



Grant Thornton

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Malaysia Budget 2017

October 2016

This Budget analysis provides details on various tax measures that were announced in the 2017 Budget speech.

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Individual Tax

1. Tax relief for lifestyle

Currently, to inculcate reading habits, lead a healthy lifestyle and enhance the usage of computers and internet, individual taxpayers are eligible to claim tax reliefs as follows:

- i. Tax relief of up to RM1,000 for the purchase of reading materials (excluding newspapers and banned reading materials);
- ii. Tax relief of up to RM300 for the purchase of sports equipment for sports activities as defined under the Sports Development Act 1997;
- iii. Tax relief of up to RM3,000 for the purchase of a computer to be claimed once in 3 years; and
- iv. Tax relief of up to RM500 for the subscription of broadband internet (from year of assessment 2010 until year of assessment 2012).

To provide flexibility for taxpayers to claim tax relief on the purchase of reading materials, computer and sports equipment, it is proposed that these reliefs be combined into a new relief known as the lifestyle relief with a limit of up to RM2,500.

The scope of the lifestyle relief is expanded to include:

- i. Purchase of printed daily newspaper;
- ii. Purchase of smartphone or tablet;
- iii. Internet subscription; and
- iv. Gymnasium membership fee.

Effective date : From year of assessment 2017

2. Tax relief for fees paid to child care centres and kindergartens

Currently, fees paid to child care centres and kindergartens are not eligible for individual tax relief.

To ease the burden of taxpayers with regard to the cost of child care and early childhood education, it is proposed that a new tax relief of up to RM1,000 be provided to individual taxpayers who enroll their children aged up to 6 years in child care centres or kindergartens registered with the Department of Social Welfare or the Ministry of Education.

This relief can only be claimed by either parent of the children.

Effective date : From year of assessment 2017

3. Tax relief for the purchase of breastfeeding equipment

Currently, the purchase of breastfeeding equipment is not eligible for individual tax relief.

To encourage and support women to return to work while continuing to breastfeed their infant, it is proposed that a new tax relief of up to RM1,000 be provided for the purchase of breastfeeding equipment. The purchase can be made either in a complete or separate parts consisting of breast pump (manual or electric), cooler bag, containers for collection and storage.

Women taxpayers with children aged up to 2 years are eligible to claim this relief.

Effective date : This relief can be claimed once in 2 years from year of assessment 2017



Corporate Tax

1. Review of corporate income tax for Small and Medium Enterprises (SME)

Currently, a company with paid-up capital of up to RM2.5 million or a Limited Liability Partnership (LLP) with total contribution of capital of up to RM2.5 million are categorised as SME for the purpose of income tax and subject to income tax rate of 19% on chargeable income up to RM500,000. The remaining chargeable income is subject to income tax rate of 24%.

To assist the above business entities to be more competitive in the current challenging economic situation, it is proposed that the tax rate for the above entities be reduced by 1 percentage point from 19% to 18% on chargeable income up to RM500,000.

Effective date : From year of assessment 2017

2. Reduction of corporate income tax based on the increase in chargeable income

Currently, companies and entities are taxed at a fixed rate of 24% as follows:

- i. A company with paid-up capital of more than RM2.5 million or a Limited Liability Partnership (LLP) with total contribution of capital more than RM2.5 million;
- ii. A company with paid-up capital of up to RM2.5 million or a LLP with total contribution of capital of up to RM2.5 million on the chargeable income more than RM500,000; and
- iii. Trust body, executor of an estate of an individual who was domiciled outside Malaysia at a time of his death and receiver appointed by the court.

To reduce cost of doing business and encourage businesses to strive in order to increase their chargeable income during the current challenging global economic situation, it is proposed that reductions in the income tax rate based on the percentage of increase in chargeable income as compared to the immediate preceding year of assessment be given to the above entities that fulfill the criteria. The reduction of the income tax rate is as follows:

Percentage of increase in chargeable income as compared to the immediate preceding year of assessment	Percentage point reduction	Income tax rate after reduction (%)
Less than 5.00	NIL	24
5.00 – 9.99	1	23
10.00 – 14.99	2	22
15.00 – 19.99	3	21
20.00 and above	4	20

Effective date : For the year of assessment 2017 and year of assessment 2018

3. Extension of income tax incentives for new 4 and 5 star hotels

Currently, hotel operators undertaking investments in new 4 and 5 star hotels are eligible for the following tax incentives:

i. **Peninsular Malaysia:**

a. **Pioneer Status**

Exemption of 70% of statutory income for a period of 5 years; or

b. **Investment Tax Allowance**

Allowance of 60% on the qualifying capital expenditure incurred within a period of 5 years. This allowance can be set-off against up to 70% of statutory income for each year of assessment.

