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Malaysia News:

Malaysia's Budget 2018 – Tax Highlights

November 2017

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On 27 October 2017, Malaysia's Prime Minister and Minister of Finance, YAB Dato' Sri Mohd Najib Tun Haji Abdul Razak, delivered his annual budget speech; the last one before the next General Election which must be held not later than 24 August 2018. Titled "Prospering An Inclusive Economy, Balancing Between Worldly And Hereafter, For The Wellbeing Of Rakyat, Towards The Tn50 Aspiration", this budget patently focuses on the wellbeing of Malaysian people (*Rakyat*). While individuals will benefit from a reduction of tax rates and new tax exemptions, there are merely minor changes with regards to corporate tax. The tax rate will remain unchanged for companies and only very few new tax incentives and exemptions will be created.

The main proposals announced by the Prime Minister are summarised in the table herein below. Where required, Luther is of course prepared to provide you with further details in order to assist you analyse the potential consequences of these changes for your company.

Subject matter	Nature of the proposal	Effective date	Details of the proposal
Corporate Tax			
Implementation of Earning Stripping Rules (ESR)	New	From 1 January 2019	The Earning Stripping Rules (ESR) are a new method developed by the OECD in order to control excessive deductibility of interest expenses on loans between related parties to ultimately prevent tax evasion and avoidance and profit shifting at international levels. Under the ESR, the interest deduction on loans between related companies within the same group will be limited to a ratio ranging from 10% to 30% of the company's profit before tax (EBIT or EBITDA). This new method shall be implemented in Malaysia from 2019.
OECD Automatic Exchange of Information	New	September 2018	Implementation of the OECD Automatic Exchange of Information (AEOI) on tax matters in Malaysia shall become effective in September 2018.
Tax incentives			
New Duty Free Island (Pulau Pangkor)	New	To be determined	Pulau Pangkor shall become a duty-free island. However, this duty-free status shall still exclude products such as alcoholic beverages, tobacco and motor vehicles.
Special Border Economic Zone in Bukit Kayu Hitam (Kedah)	New	To be determined	A Special Border Economic Zone shall be developed in Bukit Kayu Hitam, near the border between Malaysia and Thailand. This zone shall include a Free Industrial Zone (FIZ).

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Capital Allowance for ICT Equipment and Software	Revision / expansion	Until YA 2016 From YA 2017 From YA 2018	Until YA 2016, expenditure incurred on the purchase of ICT equipment and software package were eligible for Accelerated Capital Allowance (ACA, with an initial allowance of 20% and annual allowance of 80%). This allowance shall be extended but the annual allowance shall be reduced to 20%. In addition, companies shall be entitled to claim capital allowances on expenditure incurred on the development of customised software comprising of consultancy fees, licensing fees and incidental fees related to software development (initial allowance of 20% and annual allowance of 20%).
Incentive for Automation	Extension	Extended until 31 December 2020	Labour-intensive industry companies (rubber, plastic, wood and textile products) are eligible for ACA (100%) and Automation Equipment Allowance (AEA) (100%) on the first RM4 million incurred in the purchase of automation equipment.
Incentive for Transformation to Industry 4.0	New	From 1 January 2018 to 31 December 2020	New ACA and AEA on the first RM10 millions of expenditure, incurred by companies in the manufacturing sector in one of 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 and artificial intelligence.
Incentive for Hiring the Disabled	Revision / expansion	Until YA 2017 From YA 2018	Employers who employ disabled persons are eligible to claim a further deduction on salary paid to disabled persons, but this incentive does not currently apply to workers affected by accidents or critical illnesses. The deduction shall be extended to workers affected by accidents and critical illnesses.
Incentive for Principal Hub	Extension	Extended until 31 December 2020	Tax exemption and preferential tax rates for multinational companies meeting certain requirements and establishing their principal hub in Malaysia.
New Four and Five Star Hotels	Extension	Extended until 31 December 2020	Pioneer Status or Investment Tax Allowance available for new Four or Five Star Hotels.
Tour Operating Companies	Extension	Extended until YA 2020	Tour operating companies are given 100% income tax exemption on their statutory income derived from the business of operating tour packages within Malaysia participated by no less than 750 foreign tourists or 1,500 local tourists annually.

