Deloitte. | 2019 Budget Expectations

As a tax-paying individual, we are always hopeful for any reduction in tax rates or an increase in tax reliefs. Knowing the present predicaments of the country's finances, how likely is it that this year's Budget will provide relief to our tax burden?

It will be tough for the new government to manage the country's debt position while at the same time, trying to work out new equitable measures to increase revenue. There has been speculation on the possible introduction of inheritance taxes and capital gain taxes and these have been fuelled recently. As for individual rates or existing tax reliefs, we do not anticipate vast changes. However, a consolidation of the reliefs may be on the cards to simplify tax compliance. For example, an aggregate relief for medical expenses incurred on parents and parental care may be considered.

With the country facing a fiscal deficit challenge, would you foresee more incentives being introduced to boost economic growth as well as to attract investments?

In line with the government's vision to achieve a high-income nation status by 2020, our country needs to move away from a labour-intensive industry to a high-technology, knowledge-based industry. We anticipate that if any new incentive is to be introduced, the government will focus on incentivising high value knowledge-based activities, e.g., in the area of Industry 4.0, high-technology, and research and development.

The list of promoted products and activities qualified for incentives was last updated in 2012. We anticipate that certain incentives, which are no longer in line with the government's objectives, will be tightened or abolished.

The government looked into amending the Stamp Act with an effort to widen its tax base and increase tax revenue and collection. However, the Stamp Bill was withdrawn during the October 2017 Parliament session. Will this be reviewed?

In line with the government's efforts to narrow the deficit, we foresee the Stamp Act could be reviewed. However, in order to fulfill the government's manifesto for affordable housing, the stamp duty exemption for such properties should be extended.

How are transfer pricing audits expected to be performed in the post-Base Erosion and Profit Shifting (BEPS) era with the requirements of three tier documentation and automatic exchange of information?

In the post-BEPS era, transfer pricing audits are expected to be initiated by the Inland Revenue Board (IRB) on risk-based criterion as per CbCR (Country by Country report) information.

Deloitte's Panel of Partners - From left to right (standing) – Chia Swee How, Real Estate Tax Leader; Senthuran Elalingam, Asia Pacific Financial Services Indirect Tax Leader; Chow Kuo Seng, Audit & Investigation Tax Leader; (seated) Thin Siew Chi, Business Tax Executive Director; Chee Pei Pei, Financial Services Tax Leader; Sim Kwang Gek, Country Tax Leader; Theresa Goh, Transfer Pricing Leader; Ang Weina, Global Employer Services Leader and Tham Lih Jiun, Government Grants & Incentives Tax Leader.

This will increase the risk of scrutiny for many taxpayers with abnormal results. On the other hand, this may lower the chances of transfer pricing scrutiny of genuine taxpayers.

Further, the onerous requirements of Transfer Pricing documentation as per the revised Transfer Pricing Guidelines and automatic exchange of CbCR information is expected to provide significant key information to the IRB for the purpose of tax assessment. Key information like jurisdiction-wise key financial indicators, group business strategies, intangibles involved, financing structures, group Transfer Pricing policy, and group key value chains etc. would certainly help the IRB in taking an informed view during tax audit, rather than perform adjustments on an ad-hoc basis.

The IRB may perform the audits based on the theme of substance over form and may re-characterise transactions in exceptional cases. Further, significant stress is expected on functions that have serious control over risk in the determination of arm's length compensation.

Are we expecting any changes to the Sales and Service Tax (SST)?

Although the SST was only introduced on 1 September, we are anticipating some enhancements and modifications to this tax. We anticipate one major change to the SST, that is, the expansion to cover 'digital services' and also other imported services. While the now abolished Goods and Services Tax (GST) imposed a tax on services imported by a Malaysian business under a 'reverse charge' mechanism, no similar rule exists under the SST. As a result, it is more beneficial for a Malaysian business to acquire services from a service provider outside of Malaysia than from a local one. A tax on imported services is intended to correct this.

The digital tax, however, is a totally new area of tax which was not covered under the previous GST. It is expected that this tax would require foreign service providers who provide digital services (e.g. online video and music streaming, apps, electronic gaming platforms etc.) to register and charge SST. Similar taxes have been introduced globally, including more recently in Australia and New Zealand, with Singapore having proposed to introduce the tax in the near future.

Despite the Finance Minister's recent indication that the coming 2019 Malaysia budget will be a belt-tightening one without any handouts and goodies, do you foresee any measures to alleviate the cost of owning a house?

Currently, first-time home buyers are entitled to stamp duty exemption on the first RM300,000 for the sales & purchase agreement and loan agreement, restricted to residential property valued up to RM500,000. We are hopeful that the stamp duty exemption will be extended for another 5 years and based on the entire property value of RM500,000.

Also, as a measure to ease the burden of financing a home, we believe the reinstatement of the developer interest bearing scheme for first-time home buyers would be timely. This can be introduced perhaps for property with a value of up to RM600,000, to curb property speculation.

To address the affordable housing issue in the long term, we hope to see bold and concerted efforts by the new administration to continue building an efficient public transportation system connecting high density areas, reduce development cost by simplifying the existing lengthy bureaucratic housing approval procedures and, allocating land in appropriate areas for affordable housing.

We have seen anti-corruption actions being taken by the government. Recognising the government's need to increase tax revenue collection, can we expect the tax amnesty program to be reintroduced soon?

The tax amnesty offered in 2015 and 2016 had contributed to the IRB's tax collection budget, as well as improved tax compliance among taxpayers. To encourage taxpayers to come clean about their under-declared income and pay taxes in a short time frame, the government may consider reintroducing the tax amnesty program with full waiver for penalties.

With the abolishment of the GST, what are the tax avenues that the government could consider in order to bridge the gap between the country's revenue and expenditure?

Amongst the avenues that may be considered are digital tax, inheritance tax, soda tax and capital gains tax on shares, although none of these taxes would be popular. Alternatively, the government could look into increasing the stamp duties for property purchased by foreigners. Although Malaysia lifted the minimum price threshold for foreigners from RM500,000 to RM1 million in 2014, there has been a noticeable increase in new launches of properties above RM1 million.

Taking a page out of our neighbours' books, we could refer to several reference points when considering increasing stamp duties for purchase of properties by non-Malaysians. Foreigners in Hong Kong are subject to additional 15% stamp duty and up to a maximum of 30% in total. Singapore has also raised its additional buyer stamp duty to 20% for foreigners. Further away, Canadian cities such as Vancouver and Toronto have slapped taxes of 15-20% on foreigners.

Currently, stamp duty is charged on ad valorem rate between 1% to 3% regardless of whether it is purchased by local Malaysians or foreigners. Increasing the stamp duty on foreign buyers is a simple, yet effective way to increase the government's coffers.