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NEWS FLASH MALAYSIA

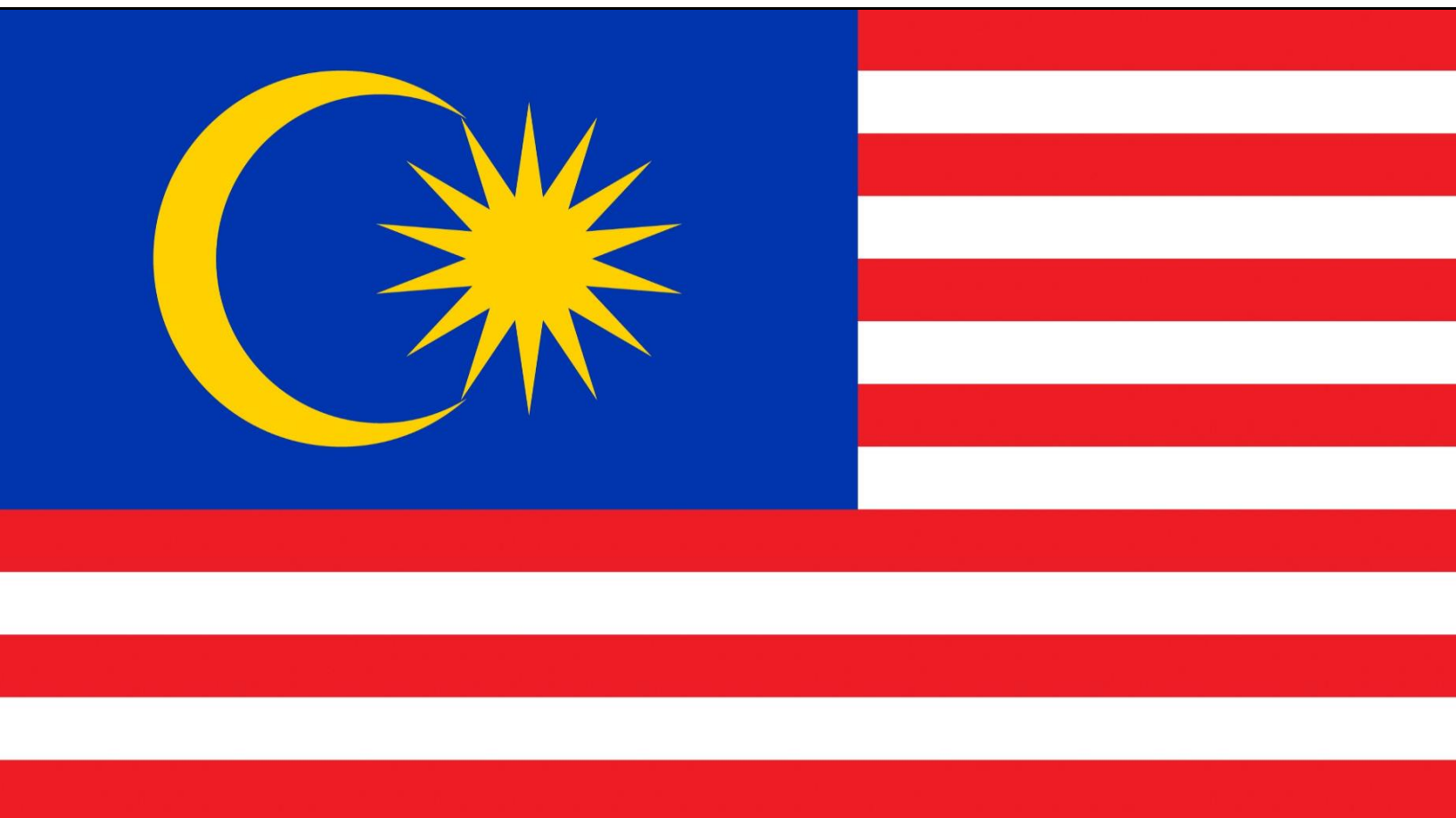
GROWING STRATEGICALLY

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Malaysia's Budget 2019

Latest news on law, tax and business in Malaysia

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Read in this issue:

→ Economic Outlook

→ Key Sectors Impacted

- Agriculture
 - Education and Training
 - Financial Services
 - Infrastructure
 - Logistics
 - Transportation
 - Property
 - Tourism
-

