Malaysia | Tax | October 2014

Tax Espresso (Special Edition)
Highlights in Budget 2015

On 10 October 2014, the National Budget was unveiled by our Honourable Prime Minister cum Minister of Finance, Y.A.B. Dato' Sri Mohd Najib Tun Abdul Razak. Budget 2015 is the final one under the Tenth Malaysia Plan. Against the challenging domestic and global economies, the Budget focuses on the needs of the Rakyat and reality of life. Hence, the formulation of Budget 2015 took into account the importance of achieving a balance between capital economy and people economy. Strong resolves are demonstrated in consolidating our fiscal position by strengthening the nation's revenue stream and rationalising our public expenditure with

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Highlights in Budget 2015

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Deloitte TaxMax 40th Series – 20 October 2014 @ Mandarin Oriental an unwavering commitment to further reduce our budget deficits to 3% of GDP in 2015 from 3.9% in 2013. Successful implementation of GST and effective subsidy roll- back would be crucial for the country to achieve a balanced budget by 2020. These 2 major initiatives bring side effects of spiraling cost and we have seen some measures proposed including financial aids to help the needy especially the lower income groups, farmers, fishermen and the small and medium size enterprises. There are substantial allocation channeled towards upgrading the infrastructure both in the city and the rural areas particularly in Sabah and Sarawak to ensure the entire nation develop and prosper together from which construction sector could be a major beneficiary. The country also strive to move up the value chain by introducing business friendly policy to attract high value investment and in relation to this, development of human capital is given due emphasis.

Against the theme "Accelerating Growth, Ensuring Fiscal Sustainability and Prospering the Rakyat", this budget is a pragmatic and realistic one, focusing on 7 major areas viz:

1. Strengthening Economic Growth
2. Enhancing Fiscal Governance
3. Developing Human Capital and Entrepreneurship
4. Advancing Bumiputera Agenda
5. Upholding Role of Woman
6. Developing National Youth Transformation Programme
7. Prioritising Well-Being of the Rakyat

Here are some of the highlights of the Budget 2015.

Tax Incentives

- Principal Hub
- Industrial Area Management
- High-Quality and Focused Investment

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Important deadlines:

Due date for 2015 tax estimates for companies with November year-end (31 October 2014)

6th month revision of tax estimates for companies with April year-end (31 October 2014)

9th month revision of tax estimates for companies with January year-end (31 October 2014)

Statutory filing of 2014 tax returns for companies with March year-end (31 October 2014)

Corporate Income Tax

- Extension of Deduction of Expenses Incurred for the Issuance of Sukuk
- Tax Exemption on Income from Medical Tourism
- Extension of Double Deduction of Scholarships
- Extension of Double Deduction for Structured Internship Programme
- Extension of Double Deduction for Training Expenses
- Extension of Double Deduction for Training Expenses under SL1M Program
- New Provision related to Transfer Pricing
- Capital Allowance to Increase Automation in Labour Intensive Industries
- Review of Special Allowances for Small Value Assets
- Tax Treatment on Income Receivable from Related Persons
- Persons Responsible for Tax on Income Prior to Conversion to Limited Liability Partnership (LLP)
- Ascertainment of Chargeable Income
- Right of Appeal under Self-Assessment
- Filing and Payment of Estimate of Tax Payable
- Penalties for Offences
- Reinvestment Allowance
- Review of Corporate Income Tax Rates

- Review of Co-operative Society Income Tax Rates

Individual Income Tax

- Tax Exemption on Income through Investment Account Platform
- Review of Relief on Medical Expenses for Serious Diseases
- Review of Relief for the Disabled Child
- Review of Individual Relief for Purchase of Basic Supporting Equipment for the Disabled
- Monthly Tax Deduction as Final Tax for Employees
- Review of Resident and Non-resident Individual Income Tax Bands and Rates

Stamp Duty

- Extension of Stamp Duty Exemption for the Purchase of First Residential Property

Goods and Service Tax

- Expansion of GST Free Items

Real Property Gains Tax (RPGT)

- Introduction of Self-assessment System
- Duty of Acquirer to Retain and Pay Part of the Consideration

Tax Incentives

Principal Hub

A customised tax incentive will be made available to principal hub that is set up in Malaysia by multinational companies. This incentive is expected to be given on a case-to-case basis.

Industrial Area Management

An incentive of 100% income tax exemption for a period of 5 years will be made available to encourage the private sector to manage, maintain and upgrade public facilities / infrastructure in industrial estates in less developed areas.

An incentive of 70% income tax exemption for a period of 5 years will be made available to the private sector to manage industrial estates in other areas.

High-Quality and Focused Investment

In promoting high-quality and focused investment, a more specialised incentive package will be offered for investment projects based on technology, innovation and knowledge, involving highly qualified and knowledgeable employees with high salaries.

