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News Flash Malaysia

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Corporate Tax

Reduction of corporate income tax for increase in chargeable income

Currently, companies with paid-up capital of more than RM2.5 million or Limited Liability Partnerships (LLP) with total contribution of capital of more than RM2.5 million are taxed at a fixed rate of 24 %.

It is proposed that the incremental portion of chargeable income will enjoy stages of tax reduction below the existing headline corporate income tax rate of 24 % in YAs 2017 and 2018 as follows:

% increase in chargeable income compared to preceding YA	% point reduction	Tax rate after reduction in %
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

For example, if a company's chargeable income increases by 20 % from RM10 million in YA2016 to RM12 million in YA2017, the corporate income tax imposed for the first RM10 million remains 24 % whereas the tax rate for the additional RM2 million is 20 %.

Effective date: YA 2017 and YA 2018

Reduction of corporate income tax rate for Small and Medium Enterprises (SMEs)

SMEs, which are being defined as companies with paid-up capital of up to RM2.5 million and LLPs with total contribution of capital of not more than RM2.5 million, are currently subject to corporate income tax at a rate of 19 % on chargeable income up to RM500,000.

Bearing in mind both the fact that 97 % of all business in the country are from the SME sector and against the background of the current economic situation, it is proposed that the tax rate for SMEs be reduced from 19 % to 18 % on chargeable income up to RM500,000.

Effective date: from YA 2017

Personal Tax

Tax relief for lifestyle

Currently, various tax reliefs are available for the purposes of supporting reading habits, a healthy lifestyle and the usage of computers and the internet. In providing flexibility for individuals to claim tax relief on the purchase of reading materials, computer and sports equipment, it is proposed that these reliefs be combined into a new relief know as lifestyle relief with a limit of RM2,500.

The scope of lifestyle relief is expanded to include:

> Purchase of printed daily newspaper;
> Purchase of smartphone or tablet;
> Internet subscription; and
> Gymnasium membership fee.

Effective date: from YA 2017

Tax relief for fees paid to child care centres and kindergartens

Under the current regime, fees paid to child care centres and kindergartens are not eligible for individual tax relief. It is now proposed that a tax relief of up to RM1,000 is to be provided to taxpayers who enrol their children aged up to 6 years in child care centres or kindergartens registered with the Department of Social Welfare or the Ministry of Education respectively.

However, the relief can only be claimed by either parent of the children.

Effective date: from YA 2017

Tax Incentives

Extension of tax incentives for new 4 and 5 star hotels

Under the current regime hotel operators investing in new 4 and 5 star hotels are eligible for the Pioneer Status, i.e. an exemption of 70 % of statutory income for a period of 5 years, or the Investment Tax Allowance, i.e. allowance of 60 % on the qualifying capital expenditure incurred within a period of 5 years, which can be set-off against up to 70 % of statutory income for each year of assessment.

It is proposed that both incentives are to be extended for another 2 years.

Effective date: applications to be received by MIDA up to 31 December 2018

Extension of International Currency Business Unit (ICBU) tax incentives

In order to maintain Malaysia as an International Islamic financial centre and to further widen Islamic financial markets chain through the enhancement of Islamic banking and takaful businesses, the following existing tax exemptions for Islamic banking and Takaful business which operate ICBU are to be extended up to YA 2020:

> Income tax exemption on statutory income received by Islamic banks operating Islamic banking business transacted in foreign currencies.
Effective date: YA 2017 to YA 2020

> Income tax exemption on statutory income received by Takaful companies operating Takaful business transacted in foreign currencies.
Effective date: YA 2017 to YA 2020

> Stamp Duty exemption on instruments executed pertaining to Islamic banking and Takaful business transacted in foreign currencies.
Effective date: for instruments executed from 1 January 2017 to 31 December 2020

Extension of tax incentive for anchor companies under the Vendor Development Programme

Anchor companies that develop local vendors under the Vendor Development Programme (VDP) and which have signed a Memorandum of Understanding (MoU) with the Ministry of International Trade and Indusry (MITI) are given double deduction for the following operating expenses:

> Cost of product development, R&D, innovation and quality improvement;

> Cost of obtaining ISO/Kaizen/5S certifications, evaluation programme and business process reengineering for the purpose of increasing vendor capabilities; and

> Cost of vendor skills training, capacity building, lean management system and financial management system.

The qualifying operating expenses must be certified by MITI before anchor companies can claim the double deduction. Further, the qualifying operating expenses are capped at RM300,000 per year and the deduction is given for 3 years of assessment.

To encourage and develop more competitive local vendors under the VDP approved by MITI the following existing double deductions for anchor companies that implement the Vendor Development Programme are to be extended for another 4 years.

