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## Reduction of tax rates for incremental chargeable income

The Income Tax (Exemption) (No. 2) Order 2017 (“Order”) was recently issued to give effect to the 2017 Budget proposal on the reduction of income tax rates on the incremental chargeable income from a business source. The Order is applicable for years of assessment (YA) 2017 and 2018.

The Order applies to:

- a company incorporated under the Companies Act 2016,
- a limited liability partnership,
- a trust body,
- an executor of an estate of a deceased individual domiciled outside Malaysia the time of his death, and
- a receiver appointed by a court in Malaysia,

whose business has been operation for 24 months or more, has chargeable income from a business source, and where accounts are made up for 12 months ending on the same date for a YA and the preceding YA.

The Order provides for the calculation of a portion of chargeable income to be exempted from tax such that the resultant tax on the net chargeable income would effectively be the same as the aggregate of the following:

- Tax at the applicable reduced tax rate on the incremental portion of chargeable income from a business source; and
- Tax at the prevailing rate of 24% on the base portion of chargeable income from a business source.

The effective reduced income tax rates are in line with the rates proposed in Budget 2017 as follows:

% of increase in chargeable income from business compared to the immediate preceding YA	Effective reduced income tax rate applicable for incremental portion of chargeable income (%)
5.00 – 9.99	23
10.00 – 14.99	22
15.00 – 19.99	21
20.00 and above	20

Companies which enjoy the preferential tax rate of 19% (18% from YA 2017) on its first RM500,000 of chargeable income qualify for the exemption only if the incremental amount of chargeable income is part of the chargeable income in excess of the first RM500,000.

Further guidance on the method of computing the exempted amount is available in the IRB guidebook for the YA 2017 Form C. (Refer below).

In addition to mutual exclusions with other incentives, this Order is not applicable where there is a release of debt under Section 30(4) of the Income Tax Act 1967. The Order is also not applicable for listed and unlisted Investment Holding Companies, and Real Estate Investment Trusts.

The Order is available at <http://www.federalgazette.agc.gov.my/>

## **Form C for YA 2017**

The Inland Revenue Board (IRB) has issued the sample Form C for YA 2017. The following are the key changes from the Form C for YA 2016:

### **1. Parts A38A and A38B on incremental chargeable income**

The following new items have been included to cater for the reduced tax rates applicable on the incremental chargeable income as proposed in Budget 2017 and gazetted under The Income Tax (Exemption) (No. 2) Order 2017.

- Part A38A – Exemption based on incremental chargeable business income
- Part A38B – Chargeable income after deducting the above exemption

The IRB has provided some guidance on the method of computing the exempted amount under the *Income Tax (Exemption) (No. 2) Order 2017*, at pages 12 & 13 of their guidebook for the YA 2017 Form C.

### **2. Parts C2A and C2B on tax paid**

Part C2 on instalment payments made is now divided into part C2A (for instalment payments under section 107C) and part C2B (for withholding tax paid under section 107A(1)(a)).

The sample Form C and guidebook for YA 2017 can be downloaded from the IRB's website [www.hasil.gov.my](http://www.hasil.gov.my) (Muat Turun > Borang > Syarikat – 2017).

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