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Medical Tourism	Extension / Revision	Until 31 December 2017	Tax exemption on statutory income equivalent to Investment Tax Allowance (ITA) of 100% of expenditure incurred for new investment, expansion, modernisation or refurbishment for a period of five years if the company meets the following requirements: ▪ At least 5% of the total number of patients receiving private healthcare services are non-Malaysian ▪ At least 5% of the company's gross income is derived from non-Malaysian for each YA.
		From 1 January 2018 (until 31 December 2020)	From 2018 the qualifying threshold shall be revised upwards: ▪ At least 10% of the total number of patients receiving private healthcare services are non-Malaysian ▪ At least 10% of the company's gross income is derived from non-Malaysian for each YA.
Export of Private Healthcare Services	Revision	Until YA 2017	Tax exemption on income derived from the export of healthcare services to foreign patients equivalent to 50% of the value of increased exports of services. Can be set-off against 70% of statutory income.
		From YA 2018 (until YA 2020)	Exemption increased from 50% to 100% of the value of increased exports or services. However, this exemption shall be subject to a 10% threshold (10% of the total number of patients or 10% of the gross income).
Certification of Healthcare companies	Expansion	Until YA 2017	Any private healthcare company registered with the Malaysia Healthcare Travel Council (MHTC) is eligible for double deduction on expenses incurred in obtaining certification for quality systems and standards.
		From YA 2018	Healthcare companies registered with MHTC and providing dental and ambulatory healthcare services shall also be eligible for this double deduction.
Angel Investors	Extension	Extended until 31 December 2020	Tax exemption equivalent to the amount of the investment made in the investee companies for angel investors meeting the qualifying criteria.
Green SRI Sukuk Grant	New	From 1 January 2018 to 31 December 2020	Income tax exemption for recipients of the Green Sustainable and Responsible (SRI) Sukuk Grant. The purpose of this grant is to finance external review expenditure incurred by a Green SRI sukuk issuer up to RM 300,000.

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Management of SRI fund	New	From YA 2018 (until YA 2020)	The manager of a SRI fund approved by the Securities Commission of Malaysia shall be exempted from tax on the management fee income derived from managing conventional and *Shariah*-compliant SRI fund.

Venture Capital	Revision	Until 31 December 2017	Tax incentives for venture capital are currently as follows:
			▪ Venture Capital Management Corporation (VCMC): exemption of income tax on statutory income derived from share of profits received on investment made by VCC.
			▪ Venture Capital Company (VCC): exemption of income tax on statutory income derived from all sources of income, except interest income from savings or fixed deposits and profits from Shariah-compliant deposits. This exemption is valid for a period of ten years and is subject to the following requirements:
			  ▪ The VCC is registered with the SC;
			  ▪ The VCC invests at least 70% of seed, start-up and early stage fund in VC <u>or</u> at least 50% in the form of seed capital; and
			  ▪ The VCC and the VC are not related companies.
			▪ Investment in a VC: companies or individuals investing into a VC are given a tax deduction equivalent to the amount of investment made in the VC at the adjusted income level.

		From 1 January 2018 (applications received until 31 December 2018)	Incentives for venture capital shall be revised as follows: ▪ VCMC: expansion of the exemption to include income received from management fees and performance fees in managing VCC funds. ▪ VCC: ▪ The investment limit in VC at the seed, start-up and early stage shall be reduced from 70% to 50% and the 50% balance is allowed for other investments ▪ Investment in a VC: companies or individuals investing into the VCC funds created by the VCMC shall be given tax deduction equivalent to the amount of investment made and restricted to a maximum of RM20 million per year and per company or individual. These exemptions shall be given for a period of five years (from YA 2018 to YA 2022).

