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The 2015 Budget

Accelerating Growth, Ensuring Fiscal Sustainability and Prospering the Rakyat

Key proposals

Corporate tax

Reduction in income tax rates for companies and co-operatives

The income tax rate reduction as announced in the 2014 Budget is now included in the Finance Bill (No.2) 2014

Companies

Category	Current tax rate (%)	Proposed tax rate (%)
Company and the following entities – • trust body • executor of an estate of an individual who was domiciled outside Malaysia at the time of his death • receiver appointed by the court • limited liability partnership	25	24
Small and medium size company* & limited liability partnership**		
• Chargeable income up to RM500,000	20	19
• Remaining chargeable income	25	24

* *Company with paid-up capital of up to RM2.5 million*

** *Limited liability partnership with capital contribution of up to RM2.5 million*

(Effective from Year of Assessment (YA) 2016)

Co-operatives

Co-operative income tax rates are to be reduced by 1% to 2% for chargeable income exceeding RM150,000.

Chargeable income (RM)	Current tax rate (%)	Proposed tax rate (%)
1 – 30,000	0	0
30,001 – 60,000	5	5
60,001 – 100,000	10	10
100,001 – 150,000	15	15
150,001 – 250,000	20	**18**
250,001 – 500,000	22	**21**
500,001 – 750,000	24	**23**
Exceeding 750,000	25	**24**

(Effective from YA 2015)

Income deemed to be obtainable on demand

Section 29 of the Act, an anti-avoidance provision, provides that income (except for business income and dividend income) which is obtainable on demand will be taxable in the period when such circumstances arise even though the income has not been received.

1) Section 29(3) of the Act was inserted with effect from YA 2014 to deem a lender to be able to obtain on demand interest income in the basis period where such interest is due to be paid, from the following loan transactions:

    - where the lender has control over the borrower or vice versa;
    - where the lender and borrower are both controlled by some other person.

    It is proposed that the loan be expanded to include loans between individuals who are relatives of each other as defined under Section 140(8) of the Act (e.g. parent, child, brother, sister, etc).

2) It is also proposed that gross income accruing in or derived from Malaysia from employment, interest, rent, royalty, or any pension, annuity or other periodical payment arising from the transactions between the following persons be deemed to be obtainable on demand in the period immediately following the period where it first becomes receivable:-

    - persons one of whom has control over the other;
    - individuals who are relatives of each other; or
    - persons whom are both controlled by some other persons.

(Effective from YA 2015)

Establishment of special purpose vehicle by Real Estate Investment Trust/Property Trust Fund for the issuance of Islamic securities

Currently, any source of income of a special purpose vehicle set up by a company for the purpose of issuance of Islamic securities is treated as a source of income of that company.

It is proposed that the above tax treatment accorded to companies be extended to unit trusts which are approved by the Securities Commission as Real Estate Investment Trusts or Property Trust Funds.

(Effective from YA 2015)

Insurance business

A new subsection 60(4C) of the Act is introduced to further define that the cost of acquiring and realizing any investment or rights to include expenses incurred in managing those investments or rights for the life fund, general fund or shareholders' fund computed using a specified formula.

(Effective from YA 2015)

Tax neutrality for the Takaful industry

In order to ensure that there is tax neutrality between conventional insurance and Takaful, the government proposed the following:-

a) Tax deduction on commission payable, discount allowed and management expenses for general fund only for a Takaful Operator operating under the mudharabah model;

b) Wakalah fees received by the shareholders' fund from the family fund are not subject to tax and tax deduction is not allowed on commission and management expenses incurred by the shareholders' fund in relation to the family fund;

c) Actuarial surplus transferred from the family fund to the shareholders' fund is subject to tax;

d) Introduction of a new Section 110C of the Act (similar to Section 110B set off for conventional insurance) to eliminate double taxation on investment income included within actuarial surplus transferred to the shareholders' fund;

e) Tax deduction on commission payable, discount allowed and management expenses for shareholders' fund only for Takaful Operator operating under the wakalah model. Management expenses incurred by shareholders' fund in connection with family fund is not allowed tax deduction; and

f) The cost of acquiring and realizing any investment or rights which is deductible for the family, general and shareholders' funds includes expenses incurred in managing those investments or rights, computed using a specified formula.

(Effective from YA 2015)

Capital allowances under Schedule 3 of the Act

The following changes are proposed:

Qualifying forest expenditure

Qualifying forest expenditure be restricted to capital expenditure incurred only by a person who has a concession of licence to extract timber.

Special allowances for small value assets

The limits for the value of individual assets and total qualifying expenditure for assets which qualify for 100% capital allowance (small value assets) under Paragraph 19A are increased from RM1,000 to RM1,300 each, and RM10,000 to RM13,000 respectively.

