

Luther.

# Malaysia News:

## Malaysia's Budget 2016 - Tax Highlights

January 2016

# Malaysia's Budget 2016 - Tax Highlights

The Prime Minister and Minister of Finance, YAB Dato' Seri Mohd. Najib Tun Razak handed down his Budget 2016 on October 23. The Budget 2016 aims at enhancing the competitiveness of Malaysia's economy by increasing productivity, innovation and green technology. Besides, some measures are implemented in order to empower human capital, and to ease the cost of living of the Rakyat.

The following measures are most noteworthy from an international tax perspective:

## A. Individual income tax

### A.1 Increase of minimum salary

The minimum salary in Malaysia is increased:

- from RM 900.00 to RM 1,000.00 per month for peninsular Malaysia; and
- from RM 800.00 to RM 920.00 per month for Sabah, Sarawak and the Federal Territory of Labuan.

### A.2 Changes in tax rates

Individual income tax rates are increased:

- for non-resident: from 25% to 28%
- for resident, with the creation of new bands on taxable incomes:
  - from 25% to 26% for income between RM 600,001.00 and RM 1,000,000.00
  - from 25% to 28% for income above RM 1,000,000.00

### A.3 Tax reliefs

Tax reliefs are increased for resident supporting a child under the age of 18; a child pursuing post-graduate education; parental care; a spouse with no income and/or who pays alimony to a former spouse.

### A.4 SOCSO Eligibility

Eligibility for mandatory contributions to the Social Security Organization ("SOCSO") is increased from a monthly salary of RM 3000.00 to RM 4000.00. This measure will include 500,000 additional workers.

## B. Corporate income tax

### B.1 Small and Medium Enterprises

SME<sup>1</sup> are now required to be incorporated in Malaysia to be eligible for 100% capital allowance deduction (special allowances) on small value assets<sup>2</sup>.

In addition, SME are granted a preferential treatment for double deduction of R&D project expenditure. A double deduction for R&D project expenditure might be claimed up to an amount of RM 50,000.00 for each year of assessment with submission of a R&D project application to the Malaysian Inland Revenue Board (the "IRB").

### B.2 Deductions allowances

- Deduction for expenditures incurred on issuance of "sustainable and responsible investment *Sukuk*"<sup>3</sup> approved or authorised by the Securities Commission of Malaysia, is given for 5 years. "Sustainable and responsible investment *Sukuk*" refers to the financing of project with the following objectives:
  - preserve and protect the environment and natural resources;
  - save the use of energy;
  - reduce the greenhouse gas emission; or
  - improve the quality of life.
- Double deduction for additional costs incurred on issuance of retail bonds and retail *Sukuk* is extended for another 3 years
- No industrial building allowances shall be given to a person for a building used for letting purpose
- Input Tax not allowed for deduction (GST Act 2014). Where a person is liable but has failed to be registered to GST, any amount paid or to be paid in respect of GST as input tax by that person is not allowed for deduction. In addition, the corresponding amount of Input Tax will be excluded from the qualifying plant expenditure or qualifying building expenditure.

- 
- 1 Company incorporated in Malaysia with a paid-up capital in respect of ordinary shares of RM 2,5 million and below at the beginning of the basis period for the relevant year of assessment.
  - 2 Assets with not more than RM 1,300.00 each.
  - 3 Financial certificate that complies with Sharia Law.

### B.3 Deduction for Interest expense on Money Borrowed

When interest accrued during a basis period corresponding to a year of assessment is due to be paid in any following year of assessment, the taxpayer is required to make a claim in order to be eligible for tax deduction.

This notice must be given in writing to the IRB not later than 12 months from the end of the basis period for the year of assessment when the sum is due to be paid.

Accordingly, the IRB may give the deduction during the respective year of assessment when the interest is accrued and payable.

### B.4 Penalties – Failure to Furnish Return or Give Notice of Chargeability

Penalties are increased for failure to furnish return or to give notice of chargeability and for failure to furnish correct particulars as required by the IRB.

## C. Investment incentives

### C.1 Reinvestment allowances (RA), investment allowances (IA) and investment tax allowances (ITA)

The Budget 2016 proposed:

- to entitle companies to make a claim for special RA for another 3 years to encourage reinvestments by companies that have exhausted their eligibility;
- an exclusion of GST input tax as part of qualifying expenditure for RA, IA and ITA purposes; and,
- adjustments of the related definitions for the qualification of capital expenditures for RA, IA, and ITA.

### C.2 Export

A decrease of the added-value threshold<sup>4</sup> is proposed to encourage manufacturing SMEs to increase their export market, as follows:

- Income tax exemption equivalent to 10% of the value of the increased exports of manufactured goods where the goods exported attain at least 20% of added-value (instead of 30%); and,

- Income tax exemption equivalent to 15% of the value of the increased exports of manufactured goods where the goods exported attain at least 40% of added-value (instead of 50%).

