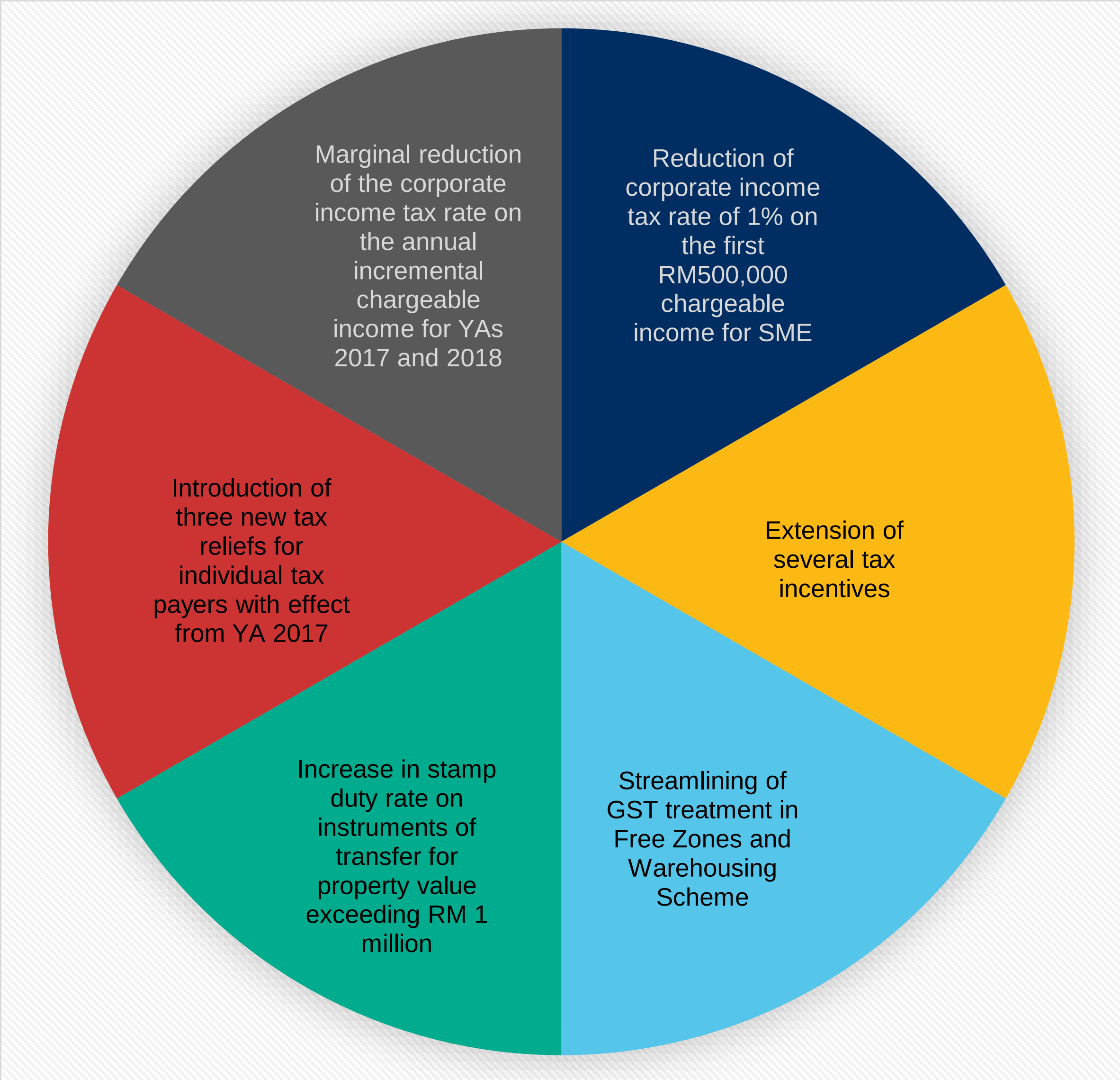
2017 Malaysia Budget Speech Tax Highlights

