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# Malaysia News:

## Malaysia's Budget 2019 – Tax Highlights

November 2018

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## Budget 2019: ‘A Resurgent Malaysia, A Dynamic Economy, A Prosperous Society’

The first inaugural Budget of the new Pakatan Harapan government was announced by the Finance Minister, YB Lim Guan Eng, on 2 November 2018. The focus of this Budget centres upon implementing institutional reforms, ensuring socio-economic well-being and fostering an entrepreneurial economy.

Given the level of government debt and a trend of continued budget deficit, the Budget strives to restore fiscal finances by implementing a number of policy changes and tax reform measures.

There are a number of key proposals. A Special Voluntary Disclosure Programme is proposed as a means of raising tax revenue. This programme allows taxpayers to declare any unreported income within a specified time frame and enjoy lower penalty rates of 10% or 15%. There is a proposal to limit the carry forward of losses and allowances to seven years. The government also seeks to raise taxes from the digital economy notably by imposing service tax on imported online digital services however enforcing this may prove to be a challenge since these service providers are located outside Malaysia.

The main proposals are summarised in the table below. Where required, Luther may provide further assistance to help analyse the potential impact of these changes on your business.

Subject matter	Effective date	Details of the proposal
<b>Corporate Tax</b>		
Special Voluntary Disclosure Programme (SVDP)	From 3 November 2018 to 31 March 2019, the penalty rate on tax payable will be 10% and full tax payment must be made by or on 1 April 2019. From 1 April 2019 to 30 June 2019, the rate will be 15% and full tax payment must be made by or on 1 July 2019.	Under the SVDP, reduced penalty rates will be offered to taxpayers who voluntarily disclose the following within the stipulated time period: <ul style="list-style-type: none"> <li>■ Income not previously declared/under-declared, expenses over-claimed/not allowed and reliefs/ deductions/rebates over-claimed;</li> <li>■ Gains on disposal of real properties and shares in real property companies; and</li> <li>■ Stamping on instruments not previously stamped.</li> </ul> The penalty rate will range from 80% to 300% after the voluntary disclosure period expires.
Reduction in corporate income tax rate for Small and Medium Enterprises (SMEs)	Year of assessment (YA) 2019	For chargeable income up to MYR 500,000, the income tax rate will be reduced from the current rate of 18% to the proposed rate of 17%. For chargeable income exceeding MYR 500,000, the income tax rate of 24% remains the same. Note this is where SMEs refer to companies incorporated in Malaysia which have a paid-up capital in respect of ordinary shares of not more than MYR 2,500,000 and LLPs with a total capital contribution of MYR 2,500,000 or less.

Subject matter	Effective date	Details of the proposal
Group relief provision	YA 2019	Currently, the losses of a company from the first 12 months of its operation may be surrendered to a related company within the same group. The Budget 2019 proposes that a company may only do so after the first 12 months of operation. Moreover, the surrendering is limited to 3 consecutive YAs. A company with unutilised Investment Tax Allowance (ITA) or unabsorbed pioneer losses will not be eligible to claim group relief upon the expiry of its incentive period, as was previously permitted.
Carry forward of losses and allowances	YA 2019	<p>Currently, there is no time limit on the carrying forward of unabsorbed losses and unutilised allowance. Budget 2019 proposes that there will now be a 7 year time limit for the following losses and allowances:</p> <ul style="list-style-type: none"> <li>■ Unabsorbed business losses and unutilised capital allowance arising from a YA</li> <li>■ Unutilised Reinvestment Allowance and Investment Allowance for Services Sector</li> <li>■ Unutilised pioneer losses and ITA</li> </ul>
<b>Personal income tax</b>		
Tax relief on savings in the National Education Savings Scheme (SSPN)	YA 2019 to YA 2020	The current tax relief of MYR 6,000 on net savings made in the SSPN shall be increased to MYR 8,000.
Tax relief on contributions to an approved provident fund or <i>takaful</i> or life insurance premiums	YA 2019	The income tax relief on these contributions shall be increased from MYR 6,000 to MYR 7,000 per YA. This relief is broken down with a limit of MYR 4,000 for approved provident fund contributions and MYR 3,000 for <i>takaful</i> contributions or payment of life insurance premiums.
Reduction in Employees' Provident Fund (EPF) contribution rates for employees aged 60 and above	1 January 2019	The employer's portion of EPF contributions will be reduced from 6% to 4%. The mandatory employee's contribution will be reduced from 5.5% to zero.
Social enterprise contributions	To be announced	Such contributions from individuals will be eligible for tax deduction subject to a maximum of 7% of the aggregate income of the individual.
Unexplained extraordinary wealth	To be announced	Unexplained extraordinary wealth shown by the possession of luxury goods, handbags, jewellery or property will be investigated by the Inland Revenue Board and subject to penalties or taxes where appropriate.
<b>Sales and service tax</b>		
Service tax on imported services including online services	1 January 2019 for services imported by Malaysian businesses. 1 January 2020 for services imported by Malaysian consumers	Service tax will apply to imported taxable services including online services such as downloaded software, music, video and digital advertising. Foreign service providers who provide consumers with online services will have to register with the Royal Malaysian Customs Department and thereafter charge the applicable service tax. Clarification is expected as to how this will be enforced.

