

Deloitte Q&A on Budget 2016 queries

KUCHING: With Budget 2016 now tabulated, many businessfolk may wonder what changes will impact their procedures in terms of input tax credit claims, abandoned housing projects, taxation and so forth?

Deloitte Tax Services Sdn Bhd real estate tax leader and executive director Tham Lih Jiun, senior tax manager Chai Suk Phin and tax manager Kane Bong sits down with The Borneo Post to clarify some business scenarios:

Q: Being in the business of manufacturing of kitchen appliances since 1990, Good Cook Sdn Bhd is looking to reinvest RM15 million to automate its production lines in Year of Assessment (YA) 2016.

The company has enjoyed Reinvestment Allowance (RA) for 15 consecutive years from 1998 to 2011. Another company, Best Bolt Sdn Bhd, involved in manufacturing of precision bolts is looking to expand its production capacity by reinvesting RM10 million in 2017.

The company has enjoyed RA for 15 consecutive years from 2002 to 2016. Are there any avenues for both Good Cook Sdn Bhd and Best Bolt Sdn Bhd to enjoy any tax benefits for their reinvestments?

A: Yes. Both Good Cook Sdn Bhd and Best Bolt Sdn Bhd will be entitled for the Special Reinvestment Allowance (Special RA) which allows 60 per cent of qualifying capital expenditure to be set off against 70 per cent of the company's statutory income.

For Good Cook Sdn Bhd, the Special RA will cover qualifying capital expenditure incurred from YA2016 until YA2018. Whereas for Best Bolt Sdn Bhd, the

Special RA will cover qualifying capital expenditure incurred from YA2017 to YA2018.

Q: I am a small-scale rubber farmer with an annual turnover of RM80,000. Failing to achieve the threshold for GST registration, my business is burdened as I am unable to register for GST and claim any input tax credit on purchases. Is there any good news for me in the Budget 2016 announcement?

A: Yes. Government has proposed that the annual sales threshold to be lowered from RM100,000 to RM50,000 to ensure small-scale farmers will be able to benefit from the GST's Flat Rate Scheme. With the reduction in the threshold, more small-scale farmers will be able to register under the said scheme and impose an additional two per cent GST on sales value.

This amount can be retained to offset any GST paid on their input tax. The requirement by the Royal Malaysian Customs Department to maintain records will also be simplified.

Q: Andrew is the original house

purchaser of an abandoned housing project certified by the Ministry of Housing and Local Government.

Andrew took an additional financing in respect of the property of the said abandoned housing project, of which the loan agreement is executed on Feb 5, 2016. The property is only completed on December 2017 and Andrew immediately applied for the title of the property to be transferred to his name.

However, the memorandum of transfer is only executed on 12 January 2018. Will the stamp duty exemption be applicable for both the loan agreement and memorandum of transfer?

A: As announced in the Budget 2016, stamp duty exemption will be granted for instruments

memorandum of transfer relating to abandoned housing projects executed from Jan 1, 2016 to 31 December 2017.

As such, the stamp duty on loan agreement executed on Feb 5, 2016 is exempted, but the stamp duty on memorandum of transfer executed on Jan 12, 2018 is not exempted.

Q: GCK Sdn Bhd closes its accounts on 30 June each year. The Company has submitted its estimate of tax payable (Form CP204) for YA2016 to the IRB manually on May 4, 2015 – within 30 days before the beginning of YA2016 basis period. GCK Sdn Bhd wishes to revise its estimate of tax payable in the ninth month of the basis period for YA 2016 (i.e. March 2016).

Is the Company required to submit its revision of estimate tax payable (Form CP204A) via an electronic medium?

A: Yes, GCK Sdn Bhd is required to submit its revision of estimate tax payable via an electronic medium (Form e-CP 204A) to the IRB despite the initial estimate of tax payable (Form CP204) was submitted manually to the IRB earlier (i.e. prior to the issuance of the Finance Bill 2015).

The requirement to submit Form CP204 and Form CP 204A via an electronic medium will take effect from YA 2016 onwards.

Q: Forever Beautiful Sdn Bhd is engaged in the beauty salon business and its financial year end is 31 December. A customer, Emily has purchased a service package (for 10 treatments) worth RM2,000 from the company and has made full payment for package.

During the financial year 2016, Emily has utilized two service treatments worth RM400.

Forever Beautiful Sdn Bhd has recognized the value of two service treatments utilized by Emily of RM400 as revenue in its Income Statement for the financial year ended 31 Decem-

ber 2016.

The value of unutilized treatment service of RM1,600 is recognized as deferred revenue in the balance sheet as at 31 December 2016.

Is the advance payment received by Forever Beautiful Sdn Bhd for the unutilized treatment service of RM1,600 subject to tax in the year of assessment ("YA") 2016?

A: Pursuant to the new Section 24(1A) of the Income Tax Act 1967 (the Act), with effect from YA 2016, when a person received advance payment for any services to be rendered or the use or enjoyment of any property to be dealt with in the course of carrying out its business, the amount received shall be treated as gross income of that person and subject to tax in the period that the amount is received notwithstanding that the service or use of the property has yet to be rendered or dealt with.

As such, the advance payment received by Forever Beautiful Sdn Bhd of RM1,600 is subject to tax in the YA 2016, notwithstanding that the treatment service has yet to be utilized by Emily during the basis period for YA 2016 or subsequent years.

Q: I am the owner of a small and medium enterprise (SME) principally involved in the business of cultivating fruits for sales in local markets.

After conducting market feasibility studies in several countries overseas, I am contemplating to set up a modest R&D department in the company to research on methods to improve the endurance of my perishable fruits produce.

If the R&D results are encouraging, I plan to invest to increase the production capacity of the company for the purpose of exporting fruits to foreign markets in addition to local sales. Is there any tax

incentive in the Budget 2016 for me?

A: For a SME with a paid-up capital not exceeding RM 2.5 million, this company will be able to enjoy the following:-

1. To claim a double deduction automatically for R&D project expenditures up to RM 50,000 for YAs 2016 to 2018;

2. To claim tax incentives with the revised value added criteria for YAs 2016 to 2018:-

- Exemption of statutory income equivalent to 10 per cent of the value of the increased exports to manufacturers provided that the goods exported attain at least 20% value added; or

- Exemption of statutory income equivalent to 15 per cent of the value of the increased exports to manufacturers provided that the goods exported attain at least 40% value added.

3. To claim 100 per cent income tax exemption of statutory income

for five years of assessment when the company carrying out an expansion of the existing food production project.

However, we would highlight that point 1 and 2 will be irrelevant if the company is allowed to claim 100 per cent income tax exemption of statutory income for five (5) years of assessment.

Q: TCK Sdn Bhd is not a Goods and Services Tax (GST) registrant as the company is unable to meet the registration threshold set by the Royal Malaysian Customs Department.

TCK Sdn Bhd incurred entertainment expenses to entertain its existing customers, where such entertainment expenses is subject to GST. Being a non-

GST registrant, TCK Sdn Bhd is unable to claim the input tax credit and has charged out the GST input tax into the Income Statement.

Can TCK Sdn Bhd claim an income tax deduction in respect of the GST input tax on the said entertainment expenses?

A: The newly proposed Section 39(1)(o) of the Income Tax Act 1967 (the Act) would not be applicable to TCK Sdn Bhd in view that the Company is not liable to be a GST registrant. The current legislation did not specify clearly on the GST treatment

in relation to entertainment expenses. However, as the entertainment expense qualifies for 50 per cent tax deduction pursuant to Section 39(1)(l) of the Act, the six per cent related GST should also qualify for 50 per cent tax deduction.



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