Crowe Horwath Kuala Lumpur

Major highlights for 2017 Malaysia Budget



Inside this issue

Review of Corporate Income Tax

Reduction of corporate income tax rates for SMEs and Non-SMEs

In an effort to assist business entities to be more competitive in the market, the Government has proposed a reduction of corporate tax rate for SMEs from 19% to 18% on the chargeable income up to RM500,000 for YA 2017. In addition, the Government has also proposed a reduction of corporate tax rate based on the annual increase in chargeable income for YAs 2017 and 2018 as follows:

Chargeable income (RM)	Existing tax rate	Proposed tax rate	Effective date
SME:			
Chargeable income for the first RM 500,000	19%	18%	From YA 2017
Chargeable income exceeding RM500,000: - Remaining chargeable income - Chargeable income which is equal to the chargeable income of the immediately preceding YA - Incremental chargeable income (i.e. the chargeable income in the current YA less chargeable income of the immediately preceding YA)	24% N/A N/A	N/A 24% 20% to 24% depending on the percentage point reduction **	For YAs 2017 & 2018
Non SME:			
Chargeable income: - Chargeable income in the YA - Chargeable income which is equal to the chargeable income of the immediately preceding YA - Incremental chargeable income (i.e. the chargeable income in the current YA less chargeable income of the immediately preceding YA)	24% N/A N/A	N/A 24% 20% to 24% depending on the percentage point reduction **	For YAs 2017 & 2018

** The proposed reduction of the income tax rate is as follows:

Percentage of increase in chargeable income as compared to the immediate preceding YA	Percentage point reduction	Income tax rate after reduction (%)
Less than 5.00	Nil	24
5.00 – 9.99	1	23
10.00 – 14.99	2	22
15.00 – 19.99	3	21
20.00 and above	4	20

Tax Incentives

Extension of Income Tax and Stamp Duty exemptions for Islamic Banking and Takaful Businesses

In line with its effort to further widen Islamic financial markets chain and maintain Malaysia as an international Islamic financial centre, the Government has proposed to extend the current incentives as follows:

- Income tax exemption for Islamic banks, takaful companies and takaful unit operating Islamic banking business or takaful business transacted in foreign currencies including transactions with Malaysian residents will be extended to the year of assessment 2020**;** and
- Stamp duty exemption on instruments executed pertaining to Islamic banking and takaful activities transacted in foreign currencies will be extended to 31 December 2020.

Increase in limit of tax deduction for sponsoring arts, cultural and heritage activities

In order to encourage sponsorship by private sector in local and foreign arts, cultural and heritage activities in Malaysia, it is proposed that with effect from YA 2017:

- The limit of tax deduction for a company that sponsor such activities be increased from RM500,000 to RM700,000 per year in aggregate; and
- The deduction limit allowed for sponsoring foreign arts, cultural and heritage activities be increased from RM200,000 to RM300,000 per year.

Extension of period and expansion of scope of double deduction for Structure Internship Programme (SIP)

Companies that participate in the SIP approved by TalentCorp are eligible for double deduction on expenses incurred in implementing the programme. In order to encourage more companies to participate in SIP and contribute towards the employability of local graduates, it is proposed that:

- The double deduction to be extended for a period of 3 years; and
- The programme be expanded to include Malaysian student pursuing full-time vocational level (Malaysian Skills Certificate Level 3).

The above is available from year of assessment 2017 until year of assessment 2019.

Expansion of the scope of Halal products eligible for incentives for Halal Industry Players

Presently, tax incentives are given to Halal Industry Players operating in Halal Parks and produce the following qualifying Halal products:

- Specialty processed food;
- Pharmaceuticals, cosmetics and personal care;
- Livestock and meat products; and
- Halal ingredients

To further increase the competitiveness of Halal products industry in Malaysia, it is proposed that the qualifying Halal products be extended to include production of nutraceutical and probiotic products.

Extension of double deduction period for anchor companies under the Vendor Development Programme (VDP)

The VDP has been introduced with the objective of creating vendors that are competitive and of world standard.

	Examples for anchor companies and vendors	
Anchor companies	Government-linked companies	Multinational companies
Vendors	Local companies	Small and medium enterprises

In order to boost the local VDP in the manufacturing and services sectors, double deduction on expenses incurred (i.e. cost of product development, obtaining ISO certifications, vendor skill training, etc.) by the anchor companies will be extended to 31 December 2020 for anchor companies that have signed Memorandum of Understanding (MoU) with Ministry of International Trade and Industry (MITI) from 1 January 2017 to 31 December 2020.