Living accommodation for workers

If the expenditure incurred on a construction of a building used as living accommodation, which is treated as an industrial building is also a qualifying agriculture expenditure and qualifying forest expenditure, the taxpayer is allowed to elect to claim industrial building allowance, agriculture allowance or forest allowance in the tax return for a year of assessment in which the qualifying expenditure was incurred. The requirement to make election within 3 months of the beginning of the YA by notice in writing to DGIR is removed.

(Effective from YA 2015)

Corporate tax

Exemptions from tax under Schedule 6 of the Act

Amendments are proposed to Paragraphs 12B and 20A to provide more clarity on the following:-

- **Dividends where the payer is not entitled to deduct tax -** Any expenses incurred in relation to such dividends shall be disregarded for the purposes of ascertaining the recipient's adjusted income.

  (Effective upon gazetting of the Finance Act)

- **Life insurer or takaful operator -** Any adjusted loss from the investment in respect of deferred annuity shall be disregarded.

  (Effective from YA 2015)

Unit trust

Exempted income of a unit trust is expanded to include interest paid or credited by any development financial institution regulated under the Development Financial Institutions Act 2002

(Effective from YA 2015)

Reinvestment allowance (RA) under Schedule 7A of the Act

The following changes are proposed:

Disposal within 5 years

Consistent with the Public Ruling 6/2012, the clawback of RA shall be made in the YA the asset is disposed of.

Statutory income

A new paragraph 4A is proposed to be inserted into Schedule 7A to clarify that RA is to be utilised only against the statutory income of a business in respect of a qualifying project.

(Effective from YA 2015)

Personal tax

Review of individual income tax rates

This proposal, although effective from YA2015, was already announced in advance during Budget 2014, in conjunction with the announcement of the introduction of GST. As the country shifts its reliance away from direct taxes, it is fair to expect the lowering of personal tax rates to be enhanced beyond YA2015.

It is proposed that the existing tax rates for resident individuals be reduced by 1 to 3 per cent and two new chargeable income bands be added above the existing highest income band of more than RM100,000.

The new schedule for resident individuals is as follows:

For every ringgit of the first	5,000	0%
For every ringgit of the next	15,000	1%
For every ringgit of the next	15,000	5%
For every ringgit of the next	15,000	10%
For every ringgit of the next	20,000	16%
For every ringgit of the next	30,000	21%
For every ringgit of the next	150,000	24%
For every ringgit of the next	150,000	24.5%
For every ringgit exceeding	400,000	25%

In addition, the tax rate for non-resident individuals is reduced by 1 per cent, from 26% to 25%.

Monthly Tax Deduction (MTD) as final tax

Following on from last year's introduction of MTD as final tax, an employee who has income only in respect of gains and profits from an employment (including benefits in kind and living accommodation) or the individual is employed by the same employer in that year of assessment irrespective of the period of employment , will also be able to elect not to furnish a return for a year of assessment.

(Effective from YA 2015)

Increase in reliefs

The following reliefs will be increased to a maximum of RM6,000:

- Medical expenses for serious diseases
- Disabled child
- Purchase of basic supporting equipment for the disabled

(Effective from YA 2015)

Manner in which chargeable income is to be ascertained

It is proposed that income derived from withdrawal of a deferred annuity or private retirement scheme received by a person which is subject to deduction of tax under section 109G of the Income Tax Act 1967 (the Act) be excluded for the purpose of ascertaining his chargeable income.

(Effective from YA 2015)

Tax incentives

The Investment Account Platform (IAP)

To boost the development of small and medium enterprises (SMEs), the Government will be introducing the Investment Account Platform (IAP), a new shariah-compliant investment product to provide opportunities to individual and institutional investors in financing entrepreneurial activities.

To promote investment in the IAP, profits earned from investments made through the IAP by individual investors will be given tax exemption for 3 consecutive years commencing from the first year profit is earned, subject to the following conditions:-

- The investment is made for a period of 3 years starting from the IAP's operation date;
- The investment activities must be in Malaysia, in Malaysian owned venture companies or locally incorporated companies; and
- Tax exemption shall only be accorded for investments made in SMEs (as defined by SME Corporation Malaysia) and venture companies in any sector.

(Effective from operational date of IAP scheduled to be from 1 September 2015 to 31 August 2018)

Scholarships for students in the vocational and technical fields

To encourage companies to provide scholarships to full time students who are Malaysian citizens and residents in the vocational and technical fields in Government recognised institutions, the scholarships will be given a further deduction for a period of 2 YAs.

The eligible expenses include:

i. Study course fees; and

ii. Educational aid and cost of living expenses throughout the student's study period.

(Effective for YA 2015 and YA 2016)

Tax incentive for Structured Internship Programme ("SIP")

It is proposed that the existing incentive for SIP be extended to companies implementing SIP for Malaysian full time students pursuing training at the vocational and diploma levels. Expenses incurred by companies in implementing SIP will be given double deduction for a period of 2 YAs.