Effective date: for Memorandum of Understanding signed between anchor companies and MITI from 1 January 2017 to 31 December 2020

Expansion of Halal products eligible for incentive for Halal Industry Players

In order to further strengthen Malaysia's competitiveness and increase investments in the halal products industry, the following tax incentives for Halal Industry Players operating in Halal Parks promoted by Halal Development Corporation ("HDC"), have been extended to include the productions of nutraceutical and probiotic products:

> Full income tax exemption on qualifying capital expenditure for a period of 10 years; or Income tax exemption on increase of export sales for a period of 5 years; or

> Import duty exemption on raw materials used for the development and production of promoted halal products; and

> Double deduction on expenses incurred in obtaining international quality standards certification such as HACCP, GMP Codex Alimentarius (foor standards guidelines of FAO and WHO), Sanitation Standard Operation Procedures and regulations for compliance for export markets such as Food and Traceability from farm to fork.

The existing qualifying halal products are:

> Speciality processed food;
> Pharmaceuticals, cosmetics and personal care;
> Livestock and meat products; and
> Halal ingredients.

Effective date: for applications to be received by HDC from 22 October

Tax incentive for the structured internship programme ("SIP")

Currently, companies that participate in the SIP approved by TalentCorp are eligible for double deduction on expenses incurred in implementing the programme, such as:

> Interns' allowance of RM500 and above
> Training*
> Meal, travelling and accommodation*
> Relevant fees*

**collectively capped at RM5,000 for each YA*

It is proposed to extend the incentive for expenditure incurred up to YA 2019 and to expand the scope of SIP to include Malaysia students pursuing full-time vocational level (Malaysian Skills Certificate Level 3).

Effective date: from YA 2017 to YA 2019

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

Currently, a company that sponsors local arts, cultural and heritage activities in Malaysia, which are approved by the Ministry of Tourism and Culture, is allowed to deduct RM500,000 per year. A company that sponsor such foreign arts, cultural and heritage activities is allowed to deduct RM200,000 per year.

In order to encourage arts, cultural and heritage activities in Malaysia, the tax deduction limits are to be increased to RM700,000 per year for such local activities and to RM300,000 for such foreign activities, approved by the Ministry of Tourism and Culture.

	Existing limit	Proposed limit
Local arts, cultural and heritage activities in Malaysia	RM500,000 per year	RM700,000 per year
Foreign arts, cultural and heritage activities in Malaysia	RM200,000 per year	RM200,000 per year

Effective date: from YA 2017

Goods and Services Tax

Streamlining the GST treatment between imported and local goods under the Warehousing Scheme

Currently, GST is imposed on goods imported into a Free Commercial Zone ("FCZ") if it is to be consumed within the zone. Further, GST is also levied on goods imported into the Free Industrial Zone ("FIZ"), and on the supply or removal of goods made within FIZ and between FIZ and between FIZ and FCZ. Also, the removal of goods from FCZ and FIZ to the Designated Areas, i.e. Langkawi, Labuan and Tioman, and vice versa, and to an approved warehouse under the Warehousing Scheme, and vice versa, is subjected to GST.

In order to streamline the GST treatment in the FIZs and FCZs the following changes to the GST treatments have been proposed:

> GST is not chargeable on the supply and removal of goods made within and between FCZ;

> GST shall not be due and payable on the goods imported into the FIZ;

> GST is not chargeable on the supply and removal of goods made within and between FIZ;

> GST is not chargeable on the supply and removal of goods made within FCZ and FIZ, vice versa;

> GST is suspended on the removal of goods from free zone to Designated Areas, vice versa;

> GST is suspended on the removal of goods from free zone to an approved warehouse under the Warehousing Scheme, vice versa.

Effective date: from 1 January 2017

Exclusions
However, the above GST treatment shall not be applicable on the following supplies:

> Goods prescribed under the Free Zones (Exemption of Goods and Services) Order 1998;

> Goods and services as prescribed under Goods and Services Tax (Imposition of Tax for Supplies in Respect of Designated Areas) Order 2014; and

> Any other goods prescribed by the Minister of finance

Streamlining the GST treatment between imported and local goods under the Warehousing Scheme

Goods from a Licensed Manufacturing Warehouse, Excise Warehouse or FIZ (Principal Custom Area, "PCA") that are deposited into and supplied within or between warehouses under the Warehousing Scheme are not subject to GST.

Effective date: from 1 January 2017

Stamp Duty

Purchase of first residential property

To further reduce the cost of buying a first residential property, it is proposed that the existing 50 % stamp duty exemption given on instrument of transfer and loan agreement for the first home to be increased to 100 % exemption on the first RM300,000. This applies to residential property priced not exceeding RM500,000.

Effective date: for sales and purchase agreements executed from 1 January 2017 to 31 December 2018

Transfer of property valued more than RM1 million

It is proposed that the rate of stamp duty on instrument of transfer of property valued more than RM1 million, which is currently at 3 %, be increased to 4 %.

Effective date: from 1 January 2018

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