→ Key Tax Proposals

- Corporate Tax
 - Personal Tax
 - Indirect Tax
 - Other taxes
-

→ Our View

→ Economic Outlook

Budget 2019, themed “A Resurgent Malaysia, A Dynamic Economy, A Prosperous Society” focuses on 3 core objectives:

1. Implement institutional reforms,
2. ensure the socio-economic well-being of Malaysians and
3. foster an entrepreneurial economy;

To achieve these objectives, the new Malaysian government has formulated 12 strategies:

- strengthening fiscal administration
- restructuring and rationalizing Government debt
- raising government revenue
- ensuring welfare and quality of life
- improving employment and employability
- enhancing health and social welfare protection
- raising real disposable income

- education for a better future
- unleashing the power of the new economy
- seizing opportunities in the face of global challenges
- redefining the role of Government in business
- ensuring equitable and sustainable economic growth

Malaysia’s GDP growth is expected to increase by 4.8 per cent in 2018, with a further slight growth of 4.9 per cent expected for 2019. The growth is expected to be driven by private consumption and private investment and supported by the manufacturing, services and construction segments of the economy.

In this newsflash, we will identify the key sectors impacted by the budget as well as key tax proposals.

→ Key Sectors Impacted

Agriculture

- Allocation of RM 18 million to incentivise the automation of the agrofood industry;
- RM 52 million to implement initiatives for the agricultural and agrofood industry as well as entrepreneurship training for youths;
- Implementation of Biodiesel B10 program for the transportation sector, and B7 for the industrial sector;
- RM 30 million allocation for smallholders to obtain Malaysian Sustainable Palm Oil (MSPO) certification.

- Training Scheme for Industry 4.0 or other related approved programs;
- Double tax deduction for companies carrying out structured training programs for students in the fields of engineering and technology.

Education and Training

- Double tax deduction provided for scholarships and bursaries provided by companies to students enrolled for technical and vocational training, diploma and degree courses in engineering and technology;
- Double tax deduction for company expenses related to participation in the National Dual

Financial Services

- Gazette of Capital Markets and Services (Prescription of Securities) Guidelines for the approval and monitoring of digital coin and token exchanges;
- A B40 Health Protection Fund with an initial seed fund of RM 2 billion from Great Eastern Life Insurance will be set up by the Government through Bank Negara Malaysia (“BNM”).

Infrastructure

- Implementation of 24 Public Private Partnership infrastructure projects worth RM 5.2 billion;
- World's first airport REIT will be set up by the Government to raise up to RM 4 billion of funding via a 30 per cent equity sale in the REIT;
- RM 5 billion and RM 4.3 billion allocation for development in Sabah and Sarawak respectively (e.g. construction and upgrading of water, electricity and road infrastructure, health, education facilities and development of economic corridors).

Logistics

- Plan to develop 380 acres of land in Pulau Indah, Selangor as a Free Trade Zone, to support and catalyse increased shipping and logistics activities in Port Klang;
- Development of an 80 acres aerospace industry hub in Subang;
- Development of Kota Perdana Special Border Economic Zone in Bukit Kayu Hitam, Kedah, as a strategic trading and logistics hub between Malaysia and Thailand.

Transportation

- To encourage domestic travel, a levy for all passengers travelling overseas via air routes starting 1 June 2019 - RM 20 for passengers

travelling to ASEAN countries and RM 40 for other countries;

- Unlimited monthly public transport pass of RM 100 from 1 January 2019 for Malaysian citizens;
- Owners of cars with engine capacity of 1,500 cc and below or motorcycles of 125 cc and below will enjoy RON95 petrol subsidy of at least RM 0.30 per litre, limited to 100 litres and 40 litres per month for cars and motorcycles respectively

Property

- BNM will establish a fund of RM 1 billion to help the lower income group, earning not more than RM 2,300 per month, to purchase affordable homes priced up to RM 150,000 with a concessionary financing rate as low as 3.5 per cent per annum;
- Allocation of RM 1.5 billion to support the construction and completion of affordable homes for Program Perumahan Rakyat, Perumahan Penjawat Awam Malaysia, PR1MA, and Syarikat Perumahan Nasional Bhd.

Tourism

- Tax exempt facilities will be provided to duty-free shops at Swettenham Pier in Penang to further promote the cruise tourism sector;
- Designation of Pulau Pangkor as a duty free zone;
- Enhancement of Pulau Langkawi's duty free island status.