Corporate Income Tax

Extension of Deduction of Expenses Incurred for the Issuance of Sukuk

Currently, expenses incurred for the issuance of sukuk are given deduction from year of assessment (YA) 2003 until YA 2015. To expand the sukuk market at the international level, it has been proposed that deduction for expenses incurred for the issuance of sukuk based on Ijarah and Wakalah principles be extended for another 3 years i.e. up to YA 2018.

Tax Exemption on Income from Medical Tourism

It has been proposed that companies providing private healthcare facilities to at least 5% healthcare travelers from their total patients be given tax exemption on income equivalent to Investment Tax Allowance of 100% of qualifying capital expenditure for a period of 5 years. The above incentive will be available to existing companies which are engaged in expansion, modernization and refurbishment and new companies. This proposal is eligible for applications received by the Malaysian Investment Development Authority (MIDA) from 1 January 2015 to 31 December 2017.

Extension of Double Deduction of Scholarships

Scholarships awarded by a company to Malaysian students studying in the vocational and technical courses (certificate level) in institutions recognised by the Government are proposed to be given double deduction for YA 2015 and 2016 with a view to encouraging companies to provide scholarships in the vocational and technical field.

Extension of Double Deduction for Structured Internship Programme (SIP)

In order to encourage companies to extend the SIP programme to full time students pursuing training at the vocational and diploma levels, double deduction is proposed to be given on expenses incurred by a company in implementing a SIP programme for students in diploma and vocational courses for YA 2015 and 2016.

Extension of Double Deduction of Training Expenses

It is proposed that training expenses incurred by an employer for employees to obtain industry recognized certifications and professional qualifications such as in the field of accounting, finance and project management be given double deduction effective YA 2015. The training programs must be approved by agencies appointed by the Minister of Finance.

In addition, expenses incurred for training in accounting and ICT relating to GST will also be given additional tax deduction for YA 2014 and 2015 as announced in Budget 2014. This proposal has yet to be gazetted.

Extension of Double Deduction for Training Expenses under SL1M Program

It is proposed that double deduction incentive be given to training expenses incurred by Government Linked Companies and private companies that participate in Skim Latihan 1Malaysia (SL1M) be extended until 31 December 2020.

New Provision related to Transfer Pricing

It is proposed that the statute of limitation in respect of assessment or additional assessment in connection with transfer pricing to be 7 years as opposed to 5 years under the general case.

[Note: Similar provision has also been proposed for the Petroleum (Income Tax) Act 1967]

Capital Allowance to Increase Automation in Labour Intensive Industries

The Government will provide incentive in the form of capital allowance on automation expenditure to encourage automation in the manufacturing sector, according to the following categories:

i) First Category: for high labour intensive industries (such as rubber products, plastics, wood, furniture and textiles), an automation capital allowance of 200% will be provided to the first RM4 million expenditure incurred within the period from 2015 to 2017; and

ii) Second Category: for other industries, automation capital allowance of 200% will be provided to the first RM2 million expenditure incurred within the period from 2015 to 2020.

Review of Special Allowances for Small Value Assets (SVA)

It is proposed that the eligibility conditions for Special Allowances for SVA be revised as follows with effect from YA 2015:

i) the value of each asset be increased from RM1,000 to RM1,300.

ii) the maximum limit of total SVA be increased from RM10,000 to RM13,000 per basis period.

[Note: Condition (ii) does not apply to a SME]

Tax Treatment on Income Receivable from Related Persons

Currently, interest on loan transactions between related companies is deemed obtainable on demand when the interest is due to be paid and shall be taxed in the relevant period. It is proposed that this treatment be extended to loan transactions between individuals who are relatives of each other.

It is also proposed that where a person is entitled to receive any gross income (such as gross income from employment, interest, discount, rent, royalty or any pension, annuity or other periodical payment) from a Malaysian source and where such amount first becomes receivable to the person in the relevant period arising from transactions between:

i) Persons one of whom has control over the other;

ii) Individuals who are relatives of each other; or

iii) Persons both of whom are controlled by some other persons;

any such amount which first becomes receivable in the relevant period shall be deemed to be obtainable on demand in the following basis period and be treated as gross income in the following basis period.

The definitions of “relative” and “transaction” are also inserted in the proposed amendment.

Persons Responsible for Tax on Income Prior to Conversion to Limited Liability Partnership (LLP)

Currently, a partnership or a company may register and convert into a LLP.

It is proposed that:

i) Every partner of a partnership shall continue to be personally assessable and chargeable to tax on his chargeable income for the YA in which the conversion occurred and for any previous YA before the conversion.

ii) The LLP shall be assessed and chargeable to tax on the chargeable income of the converting company in the manner and amount as the company would have been assessed and charged for the YA in which the conversion occurred and for any previous YA before the conversion.

