Budget leaves no room to manoeuvre but with ringgit down, exports abound

Personal income hikes for high-earners among key budget highlights

Despite the slowdown brought on by the global economy, Malaysia is still holding up reasonably well due to its diversity, resilience and solid fundamentals, says Deloitte's tax experts.

They felt that Budget 2016 has limited room to manoeuvre but the silver lining in export oriented businesses should be seized with bolder tax measures.

Deloitte Malaysia's Country Tax Leader, Yee Wing Peng, said that with the flagging ringgit, bold measures are necessary to incentivise businesses to seize the opportunity to ramp up the export of goods and services.

Yee questioned whether it was enough to cut the budget deficit by merely 0.1%, or could more could be done, especially on the government emolument which forms 32% of the total operating expenditure.

Yee was speaking at Deloitte Malaysia's 41st TaxMax Seminar recently. An annual post-Budget meet, the seminar included in-depth analyses and presentations on personal and corporate income tax and other taxes, presented by Deloitte Malaysia's key subject matter experts.

Deloitte Malaysia's global employer services leader, Ang Weina and global employer services director, Michelle Lai, both spoke on the changes to the personal income tax structure with effect from the 2016 year of assessment (YA), with the personal tax hikes for high-income earners taking centrestage.

The proposed amendment to Schedule 1, Part 1 and 1A of the Income Tax Act (ITA) will see the chargeable income band raised to RM600,000 from RM400,000 previously. The maximum tax rate, which was reduced last year from 26% to 25% has been increased to 28%.

For those earning RM600,000 to RM1 million, their tax rate has been raised from 25% to 26% while those making more than RM1 million will be taxed at a new rate of 28%. The income tax rates for Malaysians in other income bands remained unchanged.

However, the fixed income rate for non-resident individuals is to be increased by 3 percentage points, from 25% to 28%.

In a move to enable more employees to benefit from the Social Security Organisation (Socso), employees will be eligible to a tax relief of up to a maximum of RM250 per year in respect on the contribution to Socso. Additionally, the eligibility for mandatory contribution will also be increased from the present monthly salary of RM3,000 to RM4,000.

On the other hand, the proposed additional coverage on the exemption on retirement gratuity includes 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 (RM1,000 per completed year of service).

Speaking on corporate and other related taxes, Deloitte Malaysia's Mergers and Acquisitions Tax Leader, Sim Kwang Gek and International Tax Leader, Tan Hooi Beng highlighted and clarified some of the changes in corporate taxation in line with Budget 2016.

One of them is the new restriction on interest payable but not due to be paid. It is proposed that where interest payable becomes due to be paid in the basis period for a future year of assessment, the Director General of Inland Revenue (DG) shall be notified in writing for the claim of tax deduction not later than 12 months from the end of that basis period.

On receipt, the DG may reduce the assessment which has been made. Currently, since YA2014, interest payable is not deductible for income tax purposes if it is not due to be paid. The tax deduction is to be given when interest is due to be paid.

The Goods and Services Tax (GST), which has formed a bulk of corporate taxation headaches for the past few months, will also see some provisions and changes. A number of proposed amendments on issues related to GST implementation were also highlighted at the seminar.

For example, at present, it is unclear as to whether the input tax incurred but not claimable for GST purposes and whether output tax borne by the taxpayer is allowable for income tax deduction purposes.

Under the proposed new sub-sections 39(1)(o) and 39(1)(p), non-allowable expenses shall include input tax paid or to be paid.

Input tax costs are not deductible where a GST-registered person is entitled to claim the input tax for GST purposes. The same applies where a person is required to register for GST but failed to do so.

Similarly, where a GST-registered

person or where a person is required to register for GST but failed to do so, bears any output tax, this cost is not tax deductible.

The effective date for these amendments is YA2015.

Subsequently, Section 41 of the GST Act will also be amended to impose a penalty if the taxable person fails to make payment for tax due and payable. The minimum penalty will be from 5% to a maximum of 25% of the amount of tax due and payable based on the number of days delay.