The eligibility criteria is consistent with the current incentive for SIP. To qualify for the incentive, the company is required to obtain approval from Talent Corporation Malaysia Berhad ("Talent Corp").

(Effective from YA 2015 to YA 2016)

Tax incentive for training

To support the Government's effort to strengthen the development of human capital, it is proposed that training expenses incurred by companies for employees to obtain industry recognized certifications and professional qualifications be given further deduction. The training programs are those approved by the agencies appointed by the Minister of Finance

(Effective from YA 2015)

Expenses incurred for the issuance of sukuk

It is proposed that the deduction for expenses incurred for the issuance of sukuk under the principles of Ijarah and Wakalah be extended for another 3 years in order to promote the sukuk market at the international level.

(Effective from YA 2016 to YA 2018)

Tax incentives

Tax incentive for medical tourism

To further stimulate the growth for medical tourism, it is proposed that tax exemption on income equivalent to Investment Tax Allowance of 100% of qualifying capital expenditure for a period of 5 years be given to new companies and existing companies engaged in expansion, modernisation and refurbishment that provide private healthcare facilities to at least 5% healthcare traveller from their total patients.

(Effective for applications to be received by MIDA from 1 January 2015 to 31 December 2017)

Other proposed incentives

- ***Economic Corridors***

  The current special incentive package provided under the Economic Corridors will be enhanced to include more areas which are less developed.

- ***Industrial estate management***

  - 100% income tax exemption for 5 years to manage, maintain and upgrade industrial estates in less developed areas.
  - 70% income tax exemption for 5 years to manage industrial estates in other areas.

- ***Automation capital allowance***

  Enhanced capital allowance on automation expenditure to encourage automation in the manufacturing sector :-

  - High labour intensive industries: Allowance of 200% on the first RM4 million expenditure incurred between 2015 to 2017
  - Other industries: Allowance of 200% on the first RM2 million expenditure incurred between 2015 to 2020

- ***Technology and innovation***

  A specialised incentive package will be offered for investment projects based on technology, innovation and knowledge, involving highly qualified and knowledgeable employees.

- ***Principal Hub***

  Customised incentives for Principal Hubs will be introduced in early 2015 to encourage multinational companies' global operational centres to be set up in Malaysia.

- ***Unemployed graduates***

  The Double Deduction for Training costs under Skim Latihan 1Malaysia for unemployed Graduates incentive which is due to expire on 31 December 2016 is extended until 31 December 2020.

- ***Youth Housing Scheme***

  This smart partnership between the Government, Bank Simpanan Nasional, Employees Provident Fund and Cagamas offers a funding limit for a first home not exceeding RM500,000 for married youth aged between 25 and 40 years with household income not exceeding RM10,000. A 50% stamp duty exemption is given for instruments of transfer agreements and loan agreements.

Tax administration

Review of penalty under Section 112, 115 & 120 of the Act

It is proposed that the maximum fine for the following offences be increased from RM2,000 to RM20,000:

Section	Offences
112(1)	Failure to furnish a return in accordance with section 77(1) or 77A(1), or failure to give notice of chargeability in accordance with section 77(3)
115(1)	Voluntarily leaving or attempting to leave Malaysia without payment of tax
120(1)	Other offences

(Effective upon gazetting of the Finance Act)

Estimate of tax payable

1) Newly commenced company

Currently, any newly commenced SME* is not required to furnish an estimate of tax payable for the first two YAs and where the company has no basis period for the relevant YA.

It is proposed that the newly commenced company must be resident and incorporated in Malaysia.

* paid up capital in respect of ordinary shares of RM2,500,000 or less

(Effective upon gazetting of the Finance Act)

2) Payment of company tax instalments

Currently, the due date for payment of monthly tax instalments is on every 10th day of a calendar month.

It is proposed that the due date be amended from the 10th day to 15th day of a calendar month.

(Effective from 1 January 2015)

Extended time for raising assessment and additional assessment

Currently, the Director General of Inland Revenue (DG) is given the right to make an assessment or additional assessment within 5 years after expiration of a YA where it appears to him that no or insufficient assessment has been made on a person chargeable to tax.

It is proposed that time frame for raising such assessment or additional assessment be extended from 5 years to 7 years where the DG determines that the transactions between associated persons are not at arm's length.

(Effective upon gazetting of the Finance Act)

Tax administration

Liability to tax in respect of a partnership or company which has converted to a limited liability partnership (LLP)

It is proposed that section 75B of the Act be amended to clarify that where a partnership or company has converted to a LLP –

- every partner of the partnership continues to be personally assessable and chargeable to tax in respect of his chargeable income in the YA of conversion to a LLP and any previous YA;
- the LLP is assessable and chargeable to tax in respect of the company's chargeable income in the YA of conversion to a LLP and any previous YA. The LLP will be assessed and charged to tax in the same manner as the company would have been prior to the conversion.