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Stamp duty exemptions			
Trading of ETF and SW	New	From 1 January 2018 to 31 December 2020	Stamp duty is charged on instruments of transfer of shares of listed companies on Bursa Malaysia. The current rate is 0.1%, subject to a cap of RM200 per instrument. It is proposed that transfers of Exchange Traded Funds (ETF) and Structured Warrants (SW) shall be stamp duty exempted in the future.
Revival of Abandoned Housing Projects	Extension	Extended until 31 December 2020	Stamp duty exemption for loan agreements and instruments of transfer entered into to finance the revival of abandoned housing projects.
GST			
Increase of de *minimis* value for imports by air courier	Revision	To be determined	The *de minimis* value, below which goods imported using air courier service are exempted from GST, shall be increased from RM 500 to RM 800.
Importation of Big Ticket Items	New	From 1 January 2018	Companies carrying out activities in the aviation, shipping, oil and gas industries shall be exempted from GST in respect of the importation of big ticket items such as aircrafts, ships and oil rigs.
Importation under Lease Agreement from Designated Areas	New	From 1 January 2018	Importations of goods under lease agreements into Malaysia from Designated Areas (Labuan, Langkawi and Tioman) shall be exempted from GST for companies involved in the oil and gas industry.
Reading Materials	Revision / expansion	Until 31 December 2017 From 1 January 2018	All types of books which are reading materials and newspapers are exempted from GST. However, this does not include magazines, journals, periodicals and comics, which are still subjected to GST standard rate of 6%. Magazines, journals, periodicals and comics shall be exempted from GST.
Supplies made by Local Authorities	Revision / expansion	Until 30 March or 30 September 2018 From 1 April or 1 October 2018	Supplies made by the Federal and the State Government and supplies made by local authorities in respect of regulatory and enforcement function are not subject to GST, but other taxable supplies made by local authorities are subjected to GST. All supplies made by local authorities shall be exempted from GST.

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Construction Services for School Buildings and Places of Worship	Revision / expansion	Until 31 March 2017	50% GST relief on construction services for the construction of school building (including hall and sport facilities) upon approval.
		Construction services contract signed from 1 April 2017	▪ GST relief increased to 100% ▪ Expansion of the GST relief to the construction of places of worship financed through public donations
Management and Maintenance Services in Stratified Buildings	Revision / expansion	Until 31 December 2017	Management and maintenance services (including cost recovery of group insurance, quit rent and assessments) supplied by joint management body and management corporation to owners of stratified residential buildings are exempted from GST. There is no exemption where these services are provided by other entities.
		From 1 January 2018	Management and maintenance services supplied by housing developers shall be exempted as well.
Handling Services Rendered to Operators of Cruise Ships	New	From 1 January 2018 to 31 December 2020	Cruise ship operators shall be exempted from GST on handling services provided by sea port operators in Malaysia.
Merger of Customs Appeal Tribunal and GST Appeal Tribunal	New	From 1 January 2019	All appeals relating to the decision of the Director General of Customs shall be heard by a single tribunal, the Customs Appeal Tribunal (CAT).
Personal income tax			
Reduction of Tax Rate	Revision	From YA 2018	Reduction of two percentage points for income tax band between RM20,000 to RM70,000, as follows: ▪ From RM 20,001 to RM 35,000: rate reduced from 5% to 3% ▪ From RM 35,001 to 50,000: rate reduced from 10% to 8% ▪ From RM 50,001 to RM 70,000: rate reduced from 16% to 14%.
Tax Exemption for Women Returning to Work after a Career Break	New	From YA 2018 (until YA 2020)	Women who, after a career break of at least two years, return to the workforce between YA 2018 and YA 2020 shall be exempted from personal income tax on maximum 12 consecutive months of salary.
Tax Exemption on Rental Income	New	From YA 2018 (until YA 2020)	50% tax exemption on rental income received by resident individuals not exceeding RM 2,000 per month, for a maximum period of three consecutive years of assessment.
Tax Relief on Savings in the SSPN	Extension	Extended until YA 2020	Tax relief on resident individual income up to RM 6,000 for net savings in the National Education Savings Scheme (SSPN).

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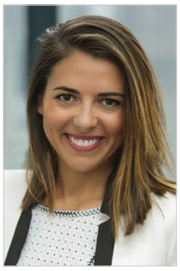

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