Subject matter	Effective date	Details of the proposal
Credit system for sales tax deduction	1 January 2019	This aims to reduce the cost of doing business for small registered manufacturers. Currently, when a small registered manufacturer purchases goods from traders who are not registered for sales tax, this sales tax is embedded into the purchase price, which increases the cost. The proposal is that the small registered manufacturers may obtain a credit for a small part of the cost of the goods purchased as a notional sales tax credit. There may, however, be an administrative cost to recover the credit for the small registered manufacturer.
Service tax exemptions	1 January 2019	Service tax exemptions will be granted for specific business-to-business transactions between service tax registered entities.
Excise duty on sugary beverages	1 April 2019	An excise duty of MYR 0.40 per litre will be charged on beverages that have a sugar content that exceeds certain levels.
Import duty on bicycles	1 January 2019	The import duty on bicycles other than racing bicycles and bicycles designed for children shall be reduced from 25% to 15%.
Gaming industry	To be announced	The following license fees and duties shall be increased: casino license, casino duties, machine dealer's license and gaming machine duties.
<b>Tax incentives</b>		
Industry 4WRD		
Tax deduction on expenses for Industry 4.0 (I4.0) Readiness Assessment	YA 2019 to YA 2021	The I4.0 Readiness Assessment is a process to assess the current readiness capabilities of a company and its potential to shift to I4.0 technology. The tax deduction is for expenses of up to MYR 27,000 paid to the Malaysian Productivity Corporation.
Tax deduction for implementation of Industry 4WRD Vendor Development Programme (I4.0 VDP)	The Memorandum of Understanding must be signed between the company and the Ministry of International Trade and Industries (MITI) between 1 January 2019 and 31 December 2021	Double deduction on the costs incurred on product development, upgrading capabilities of vendors and skills training of vendors by companies which implement I4.0 VDP. The costs must be verified by MITI and a double deduction claim is limited to MYR 1,000,000 per year for 3 consecutive years.

Subject matter	Effective date	Details of the proposal
Tax deduction for human capital development to improve workforce skills and talent to be in line with I4.0 requirements	1. YA 2019 to 2021	1. Double deduction on scholarships provided by companies to students pursuing studies at a technical and vocational level or diploma and degree level in the fields of engineering and technology. The students must be Malaysian and resident in Malaysia, be studying full-time, have no means of their own and the total income of their parent or guardian must not exceed MYR 8,000 per month.
	2. Programmes implemented between 1 January 2019 and 31 December 2019	2. Deduction on expenses incurred by companies participating in the National Dual Training System (NDTS) for the I4.0 programme. Approval of programmes by the Ministry of Human Resources (MoHR) is necessary.
	3. YA 2019 to 2021	3. Deduction on expenses incurred by Private Higher Education Institutions on developing new I4.0 technology and engineering courses. Courses must be verified by the Ministry of Education (MOE).
	4. 1 January 2019 to 31 December 2019	4. Double deduction on expenditure incurred by companies on training programmes to upgrade employee's technical skills in line with I4.0 technology. Programmes must be approved by the Malaysian Investment Development Authority (MIDA).
	5. YA 2019 to 2021	5. Double deduction on expenditure incurred by companies that conduct internship programmes for undergraduate students in the fields of engineering and technology. Internship programmes must be approved by MoHR.
	6. For contributions made from 1 January 2019 to 31 December 2021	6. Deduction on equipment and machinery contributed by companies to skills development centres, polytechnics or vocational colleges. Contribution must be certified by MoHR or MOE.
<b>Other</b>		
Incentive to hire senior citizens and ex-convicts	YA 2019 to YA 2020	Further deductions on the remuneration paid by employers who employ senior citizens above 60 years old or ex-convicts as full-time employees with a monthly salary of no greater than MYR 4,000.
Incentive for employers to repay PTPTN loans	1 January 2019 to 31 December 2019	Employers will qualify for tax deductions on repayments of Perbadanan Tabung Pendidikan Tinggi Nasional (PTPTN) loans of their full-time employees.
Social enterprise contributions	To be announced	Such contributions from companies will be eligible for tax deduction subject to a maximum of 10% of the aggregate income (whereas the maximum for contributions from individuals is 7%).

