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TaXavvy

Budget 2018 Edition (Part 1)

27 October 2017

*Welcome to our **TaXavvy Budget 2018 Edition** which brings to you the key tax proposals of Budget 2018*

This TaXavvy edition is prepared based on the 2018 Budget speech as announced by the Prime Minister on 27 October 2017. A follow-up edition will be issued to include key tax proposals from the Finance Bill after the Finance Bill is issued.

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Corporate Tax

Thin Capitalisation Rules (TCR) Replaced by Earning Stripping Rules (ESR)

TCR was introduced during the 2009 Budget but its implementation has been deferred to take effect from 1 January 2018.

It is proposed that the ESR, a new method introduced by the Organisation for Economic Cooperation and Development (OECD), is to be implemented in replacement for TCR to control excessive deductibility of interest expense on loans between related parties.

Under the ESR, the interest deduction on loans between related companies within the same group will be limited to a ratio as determined by a country's tax authority, ranging from 10% to 30% of the company's profit before tax either using the Earning Before Interest and Taxes (EBIT) or the Earning Before Interest, Tax, Depreciation, and Amortisation (EBITDA).

(Effective from 1 January 2019)

Capital Allowance for ICT Equipment and Software

The existing capital allowance (20% initial allowance and 80% annual allowance) for the purchase of any ICT equipment has ended in year of assessment 2016.

It is proposed that capital allowances will be given at 20% for initial allowance and 20% for annual allowance to the following expenditure:

- Purchase of ICT equipment and computer software packages, with effect from year of assessment 2017
- Expenditure incurred on the development of customised software comprising consultation fee, licensing fee and incidental fee related to software development, with effect from year of assessment 2018.

Personal Tax

Reduction of Individual Income Tax Rates

As a measure to increase the disposable income of the lower and middle income group and to address the rising cost of living, it is proposed that individual income tax rates for resident individuals be reduced by 2% for the following 3 chargeable income bands:

- RM20,001 to RM35,000, the rate is reduced from 5% to 3%
- RM35,001 to RM50,000, the rate is reduced from 10% to 8%
- RM50,001 to RM70,000, the rate is reduced from 16% to 14%

(Effective from year of assessment 2018)

Tax Exemption on Rental Income from Residential Homes Received by Malaysian Resident Individuals

50% income tax exemption be given on rental income received by Malaysian resident individuals for a maximum period of 3 consecutive years of assessment, subject to the following conditions:

- rental income received does not exceed RM2,000 per month for each residential home; and
- residential home must be rented under a legal tenancy agreement between the owner and the tenant.

(Effective from year of assessment 2018 to 2020)

Extension of Period for Resident Individual Income Tax Relief on Net Savings in the Skim Simpanan Pendidikan Nasional (SSPN)

It is proposed that the period of tax relief up to a maximum of RM6,000 in respect of the net savings amount deposited into SSPN be extended for another 3 years.

(Effective from year of assessment 2018 to 2020)

Tax Incentive for Women Returning to Work after Career Break

Its is proposed that women who return to the workforce after a career break of at least 2 years as at 27 October 2017 be given tax exemption on, employment income up to maximum of 12 consecutive months.

Eligible individuals must submit application to Talent Corporation Malaysia Berhad from 1 January 2018 to 31 December 2019.

This incentive is available for women who return to the workforce between the year of assessment 2018 to 2020.

Tax Incentives

Expansion of Tax Incentives for Hiring the Disabled

Currently, employers who employ disabled persons certified by the Department of Social Welfare are eligible for further deduction on salary paid to the disabled persons.

It is proposed that the further deduction is extended to employers hiring workers affected by accidents or critical illness and certified by the Medical Board of the Social Security Organisation (SOCSO) that they are still fit to work.

(Effective from year of assessment 2018)

Tax Exemption for Green Sustainable and Responsible Investments (Green SRI) Sukuk Grant

The Securities Commission (SC) provides the Green SRI Sukuk grant to Green SRI Sukuk issuers to finance the external review expenditure in issuing Green SRI Sukuk.

To encourage the issuance of Green SRI Sukuk, it is proposed that Green SRI Sukuk issuers are to be given tax exemption on the receipt of such Green SRI Sukuk grant.

(Effective for applications received by the SC from 1 January 2018 to 31 December 2020)

Tax Exemption on Management Fee for Sustainable and Responsible Investment (SRI) Funds

Currently, companies providing management services of Shariah-compliant funds approved by the SC are exempted from tax on the following:

- Statutory income (SI) from fund management services provided to foreign investors in Malaysia;
- SI from fund management services provided to local investors in Malaysia; and
- SI from fund management services provided to business trusts or real estate investment trusts in Malaysia.