### C.3 Tourism oriented companies

The income tax exemption of 100% granted for tour operating companies licensed under the Tourism Industry Act 1992 is extended for another 3 years, as follows:

- 100% tax exemption statutory income derived from the business of operating tour packages within Malaysia with a volume of more than 1,500 local tourists per year; and,
- 100% tax exemption statutory income derived from the business of operating tour packages to Malaysia with a volume of more than 750 foreign tourists per year.

### C.4 Food production

The income tax exemption of 100% for food production project is extended for another 5 years and includes new products (planting of coconuts, mushrooms, rearing of deer etc.).

### C.5 ICAB

A tax incentive is granted for establishment of Independent Conformity Assessment Bodies (ICAB) for 5 years:

- 100% exemption for new ICAB
- 60% exemption for existing ICAB

This measure is applicable in particular sectors (machinery and equipment, chemical etc.), for some activities (certification, inspection etc.) and upon obtainment of specific accreditations from relevant Governmental Bodies.

### C.6 Islamic Finance

The income tax exemption of 100% is extended for 4 years for companies that provide Shariah-compliant fund management services.

## D. GST

### D.1 Late payment penalty

Late payment penalty is introduced on taxable persons who fail to make payment of GST within the stipulated time frame;

- within 30 days: 5% of the outstanding GST payment

---

<sup>4</sup> Added-value criteria means the sale price of goods at ex-factory price less the total cost of raw materials

- from 31 to 60 days: 15% of the outstanding GST payment
- from 61 to 90 days: 25% of the outstanding GST payment

### D.2 Warehousing scheme

Payment of GST on imported goods is suspended when the goods are deposited in the ware-house, and supplies of goods made between the warehouses are disregarded.

### D.3 Other measures related to GST

- GST relief on re-importation of goods exported temporarily for the purpose of promotion, research or exhibition, or for the purpose of rental and lease
- Expansion of list of zero rated food products
- GST relief on procurement of goods by skills and vocational training centres

For a full list of the changes please refer to the following webpage: 2016 Budget | Prime Minister's Office of Malaysia

For further guidance and information, please feel to contact us anytime.



#### Delphine Daversin

Director  
Unit 17-2, Level 17, Wisma UOA II,  
No. 21, Jalan Pinang  
50450 Kuala Lumpur  
Phone +60 (0)3-21660085  
delphine.daversin@luther-services.com



#### Lucas Mascarade, LL.M.

Associate  
Unit 17-2, Level 17, Wisma UOA II,  
No. 21, Jalan Pinang  
50450 Kuala Lumpur  
Phone +60 (0)3-21660085  
lucas.mascarade@luther-services.com

#### Imprint

Luther Rechtsanwaltsgesellschaft mbH, Anna-Schneider-Steig 22,  
50678 Cologne, Phone +49 221 9937 0, Fax +49 221 9937 110,  
contact@luther-lawfirm.com

*Editor:* Delphine Daversin, Director, E04C0, Level 4 East Block, Wisma Selangor  
Dredging, Jalan Ampang, 50450 Kuala Lumpur, Phone: +60 (0)3-21660085,  
delphine.daversin@luther-services.com

*Copyright:* These texts are protected by copyright. You may make use of the  
information contained herein with our written consent, if you do so accurately and  
cite us as the source. Please contact the editors in this regard  
contact@luther-lawfirm.com

#### Disclaimer

Although every effort has been made to offer current and correct information,  
this publication has been prepared to provide information on recent regulatory  
and legal developments in Malaysia only. It is not exhaustive and thus does not  
cover all topics with which it deals. It will not be updated and cannot substitute  
individual legal and/or tax advice. This publication is distributed with the  
understanding that Luther, the editors and authors cannot be held responsible for  
the results of any actions taken on the basis of information contained herein or  
omitted, nor for any errors or omissions in this regard.

Luther Corporate Services Sdn. Bhd.

Luther Corporate Services, the Corporate Services arm of Luther lawfirm enables us to offer our clients a “one-stop” solution for all their business needs. Our accountants, company secretaries and tax consultants provide the whole range services, which our clients expect from such a one-stop concept, from corporate secretarial services, outsourced administration, payroll and accounting to tax compliance. We assist our clients comprehensively in all stages of a business lifecycle, from the formation of a business vehicle, to ongoing support and statutory compliance matters and to the dissolution of a company.

Delhi-Gurgaon, Kuala Lumpur, Shanghai, Singapore, Yangon

Luther Corporate Services Sdn Bhd | Unit 17-2, Level 17 | Wisma UOA II | No. 21, Jalan Pinang | 50450 Kuala Lumpur | Malaysia |  
Phone +60 (0)3 2166 0085 | Fax +60 (0)3 2166 0087

Your contact:

Delphine Daversin, [delphine.daversin@luther-services.com](mailto:delphine.daversin@luther-services.com)

Philipp Kersting, [philipp.kersting@luther-services.com](mailto:philipp.kersting@luther-services.com)

Further contacts can be found on our website [www.luther-services.com](http://www.luther-services.com).



**Hits the mark. Luther.**