Ascertainment of Chargeable Income

Currently, taxpayers are not required to include income arising from interest paid to a resident by banks or other financial institutions and distributions by a takaful operator in ascertaining their chargeable income. It has been proposed that the above treatment be extended to withdrawals from a deferred annuity or private retirement scheme which have been subjected to withholding tax. This proposal is effective YA 2015.

Right of Appeal under Self-Assessment

Taxpayers' right of appeal on a deemed assessment which was restricted to a disagreement with any public ruling issued by the Inland Revenue Board (IRB) is now extended to a disagreement with any practice of the Director General generally prevailing at the time when the assessment was made. This proposal takes effect from the date of coming into operation of the Act.

Filing and Payment of Estimate of Tax Payable

A small and medium (SME) company is not required to file an estimate of tax payable for the first two years of assessment after commencement of operation. It is proposed that such exemption be restricted to a SME company which is resident and incorporated in Malaysia. This proposal takes effect from the date of coming into operation of the Act.

It has also been proposed that the due date for payment of instalments of the estimate of tax payable is extended by 5 days to the fifteenth day instead of the tenth day of the month with effect from 1 January 2015.

[Note: Similar provision has also been proposed for the Petroleum (Income Tax) Act 1967 relating to due date for payment of instalments]

Penalties for Offences

In the case of prosecution, it is proposed that the penalties for failure to furnish a return or give notice of chargeability, leaving Malaysia without payment of tax or other offences (e.g.failure to comply with Monthly Tax Deduction requirement, failure to furnish an estimate of tax payable etc) been increased from between RM200 and RM2,000 to between RM200 and RM20,000. The above proposals are effective from the date of coming into operation of the Act.

Reinvestment Allowance (RA)

Where an asset on which RA has been given is disposed of within 5 years of its acquisition, the allowances given are withdrawn and technically speaking, a revision of prior year's assessment may be required. It is proposed that the allowances withdrawn shall be part of the statutory income in the basis period for the YA in which the asset is disposed of.

A new paragraph 4A is introduced to clarify that the utilization of RA is only deductible against statutory income from a business in respect of a qualifying project.

These proposals take effect from YA 2015.

Review of Corporate Income Tax Rates

The following proposals made in the 2014 Budget have now been included in the Finance Bill (No. 2) 2014. Effective YA 2016, the corporate tax rate for companies would be reduced from 25% to 24%. This rate also applies to the following entities:-

i) A trust body;

ii) An executor of an estate of an individual who was domiciled outside Malaysia at the time of his death;

iii) A receiver appointed by the court; and

iv) A limited liability partnership.

For resident companies with a paid up capital of up to RM2.5 million (SMEs) at the beginning of their basis period, the tax rates will be reduced as follows:-

	Current rate (%)	**Proposed Rate (effective YA 2016)**
First RM500,000 of chargeable income	20	19

Chargeable income in excess of RM500,000	25	24

The above preferential tax rates will not be available to a SME if more than:-

i) 50% of the paid up capital in respect of ordinary shares of the SME is directly or indirectly owned by a related company;

ii) 50% of the paid up capital in respect of ordinary shares of the related company is directly or indirectly owned by the SME; or

iii) 50% of the paid up capital in respect of ordinary shares of the SME and the related company is directly or indirectly owned by another company.

A "related company" in this context means a company which has a paid up capital in respect of ordinary shares of more than RM2.5 million at the beginning of the basis period for a year of assessment.

[Note: The rates for SMEs are also applicable to a limited liability partnership whose capital contribution is up to RM2.5 million at the beginning of its basis period]

Review of Co-operative Society Income Tax Rates

For co-operative societies, it has been proposed in the 2014 Budget that the rates be revised as follows:-

Chargeable income (RM)	Current Tax Rate (%)	Proposed Tax Rate (effective YA 2015) (%)
1-30,000	0	0
30,001-60,000	5	5
60,001-100,000	10	10
100,001-150,000	15	15
150,001-250,000	20	18
250,001-500,000	22	21
500,001-750,000	24	23

Exceeding 750,000	25	24

The above proposal which takes effect from YA 2015 has now been included in the Finance Bill (No. 2) 2014.

Individual Income Tax

Tax Exemption on Income through Investment Account Platform

The Government will introduce a new syariah-compliant investment product in 2015, i.e. the Investment Account Platform (IAP). IAP will provide opportunities to investors in financing entrepreneurial activities and developing viable SMEs. IAP will also be a platform to attract institutional and individual investors including high net worth individuals to invest in the Islamic financial market.