→ Key Tax Proposals

Corporate Tax

- Reduction in corporate tax rate for Small and Medium Enterprises (“SME”) effective Year of Assessment (“YA”) 2019.

Chargeable Income	Current %	Proposed %
Up to RM500,000	18	17
Exceeding RM500,000	24	24

- Special Voluntary Disclosure Program (“SVDP”) to encourage taxpayers to voluntarily declare any unreported income by offering reduced penalty rates from 3 November 2018 to 30 June 2019.

Disclosure Period	Penalty Rate (in %)
3 November 2018–31 March 2019	10 % (payment to be made by 1 April 2019)
1 April 2019–30 June 2019	15 % (payment to be made by 1 July 2019)
1 July 2019 onwards	80 % to 300 % for failure to submit tax returns 80 % to 100 % for under-declaration of income

- Time bar period on unabsorbed losses and unutilised allowances (including unutilised incentive benefits) be restricted to a maximum of 7 years.
- Surrendering of losses for group relief will only be allowed after the surrendering company has been in operation for more than 12 months. Surrendering of losses is restricted to a period of 3 consecutive YA’s. Companies with brought forward investment tax allowances or unabsorbed pioneer losses will not be eligible to claim group relief.
- Labuan companies will no longer be able to elect for income tax at the fixed rate of RM 20,000 and will be subject to taxation at a rate of 3 per cent

rate on net profits. Income from intellectual property assets held by Labuan entities will be subject to tax at the prevailing income tax rates instead of the preferential Labuan tax rates.

- Extension of tax application period for venture capital tax incentives until 31 December 2019;
- Tax incentives for Industry 4WRD:
 1. Tax deduction up to RM 27,000 for I4.0 Readiness Assessment;
 2. Double Deduction on expenses incurred in implementing Industry 4WRD Vendor Development Program, capped at RM 1 million per year for three consecutive YA’s;
 3. Tax incentives for Human Capital Development subject to conditions.
- Companies that are already participating in the Principal Hub will be granted a concessionary tax rate of 10 per cent on the overall statutory income related to Principal Hub activities for 5 years.

Personal Tax

- Tax relief contributions to approved provident funds or takaful, or payment for life insurance premiums be increased from RM 6,000 to RM 7,000 broken down as: EPF – RM 4,000; and takaful & life insurance premiums – RM 3,000.
- Increase in tax relief on net annual savings in the National Education Savings Scheme (“SSPN”) from RM 6,000 to RM 8,000 for YAs 2019 and 2020.

Indirect Tax

- Importation of taxable services into Malaysia by businesses will be subject to service tax effective as of 1 January 2019.;
- Digital products and services (e.g. downloaded software, music, video or digital advertising) by foreign service providers to consumers in Malaysia will be subject to service tax effective as of 1 January 2019;

- Exemptions will be granted on specific business-to-business services for service tax registered entities effective as of 1 January 2019;
 - A credit system against sales tax payable will be introduced for small manufacturers who purchase manufacturing inputs from importers instead of other Malaysian registered manufacturers;
 - Excise duty on sweetened beverages at the rate of RM 0.40 per litre based on the sugar content exceeding certain thresholds effective as of 1 April 2019;
 - Increase in taxes, fees and levy on Gaming Industry
1. Casino license up to RM 150 million per annum from RM 120 million per annum;
 2. Casino duties up to 35 per cent on gross collection;
 3. Machine dealers license up to RM 50,000 per annum from RM 10,000 per annum; and
 4. Gaming machine duties up to 30 per cent on gross collection.
- Import duty on bicycles to be reduced to 15 per cent from 25 per cent.
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- ## Other taxes
- Effective as of 1 January 2019 Real Property Gains Tax (“RPGT”) rates for gains on disposals of real properties or shares in real property companies after the 5th year to be revised as:
 - from 5 per cent to 10 per cent for company, non-citizen, and non-permanent resident individual; or
 - from 0 per cent to 5 per cent for Malaysian citizen or permanent resident.
- Stamp duty rate on the transfer of real property will be increased to 4 per cent (from 3 per cent) on values above RM1 million effective as of 1 January 2019.

→ Our View

Budget 2019 seeks to enhance Malaysia’s fiscal strength, whilst sustaining economic growth and aiming to support the welfare of the Malaysian people under challenging economic circumstances.

We hope that this comprehensive review has provided you with a more thorough insight on what to expect in the upcoming year, and its implications on you and your business in Malaysia.

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