(Effective upon gazetting of the Finance Act)

Right of appeal

Section 99 of the Act was amended with effect from 24 January 2014 to restrict appeals to the Special Commissioners of Income Tax to cases where the taxpayer is aggrieved by deemed assessment due to application of public rulings made under section 138A of the Act.

It is proposed that the above right of appeal under Section 99 of the Act be extended to situations where the taxpayer is aggrieved by any practice of the DG generally prevailing at the time when the assessment is made.

(Effective upon gazetting of the Finance Act)

Goods and Services Tax (GST)

Increase in scope of supplies not subject to GST

The list of goods and services which are not subject to GST has been expanded in the 2014 Budget speech to include the following:

(i) All types of fruits whether local or imported;

(ii) White bread and wholemeal bread;

(iii) Coffee powder, tea dust and cocoa powder;

(iv) Yellow mee, kuey teow, laksa and meehoon;

(v) The National Essential Medicine covering almost 2,900 medicine brands. These medicines are used to treat 30 types of diseases including heart failure, diabetes, hypertension, cancer and fertility treatment;

(vi) Reading materials such as children's coloring books, exercise and reference books, text books, dictionaries and religious books; and

(vii) Newspapers.

Supply of electricity to households

It was announced in the 2014 Budget speech that the first 200 units of electricity supplied to domestic households is to be zero-rated.

This amount has since been increased to 300 units of electricity supplied to domestic households.

Relief on retail of petroleum

The Government has agreed that the retail sale of RON95 petrol, diesel and Liquefied Petroleum Gas (LPG) will be given relief from GST.

Incentives and assistance for GST implementation

As previously announced in the 2014 Budget, the following incentives and assistance for GST implementation have been proposed to assist businesses:

- Training grant of RM100 million provided to businesses for their employees to attend GST courses;
- Financial assistance amounting to RM150 million provided to Small and Medium Enterprises for the purchase of accounting software;
- Accelerated Capital Allowance on purchase of Information and Communications Technology (ICT) equipment and software; and
- Expenses incurred for training in accounting and ICT relating to GST will be given additional tax deduction.

Other taxes

Stamp duty

Purchase of first residential property

To reduce the cost of buying a first residential property, it is proposed that the existing 50% stamp duty exemption on instruments of transfer and loan agreements be extended to the purchase of the first residential property priced not exceeding RM500,000 (currently RM400,000).

(For sales and purchase agreements executed from 1 January 2015 to 31 December 2016)

Real property gains tax

Increase in retention sum

The sum to be retained by the acquirer of real property on the acquisition of the property is to be increased from 2% of the total consideration to 3% of the total consideration.

(Effective from 1 January 2015)

Disposal by way of gift

It is proposed that where an asset is disposed by way of a gift and where the relationship between the donor and recipient is husband and wife, parent and child or grandparent and grandchild and the donor is:-

i. not a citizen or permanent resident, the recipient is deemed to have acquired the asset at an acquisition price equal to the donor's acquisition price plus permitted expenses incurred by the donor.

ii. a citizen or permanent resident, the recipient is deemed to have acquired the asset at an acquisition price equal to the donor's acquisition price plus permitted expenses incurred by the donor only where the gift is made within 5 years from the date of acquisition by the donor.

(Effective from 1 January 2015)

Introduction of self assessment system for RPGT

In line with the Government's aspiration to modernise the tax system, it is proposed that tax on gains from the disposal of property be self assessed.

(Effective from YA 2016)

Petroleum (Income Tax) Act 1967 (PITA)

The following have been proposed :-

- *Assessment and additional assessment*
  The DG may make an assessment or additional assessment for a YA in that YA or within 7 years after the end of that YA if it appears to him that no or no sufficient assessment has been made on a person chargeable to tax in consequence of the DG's determination pursuant to Section 72A(3) in relation to a transaction entered into between a chargeable person and another person not at arm's length.

  (Effective upon gazetting of the Finance Act)

- *Estimate of tax payable*
  The due date for payment of monthly tax instalment is amended from the 10th day to 15th day of a calendar month.

  (Effective from 1 January 2015)

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Contact: Fazlina Jaafar at 03-2173 0860

Penang

Date: 28 October 2014, Tuesday
Venue: Equatorial Hotel, Penang
Contact: Ann Yew or Ong Bee Ling at 04-238 9291 / 04-238 9170

Johor Bahru

Date: 29 October 2014, Wednesday
Venue: Doubletree by Hilton, Johor Bahru
Contact: Tan Chin Yee or Lee Qiu Rong at 07-222 4448

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