Extension of Income Tax incentive for new 4 and 5 star hotels

In order to continue to provide international standard accommodation facilities and to meet the expectations of high-end tourists, the Government has proposed that the application period to Malaysian Investment Development Authority (MIDA) for Pioneer Status or Investment Tax Allowance for new investments in 4 & 5 star hotels in Peninsular Malaysia, Sabah & Sarawak be extended to 31 December 2018.

Updates Affecting Individuals

Introduction of three new individual income tax reliefs from the year of assessment (“YA”) 2017

- **Tax relief for lifestyle**

  Currently, the following tax reliefs are available to the individual taxpayers:-

Personal reliefs	Maximum amount (RM)
• Purchase of reading material (excluding newspapers and banned materials)	1,000
• Purchase of sport equipment	300
• Purchase of computer (once in 3 years)	3,000
• Subscription of broadband internet (YA 2010 until YA 2012)	500

  The above tax reliefs will be combined into a new lifestyle relief of RM2,500 per year. The scope of relief is also expanded to include the followings:

  1. Purchase of printed daily newspaper;
  2. Purchase of smartphone or tablet;
  3. Internet subscription; and
  4. Gymnasium membership fees.

- **Tax relief for fees paid for child care centres and kindergartens**

  In its effort to ease the burden of tax payers, the Government has proposed a new tax relief of up to RM1,000 to the individual taxpayer (claimable by either parent of the children) who enroll their children aged up to 6 years old in child care centres or kindergartens registered with the Department of Social Welfare or the Ministry of Education.

- **Tax relief for purchase of breastfeeding equipment**

  The Government has proposed a new tax relief of RM1,000 to the women taxpayer with children aged up to 2 years for the purchase of the complete set or separate parts consisting of breast pump (manual or electric), cooler bag, containers for collections and storage. This relief can be claimed once in 2 years effective from the YA 2017.

Updates on Stamp Duty

Extension of stamp duty exemption for the purchase of first residential home

In an effort to reduce the cost of ownership of the first home for Malaysian citizens, the Government has proposed the following stamp duty exemptions:

Value of instruments of transfer and loan agreement for the purchase of first home	Exemption given on stamp duty
Up to RM300,000	100%
Between RM300,001 and RM500,000	100% on the first RM300,000 and excess is subject to the prevailing rate of stamp duty.

The above exemption is applicable for sales and purchase agreement executed from 1 January 2017 to 31 December 2018

Increase in stamp duty on instruments of transfer of property worth more than RM 1 million

The Government has proposed to increase the ad valorem stamp duty on instruments of transfer of property worth more than RM 1 million. The new stamp duty is as follows:

Value of instruments of transfer	Ad valorem stamp duty
On the first RM 100,000	1%
On the next RM 400,000	2%
On the next RM500,000	3%
In excess of RM 1,000,000	4%

The above rates will be effective from 1 January 2018.

Developments in Goods and Services Tax

Streamlining the GST Treatment in Free Zones

It proposed that the following supplies would not be subject to GST:

- supply and removal of goods made within and between Free Commercial Zone (“FCZ”);
- goods imported into Free Industrial Zone (“FIZ”);
- supply and removal of goods made within and between FIZ;
- supply and removal of goods made within FCZ and FIZ, vice versa;
- removal of goods from either FCZ or FIZ to Designated Areas, vice versa; and
- removal of goods from either FCZ or FIZ to an approved warehouse under the Warehousing Scheme, vice versa.

Streamlining the GST Treatment under the Warehousing Scheme

It is proposed that no GST shall be charged on the goods from Principal Customs Area (“PCA”) consisting of Licensed Manufacturing Warehouse, Excise Warehouse and FIZ that are deposited into and supplied within and between warehouses under the Warehousing Scheme.

The above is effective from 1 January 2017.

GST Relief for Disabled Persons

In addition to the existing Item 7, First Schedule, Goods and Services Tax (Relief) Order 2014, it is proposed that the GST relief to be given directly to the valid OKU (i.e. Orang Kurang Upaya) card holders for the purchase of approved equipment from the suppliers designated by the Social Welfare Department.

The above is effective from 1 January 2017.

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