Subject matter	Effective date	Details of the proposal
Green technology and environmentally friendly incentives	To be announced	<p>1. Companies that make environmentally friendly plastics based on bio-resin and biopolymer will be granted these incentives for 5 years: i. pioneer status that gives a 70% exemption of statutory income or ii. Investment allowance of 60% on qualifying capital expenditure.</p> <p>2. The list of green assets which qualify for the green technology investment tax allowance (GITA) will be increased from 9 to 40 in the MyHijau directory.</p>
Principal Hub incentives	To be announced	In order to encourage companies already participating in the Principal Hub to increase their investments, the existing incentive will be improved. Under this improvement, companies will be granted a concessionary rate of 10% on the overall statutory income related to Principal Hub activities for a period of 5 years.
Capital markets incentives	Extended for another 2 years from YA 2019 to YA 2020	<p>1. Tax deduction for issuing <i>sukuk</i> under the <i>Ijarah</i> and <i>Wakalah</i> principles. Further deduction on additional costs incurred such as professional fees relating to due diligence, prospectus costs, and Bursa Malaysia fees.</p> <p>2. Double tax deduction on additional issuance costs of retail bonds and retail <i>sukuk</i> under the principles of <i>Mudharabah</i>, <i>Musarakah</i>, <i>Istisna</i>, <i>Murabahah</i> and <i>Bai' Bithaman Ajil</i> based on <i>Tawarruq</i>.</p>
Venture capital incentives	Applicable to applications received by the Securities Commission (SC) between 1 January 2018 and 31 December 2018. The deadline for submission of applications to the SC, for which the new incentives will continue to apply, shall be extended to 31 December 2019	Tax incentives were given in the Budget 2018 to the following: Venture Capital Company (VCC), Venture Capital Management Corporation, investors in a VCC and investors in a venture company. The deadline for these incentives will be extended.
Wholesale money market tax exemption removal	Ceases from 1 January 2019	Interest income from licensed banks, Islamic banks and development financial institutions by a wholesale money market fund which complies with the SC's guidelines will no longer be tax exempt.
<b>Labuan tax regime</b>		
Abolishment of certain restrictions to the 'Labuan business activity' definition	1 January 2019	It is proposed that Labuan entities be allowed to carry out business activities in MYR and/or with Malaysian residents and remain within the scope of the Labuan Business Activity Tax Act 1990 (LBATA).
Abolishment of the flat tax election under the LBATA	1 January 2019	At present, a Labuan entity carrying out a Labuan trading activity is taxed at 3% of net audited profits and may instead elect to be taxed at MYR 20,000. The election to be taxed at MYR 20,000 instead of 3% is now proposed to be abolished.

Subject matter	Effective date	Details of the proposal
Labuan International Business and Financial Centre (IBFC) activities	1 January 2019	Labuan activities will be subject to substantive conditions as determined by a committee.
Income derived from intellectual property assets held by a Labuan entity	1 January 2019	Income generated from intellectual property assets held by a Labuan entity shall no longer be subject to corporate income tax under the LBATA but shall now be subject to it under the ITA.
Limitation of tax deductions for expenditure incurred by Malaysian residents in transactions with Labuan entities	1 January 2019	Tax deductions for expenditure incurred by Malaysian residents in relation to transactions with Labuan entities will be limited to 3% of the allowable expenditure. Further clarification as to how to calculate the 3% of allowable expenditure is awaited.
<b>Other taxes</b>		
Real property gains tax rate	1 January 2019	<p>The real property gains tax rates on disposals after the fifth year are proposed to be revised as follows:</p> <ul style="list-style-type: none"> <li>■ Company, non-citizen and non-permanent resident individual shall increase from 5% to 10%.</li> <li>■ Malaysian citizen or permanent resident shall increase from 0% to 5%. However, an exemption is given to Malaysian citizens for the disposal of low cost, medium-low and affordable residential homes costing MYR 200,000 and below.</li> </ul>
Stamp duty rates for the transfer of real property	1 January 2019	It has been proposed that for real property valued at MYR 1,000,001 and above, the stamp duty rate shall be increased from 3% to 4%.
Stamp duty exemption for the purchase of first residential home	<p>Sale and purchase agreement executed from:</p> <ol style="list-style-type: none"> <li>1. 1 January 2019 to 31 December 2020</li> <li>2. 1 January 2019 to 30 June 2019</li> <li>3. 1 July 2019 to 31 December 2020</li> </ol>	<ol style="list-style-type: none"> <li>1. 100% exemption on the price of a first residential home from housing developers valued up to MYR 300,000.</li> <li>2. 100% exemption on the price of a first residential home from housing developers valued between MYR 300,001 and MYR 1,000,000.</li> <li>3. 100% exemption only applies to the first MYR 300,000 on the price of a first residential home from housing developers valued between MYR 300,001 and MYR 500,000.</li> </ol>
Stamp duty exemption for Perlindungan Tenang products	Effective for policies issued from 1 January 2019 to 31 December 2020	Exemption given for insurance policies/ <i>takaful</i> certificates under the 'Perlindungan Tenang' insurance/ <i>takaful</i> products launched in 2017, with yearly premium/contribution not exceeding MYR 100.

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