To further promote fund management activities, it is proposed that tax exemption is also extended to management fee income from management of conventional and Syariah-compliant SRI funds approved by the SC.

(Effective from year of assessment 2018 to 2020)

Tax incentives

Extension of Tax Incentive for Medical Tourism

Currently, tax incentive in the form of Investment Tax Allowance (ITA) of 100% of qualifying capital expenditure (QCE) incurred within 5 years which can be used to set off 100% of SI is available for private healthcare service providers carrying out new investment, expansion, modernisation or refurbishment in relation to medical tourism. The tax incentive is considered for applications submitted to the Malaysian Investment Development Authority (MIDA) by 31 December 2017.

It is proposed that the application period for the tax incentive be extended for another 3 years; i.e. for applications submitted to MIDA until 31 December 2020, subject to the following revised conditions (amongst other conditions):

- At least 10% (currently 5%) of the total number of patients receiving private healthcare services comprise qualified healthcare travellers per year of assessment; and
- At least 10% (currently 5%) of the company's gross income is derived from qualified healthcare travellers for each year of assessment.

(Effective for applications submitted to MIDA from 1 January 2018 to 31 December 2020)

Double Deduction Incentive for Expenses Incurred in Obtaining Certification for Quality System and Standard

To build confidence of healthcare travelers, it is proposed that companies registered with the Malaysia Healthcare Travel Council that provides dental and ambulatory healthcare services be given double deduction for expenses incurred in obtaining certification for quality systems and standards from the following certification bodies:

- Malaysian Society for Quality in Health – Malaysia
- Joint Commission International – United States of America
- CHKS Accreditation Unit – United Kingdom
- The Australian Council on Health Care Standard – Australia
- Accreditation Canada – Canada

(Effective from year of assessment 2018)

Tax incentives

Review of Tax Incentives for Export of Private Healthcare Services

Currently, private healthcare companies are eligible for tax exemption on income from export of healthcare services to foreign patients either in Malaysia or from Malaysia. The tax exemption is equivalent to 50% of the value of increased exports of services to be set-off against 70% of SI.

It is proposed that the tax incentive be increased to 100% of the value of increased exports, subject to the following conditions:

- At least 10% of the total number of patients receiving private healthcare services comprise qualified healthcare travellers per year of assessment; and
- At least 10% of the company's gross income is derived from qualified healthcare travellers for each year of assessment.

(Effective year of assessment 2018 to 2020)

Extension of Tax Incentives for Tour Operating Companies

The current 100% tax exemption on the SI derived by tour operating companies from the following operating tour packages is to be further extended for another 2 years of assessment, i.e. until year of assessment 2020:

- Tour packages within Malaysia participated by not less than 1,500 local tourists annually; and
- Tour packages to Malaysia participated by not less than 750 foreign tourists annually.

(Effective for year of assessment 2019 to 2020)

Extension of Period of Application for Tax Incentives for New 4 and 5 Star Hotels

The period of application of the following tax incentives for hotel operators undertaking investments in new 4 and 5 star hotels are to be extended for another 2 years, i.e. to 31 December 2020:

	Peninsular Malaysia	Sabah & Sarawak
ITA	ITA of 60% on QCE incurred within 5 years to be offset against 70% of SI	ITA of 100% on QCE incurred within 5 years to be offset against 100% of SI
Pioneer Status	Exemption of 70% of SI for 5 years	Exemption of 100% of SI for 5 years

(Effective for applications submitted to MIDA until 31 December 2020)

Tax incentives

Review of Tax Incentives for Automation

Currently, manufacturing companies are eligible for Accelerated Capital Allowance (ACA) and Automation Equipment Allowance (AE) on purchase of automation equipment -

Category 1: Labour-Intensive Industry (rubber, plastic, wood and textile products)

- ACA of 100% and AE of 100% on the 1st RM4 million QCE incurred during the year of assessment 2015 to 2017

Category 2: Other Industries

- ACA of 100% and AE of 100% on the 1st RM2 million QCE incurred during the year of assessment 2015 to 2020

To further promote automation in the manufacturing sector, it is proposed that the incentive period for Category 1 be extended for another 3 years.

(Effective for applications received by MIDA from 1 January 2018 to 31 December 2020)

Extension of Tax Incentive for Principal Hub

The Principal Hub incentive was introduced in 2015 where a 3-tier preferential tax rates (0%, 5% or 10%) depending on certain criteria. It is currently effective for applications received by MIDA from 1 May 2015 to 30 April 2018.

It is proposed that this incentive be extended for another 3 years until 31 December 2020.