On capital allowances, it is proposed that where any part of an asset which ceases to be used for business purposes(s) and due to be replaced with a new part which is depreciated separately based on generally accepted accounting principles (GAAP), that part of the asset is deemed to have been disposed in that basis period.

Another proposed amendment which garnered much interest is the restriction on claiming of industrial building allowances. A new paragraph 16B has been introduced to Schedule 3 of the ITA by the Finance Bill 2015.

The new regulation states that where certain buildings used by the owner for the purposes of letting of property, industrial building allowances are not allowable.

This covers licensed private hospitals, maternity homes and nursing homes, buildings used for research, warehouse for storage of goods for export or imported goods which are to be processed and distributed or re-exported, buildings for approved service projects, hotels, airports, motor racing circuit, schools or approved education, and living accommodation for employees,

Factories are excluded from this change.

Other corporate tax issues brought up were the 100% income tax exemption on statutory income for travel companies which will be extended to December 31, 2018. Also, the restriction on claim of capital allowance in respect of small value assets is extended to resident companies that are not incorporated in Malaysia.

Only for SMEs, there is a proposed reduction of the value added criteria for them to enjoy tax exemption on increased exports to further incentivize SMEs to grow their exports (tax exemption is restricted to 70% of the statutory income).

MALAYSIA SME® spoke to Sim at the sidelines of the seminar on what impact these changes in personal and corporate taxes would have on the businesses, particularly the SMEs.

"There are two tax incentives which companies can look at. One is the special reinvestment allowance. Previously it was only for 15 consecutive years of assessment, after which additional capex incurred are not claimable.

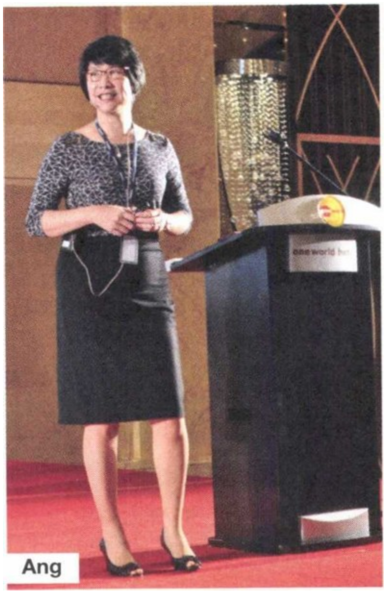
"The reintroduction is for 2016 until 2018 which is quite good as companies can then plan their capital expenditures for these three years.

"The other is the double deduction for R&D expenditures. For SMEs, the conditions have been relaxed where they can get an automatic double deduction of up to RM50,000 (for each year of assessment)," she said.

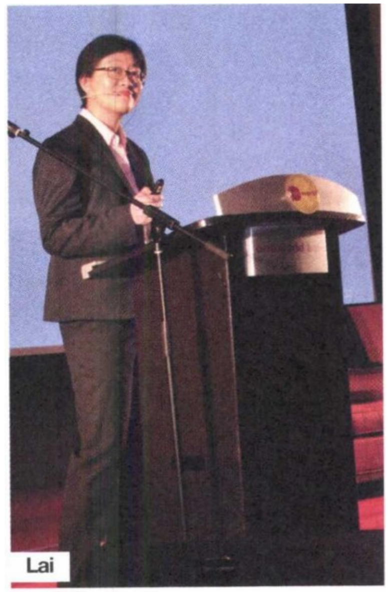
On the impact of the proposed tax changes, Sim commented that they would result more on compliance and administrative requirements on the part of companies.

For example, the mandatory electronic filing where a company shall furnish the Form E, Form CP204 and CP204A on an electronic medium or by way of electronic transmission.

"Don't do things at the last minute. If you forget, or enter the incorrect information, there are penalties involved," she said. MSME



Ang



Lai

Sim (left) and Tan speaking on corporate taxes and other taxes