not be subject to Real Property Gains Tax (RPGT) as she is a Malaysian citizen and that the disposal is after 5 years of ownership. Will the recent 2019 Budget announcement affect her?

**A:** Based on the recent Budget announcement, the RPGT rate for disposal after 5 years' holding period will be revised from the current 0pc to 5pc for Malaysian Citizen or Permanent resident with effect from 1 January 2019. Therefore, Sherine will not need to pay RPGT if she manages to dispose her house this year. If she disposes her house after 1 January 2019, she will be subject to RPGT of 5pc.

**A:** I just switched my tax agent from my part time accountant to Deloitte. When I look at the current tax computation prepared by Deloitte, it appears that there may have been errors in my past years' tax computations. Should I take the risk of not disclosing the errors?

In the 2019 Budget, it is announced that taxpayers who voluntarily disclose



their tax arrears on or before 31 March 2019 will only be imposed with a penalty of 10pc. Where the disclosure is made from 1 April 2019 to 30 June 2019, the penalty would be 15pc. The penalty will range from 80pc to 300pc after 30 June 2019. As such, we suggest you to do a thorough review of your past years' tax computations and returns so that you can take advantage of the lower penalty rates during this limited period.

**Q:** My firm has unabsorbed business loss of RM5 million. We heard that in the Budget 2019 announcement that unutilised business losses cannot be carried forward for more than 7 years of assessment ("YA") with effect from YA 2019. Does it mean that all my losses cannot be carried forward beyond next year?

**A:** Pending the issuance of the Finance Bill, it is unclear what will be the treatment of the brought forward balances. We would anticipate that any losses accumulated before YA 2019 shall be deemed incurred in YA 2019 which means it shall be allowed to be carried forward until YA 2026.

**Q:** Ravi is the founder of a group of companies and is currently conducting a restructuring plan to fully utilise group losses within the related companies. Ravi heard that there are changes in claiming group relief under the 2019 Budget announcement. What are the changes that Ravi needs to be aware of?

**A:** Two of the pertinent changes are as follows:-

**Company that surrenders its losses (Surrendering company)**

Related companies within the group will no longer be able to surrender their losses indefinitely. There will be restriction to allow a related company to surrender its loss only up to three consecutive years of assessment ("YAs"). To illustrate, after a company has started to surrender its loss, this company can only do so for 3 consecutive YAs regardless if the company made any profits in between the 3 years. Any loss after the 4th year can no longer be allowed to surrender to its other related companies.

**Claimant company**

A claimant company that had previously enjoyed any Pioneer Status ("PS") or Investment Tax Allowance ("ITA") incentive and still have any PS losses brought forward or unutilised ITA will no longer be eligible for group relief.

**Q:** As a local software developer, is there any new measure announced by the Government for our industry?

**A:** It is announced in 2019 Budget that Service Tax will be imposed on importation of prescribed services (such as architects, graphic design, IT services and engineering services, etc.) from 1 January 2019.

For businesses that provide taxable services, competition from overseas counterparts will be reduced as imported services will be taxed from 1 January 2019. The foreign service provider is required to register for service tax if the amount of taxable service exceeds the prescribe threshold. Hence, it will create a level playing field for both the local and overseas service providers.

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Chia



Cheong