(Effective for applications received by MIDA until 31 December 2020)

Tax Incentive for Transformation to Industry 4.0

Currently, there are no specific tax incentives to encourage companies to adopt advanced technology, commonly known as Industry 4.0 which includes the following technology drivers:

- Big data analytics
- Autonomous robots
- Simulation
- Industrial internet of things
- Cyber security
- Horizontal and vertical system integration
- Cloud computing
- Additive manufacturing
- Augmented reality
- Artificial intelligence

To encourage transformation to Industry 4.0 by the manufacturing sector and its related services, it is proposed that ACA and AE be provided on the first RM10 million QCE incurred in the year of assessment 2018 to 2020 and is fully claimable within 2 years of assessment.

(Effective for applications received by MIDA from 1 January 2018 to 31 December 2020).

Tax incentives

Review of Tax Incentives for Venture Capital (VC)

Currently, there are tax incentives for:

- VC Management Corporation (VCMC);
- VC Company (VCC); and
- Investment in a VC.

	Existing	Proposal
VCMC	Income tax exemption on SI derived from share of profits received on investment made by VCC.	Income which is exempted from tax be expanded to include income received from management fees and performance fees in managing VCC funds.
VCC VC	Income tax exemption is given for 10 years or according to the life of the fund established for investment in the VC, whichever is shorter. The VCC must invest at least 70% of seed, start-up and early stage funds in VC or at least 50% in the form of seed capital. Companies or individuals with business income that make an investment in a VC are given a tax deduction on the amount of investment made in the VC at the adjusted income level.	Investment limit in VC at the seed, start-up and early stage be reduced from 70% to 50% and the 50% balance is allowed for other investments; and Companies or individuals with business income investing into the VCC funds created by VCMC be given tax deduction on the amount of investment made, restricted to a maximum of RM20 million per year for each company or individual.

Tax exemption be given for 5 years from year of assessment 2018 to 2022

(Effective for applications received by the SC from 1 January 2018 until 31 December 2018)

Extension of Period for Tax Incentives for Angel Investors

Currently, the application period for angel investors incentive is from 1 January 2013 until 31 December 2017. The incentive is income tax exemption equivalent to the amount of investment made by an angel investor who invests in investee companies in the form of ordinary shares. The application has to be submitted to the Ministry of Finance (MOF) and is subject to certain qualifying criteria.

To attract prospective angel investors to contribute capital injection in investee companies, it is proposed that the application period for tax incentive for the angel investor be extended for another 3 years.

(Effective for applications submitted to MOF from 1 January 2018 until 31 December 2020)

Goods and Services Tax

Streamlining the GST Treatment on Reading Materials

It is proposed that the GST treatment on magazines, journals, periodicals and comics be treated as zero-rated supplies, consistent with the current zero-rating treatment for all types of books which are reading materials.

The aim of this is to enhance GST compliance through harmonisation and to provide certainty of treatment to consumers.

(Effective from 1 January 2018)

Exempting Management & Maintenance Services by Housing Developers for Stratified Residential Buildings

Management and maintenance services, including cost recovery of group insurance, quit rent and land assessments of stratified residential buildings, supplied by housing developers is proposed to be treated as an exempt supply.

Previously, only supplies of such services by the joint management body and management corporation were treated as exempt supplies.

(Effective from 1 January 2018)

GST Relief on Construction Services for School Buildings & Places of Worship

GST relief will be given on construction of school buildings and places of worship financed through donations.

The eligibility for relief is conditional on:

- approval from the MOF;
- invoices not issued prior to the grant of the relief;
- obtaining an approval for the construction fund under Section 44(6) of the Income Tax Act 1967;
- obtaining approvals for development/constructions from the relevant authorities;
- the school premise constructed is directly used for teaching and learning purposes;
- the construction contract is signed on/after 1 April 2017.

The relief does not apply to the purchase of commercial buildings.

(Effective for applications to the MOF from 27 October 2017)

Goods and Services Tax

GST Relief on the Importation of “Big Ticket” Items

Companies operating in the aviation, shipping and oil & gas industries will no longer have to pay GST on the importation of high value equipment such as aircraft, ships, oil rigs or floating structures.

(Effective from 1 January 2018)

GST Relief on Importation of Goods Under Lease Agreements from Designated Areas (DA)

A relief from payment of GST will be given to companies especially in the oil & gas industry on goods imported from a DA to Malaysia (i.e. the Principal Customs Area) under a lease agreement supplied by a company located in the DA.

A list of goods and the terms/conditions for relief will be stipulated by the MOF.

