



Tax Espresso

Finance Act 2017

The Finance Act 2017 has been published in the [Gazette](#) on 16 January 2017 and shall come into operation on 17 January 2017.

Whilst there are minor changes comparing the Finance Act 2017 with the Finance Bill 2016, they do not have significant impact. We wish to remind you of the following changes to the Income Tax Act 1967 may impact your tax position or your responsibility as a taxpayer.

Amendment to the Income Tax Act 1967	Effective Date
<p>1. <u>Derivation of Special Classes of Income</u></p> <p>The proviso in Section 15A is removed and income from services rendered by non-residents under Special Classes of Income under Section 4A shall be deemed to be derived from Malaysia regardless of whether the services are performed in Malaysia or outside Malaysia.</p> <p>In other words, with the amendment, payment to non-residents for onshore as well as offshore services would be subject to withholding tax under Section 109B</p>	<p>17 January 2017</p>

<p>2. <u>Royalty</u></p> <p>The definition of royalty has been widened to include amongst others the use of or the right to use software. A revisit to your existing contract may be required to ascertain whether your payment to non-residents could fall within the definition of royalty.</p>	<p>17 January 2017</p>
<p>3. <u>Reduction of SME income tax rate</u></p> <p>The income tax rate of SME (resident and incorporated in Malaysia) and limited liability partnership [with total capital contribution (whether in cash or kind) not exceeding RM2,500,000] on chargeable income up to the first RM500,000 is reduced from 19% to 18%.</p> <p>We suggest a revisit of your tax estimate submitted for the years of assessment (YAs) 2017 and 2018 to avoid over-payment of tax.</p>	<p>YA 2017</p>
<p>4. <u>Amendments to the exemption of certain interest income under Schedule 6</u></p> <p>Exemption of interest income under Paragraphs 33A and 33B of Schedule 6 of the ITA will not apply in the case of interest paid to a company in the same group.</p> <p>Given that the exemption would no longer apply to intra-group interest, group of companies may need to review their inter-company financing.</p>	<p>YA 2017</p>

For our detailed comments on the Finance Bill 2016, please click on the following [link](#). We recommend that you do that as other changes may also impact your tax position.

Contact Us

Services / Names	Designation	Email	Telephone
<p>Business Tax Compliance & Advisory</p> <p>Yee Wing Peng Julie Tan</p>	<p>Managing Director Executive Director</p>	<p>wpjee@deloitte.com jultan@deloitte.com</p>	<p>(603) 7610 8800 (603) 7610 8847</p>

Business Model Optimisation

Hisham Halim Executive Director hihalim@deloitte.com (603) 7610 8832

Business Process Solutions

Julie Tan Executive Director jultan@deloitte.com (603) 7610 8847
Gabriel Kua Director gkua@deloitte.com (606) 281 1077

Financial Services

Chee Pei Pei Executive Director pechee@deloitte.com (603) 7610 8862

International Tax

Tan Hooi Beng Executive Director hooitan@deloitte.com (603) 7610 8843

Oil & Gas

Toh Hong Peir Executive Director htoh@deloitte.com (603) 7610 8808

Mergers & Acquisitions

Sim Kwang Gek Executive Director kqsim@deloitte.com (603) 7610 8849

R&D and Government Incentives

Hisham Halim Executive Director hihalim@deloitte.com (603) 7610 8832

Real Estate

Tham Lih Jiun Executive Director litham@deloitte.com (603) 7610 8875

Tax Audit & Investigation

Chow Kuo Seng Executive Director kuchow@deloitte.com (603) 7610 8836

Global Employer Services

Ang Weina Executive Director angweina@deloitte.com (603) 7610 8841

Indirect Tax

Tan Eng Yew Executive Director etan@deloitte.com (603) 7610 8870
Senthuran Elalingam Executive Director selalingam@deloitte.com (603) 7610 8879

Transfer Pricing

Theresa Goh Executive Director tgoh@deloitte.com (603) 7610 8837
Hisham Halim Executive Director hihalim@deloitte.com (603) 7610 8832

Branches / Names	Designation	Email	Telephone
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Penang

Ng Lan Kheng	Executive Director	lkng@deloitte.com	(604) 218 9888
Everlyn Lee	Director	evelee@deloitte.com	(604) 218 9913

Ipoh

Ng Lan Kheng	Executive Director	lkng@deloitte.com	(604) 218 9888
Lam Weng Keat	Director	welam@deloitte.com	(605) 253 4828

Melaka

Chee Pei Pei	Executive Director	pechee@deloitte.com	(603) 7610 8862
Gabriel Kua	Director	gkua@deloitte.com	(606) 281 1077

Johor Bahru

Chee Pei Pei	Executive Director	pechee@deloitte.com	(603) 7610 8862
Thean Szu Ping	Director	spthean@deloitte.com	(607) 222 5988

Kuching

Tham Lih Jiun	Executive Director	litham@deloitte.com	(603) 7610 8875
Chai Suk Phin	Senior Manager	spchai@deloitte.com	(608) 246 3311

Kota Kinabalu

Tham Lih Jiun	Executive Director	litham@deloitte.com	(603) 7610 8875
Cheong Yit Hui	Manager	yicheong@deloitte.com	(608) 823 9601



Yee Wing Peng



Julie Tan



Hisham Halim



Chee Pei Pei



Tan Hooi Beng



Toh Hong Peir



Sim Kwang Gek



Tham Lih Jiun



Chow Kuo Seng



Ang Weina



Tan Eng Yew



**Senthuran
Elalingam**



Theresa Goh



Ng Lan Kheng



Everlyn Lee



Lam Weng Keat



Gabriel Kua



Thean Szu Ping



Chai Suk Phin



Cheong Yit Hui



Deloitte

Level 16, Menara LGB
1, Jalan Wan Kadir
Taman Tun Dr. Ismail
60000 Kuala Lumpur, Malaysia

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