To promote investment in IAP, the Government proposes individual investors be given income tax exemption on profits earned from qualifying investment for 3 consecutive years starting from the first year profit is earned subject to the following conditions:

- The investment is made for a period of 3 years starting from the operation date of IAP
- Tax incentive shall only be accorded to investment activities in Malaysia, in venture companies owned by Malaysian or locally incorporated companies;
- Tax exemption shall only be accorded to investments made in SMEs and venture companies in any sectors; and
- The definition for SMEs is as per the latest definition issued by SME Corporation Malaysia.

This proposal is effective from the operational date of IAP scheduled to be from 1 September 2015 to 31 August 2018.

Review of Relief on Medical Expenses for Serious Diseases

Currently, expenses incurred for treatment of serious diseases such as cancer, kidney failure and heart attack are given a tax relief up to RM5,000 per year. To reduce the burden of medical expenses and treatment of serious diseases, it has been proposed that the current tax relief be increased to RM6,000 per year with effect from YA 2015. The tax relief is available to the taxpayer for medical expenses incurred by the taxpayer on oneself, the spouse and children.

Review of Relief for the Disabled Child

In order to reduce the cost of living of a taxpayer with a disabled child, it has been proposed that the tax relief for each disabled child be increased from RM5,000 to RM6,000 with effect from YA 2015.

Review of Individual Relief for Purchase of Basic Supporting Equipment for the Disabled

It has been proposed that tax relief for the purchase of basic supporting equipment for the disabled taxpayer, spouse, child and parents be increased from RM5,000 to a maximum of RM6,000. This proposal is effective YA 2015.

Monthly Tax Deduction as Final Tax for Employees

Employees whose employment income includes benefits-in-kind or living accommodation or where the employment with an employer for a YA is less than twelve months can now elect for the monthly tax deduction as final tax and no return form needs be submitted for that YA. This proposal is effective YA 2015.

Review of Resident and Non-resident Individual Income Tax Bands and Rates

For resident individuals, it has been proposed in the 2014 Budget that the personal income tax bands and rates be revised as follows:-

Chargeable income (RM)	Current Tax Rate (%)	Proposed Tax Rate (effective YA 2015) (%)
1-5,000	0	0
5,001-20,000	2	1
20,001-35,000	6	5
35,001-50,000	11	10
50,001-70,000	19	16
70,001-100,000	24	21
100,001-250,000	26	24
250,001-400,000	26	24.5
Exceeding 400,000	26	25

It was also proposed in the 2014 Budget that the income tax rate for non-resident individuals be reduced by 1% from 26% to 25%.

The above proposals which take effect from YA 2015 have now been included in the Finance Bill (No. 2) 2014.

Some proposals affecting companies that have been addressed above would also affect individuals.

Stamp Duty

Extension of Stamp Duty Exemption for the Purchase of First Residential Property

It has been proposed that the 50% stamp duty exemption on instrument of transfer and loan agreement be extended to the purchase of the first residential property priced not exceeding RM500,000 (RM 400,000 for the present exemption) by a Malaysian aged between 25 and 40 years with household income not exceeding RM10,000 per month under the Youth Housing Scheme. This incentive applies to sales and purchase agreement executed from 1 January 2015 to 31 December 2016.

Goods and Service Tax (GST)

Expansion of GST Free Items

The scope of items that will not be subject to GST will be expanded to include the following:-

i) All types of fruits whether local or imported;

ii) White bread and wholemeal bread;

iii) Coffee powder, tea dust and cocoa powder;

iv) Yellow mee, kuey teow, laksa and meehoon;

v) The National Essential Medicine (covering almost 2,900 medicine brands);

vi) Reading materials such as children's coloring books, exercise and reference books, text books, dictionaries, religious books and newspapers;

vii) First 300 units of electricity consumption (increase from the first 200 units); and

viii) Retail sale of RON95 petrol, diesel and LPG

Also announced were steps to be taken to ensure smooth implementation of GST including enhancing/introducing the GST Enforcement Unit, Price Monitoring Unit and Consumer Squads.

Real Property Gains Tax (RPGT)

Introduction of Self-Assessment System

Gains from the disposal of property under the Real Property Gains Tax Act, 1976 are currently assessed under official assessment. It has been proposed that tax on gains from the disposal of real property be self-assessed by taxpayers with effect from the year 2016.

Duty of Acquirer to Retain and Pay Part of the Consideration

It is proposed that the retention sum by the acquirer be increased from 2% to 3% of the total value of the consideration. This proposal is effective 1 January 2015.

There are also several other proposals made in the Budget 2015 that may affect insurance companies, financial institutions, etc.

We invite you to explore other tax related information at:
http://www.deloitte.com/view/en_MY/my/mysvc/mytax/index.htm

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