(Effective from 1 January 2018)

GST Relief on Handling Services Rendered to Operators of Cruise Ships

Relief from payment of GST on handling services provided by sea port operators in Malaysia is given to cruise ship operators, as the zero rating provision in relation to such services is not applicable to such ships.

(Effective from 1 January 2018 to 31 December 2020)

GST Appeal Tribunal

It is proposed that the Customs Appeal Tribunal, established on 1 June 2007, and the GST Appeal Tribunal, which commenced on 1 April 2015, will be amalgamated into a single tribunal which is the Customs Appeal Tribunal.

(Effective from 1 January 2019)

Increase in the De Minimis Value for Imports

The *de minimis* value for GST/duty free import of goods (excluding cigarette, tobacco and intoxicating liquor) via air courier service will be increased from RM500 per consignment to RM800.

(Effective date unknown)

Review of the GST Treatment for Local Authorities

All supplies made by local authorities will not be subjected to GST (i.e. out of scope supply). Thus, local authorities will cease to be liable to be registered for GST going forward, and will need to notify Customs accordingly.

As the local authorities will not be eligible to claim input tax credit, relief will be given to them on the acquisition of all goods excluding petroleum, commercial buildings/land and on the importation of motor cars.

(Effective 1 April 2018 or 1 October 2018, as opted by the local authorities)

Stamp Duty

Extension of Period for Stamp Duty Exemption to Revive Abandoned Housing Projects

To further ease the financial burden of the original house purchasers and to encourage the involvement of rescuing contractors to revive abandoned housing projects, it is proposed that the existing stamp duty exemptions be extended for another 3 years.

Instruments	Rescuing Contractors	Original House Purchasers in the Abandoned Projects
Loan agreements	To finance the revival of abandoned housing projects.	For additional financing
Instrument of transfer	To transfer the title for land and houses in abandoned housing projects.	To transfer the houses in the abandoned housing projects.

(Effective for loan agreements and memorandum of transfers executed from 1 January 2018 to 31 December 2020 for abandoned housing projects certified by the Ministry of Urban Wellbeing, Housing and Local Government)

Stamp Duty Exemption on Contract Notes for Trading of Exchange Traded Funds (ETF) and Structured Warrants (SW)

Currently, stamp duty is charged at the rate of RM1 for every RM1,000 and part thereof on contract notes for the trading of shares of listed companies on Bursa Malaysia subject to a cap of RM200 per contract note.

To further promote the development and competiveness of Malaysia's capital market at international level, it is proposed that stamp duty exemptions be given on the contract notes for the trading of ETF and SW by investors.

(Effective for trading of ETF and SW executed from 1 January 2018 to 31 December 2020)

OECD Taxation Initiatives

Malaysia's Participation in the OECD Taxation Initiatives

It is announced that Malaysia is committed to economic information sharing introduced by the OECD.

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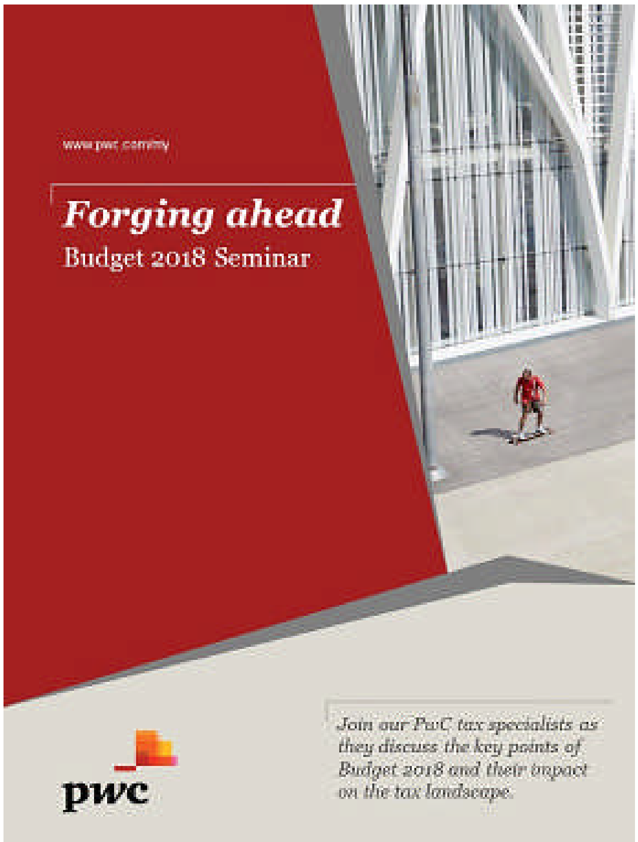

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