The above incentives are for applications received by the Malaysian Investment Development Authority (MIDA) from 8 October 2011 until 31 December 2016.

ii. **Sabah and Sarawak:**

a. **Pioneer Status**

Exemption of 100% of statutory income for a period of 5 years; or

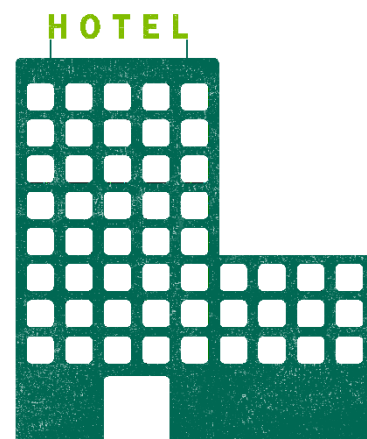
b. **Investment Tax Allowance**

Allowance of 100% on the qualifying capital expenditure incurred within a period of 5 years. This allowance can be set-off against up to 100% of statutory income for each year of assessment.

The above incentives are for applications received by MIDA from 30 August 2008 until 31 December 2016.

To continue providing international standard accommodation facilities and to meet the requirements of high-end tourists, it is proposed that the application period for Pioneer Status or Investment Tax Allowance for investments in new 4 and 5 star hotels in Peninsular Malaysia, Sabah and Sarawak be extended for another 2 years.

Effective date : For applications received by MIDA from 1 January 2017 to 31 December 2018



4. Expansion of the scope of halal products eligible for incentives for Halal Industry Players

Currently, tax incentives for Halal Industry Players operating in Halal Parks, promoted by Halal Development Corporation (HDC) are as follows:

- i. Full income tax exemption on qualifying capital expenditure for a period of 10 years or income tax exemption on increase of export sales for a period of 5 years;
- ii. Import duty exemption on raw materials used for the development and production of promoted halal products; and
- iii. Double deduction on expenses incurred in obtaining international quality standards certification such as HACCP, GMP Codex Alimentarius (food standards guidelines of FAO and WHO), Sanitation Standard Operating Procedures and regulations for compliance for export markets such as Food and Traceability from farm to fork.

The qualifying halal products are as follows:

- i. Speciality processed food;
- ii. Pharmaceuticals, cosmetics and personal care;
- iii. Livestock and meat products; and
- iv. Halal ingredients.

To further increase investments as well as enhance Malaysia's competitiveness in the halal products industry, it is proposed that the existing incentives be extended to include production of nutraceutical and probiotic products by Halal Industry Players in Halal Parks.

Effective date : For applications received by HDC from 22 October 2016

5. Increase in the limit of tax deduction for sponsoring arts, cultural and heritage activities

Currently, a company that sponsors local as well as foreign arts, cultural and heritage activities in Malaysia, approved by the Ministry of Tourism and Culture, is allowed tax deduction on expenditure incurred for sponsoring such activities up to RM500,000 per year, where the deduction allowed for sponsoring such foreign arts, cultural and heritage activities is limited up to RM200,000 per year.

To further encourage arts, cultural and heritage activities in Malaysia, it is proposed that the limit of tax deduction for a company that sponsors such activities be increased up to RM700,000 per year, where the deduction limit allowed for sponsoring foreign arts, cultural and heritage activities be increased up to RM300,000 per year.

Effective date : From year of assessment 2017

6. Extension of tax incentive for anchor companies under the Vendor Development Programme

Currently, anchor companies that develop local vendors under the Vendor Development Programme (VDP) and have signed the Memorandum of Understanding (MoU) with the Ministry of International Trade and Industry (MITI) are given double deduction for the following operating expenses:

- i. cost of product development, R&D, innovation and quality improvement;
- ii. cost of obtaining ISO/Kaizen/5S certifications, evaluation programme and business process reengineering for the purpose of increasing vendor capabilities; and
- iii. cost of vendor skills training, capacity building, lean management system and financial management system.

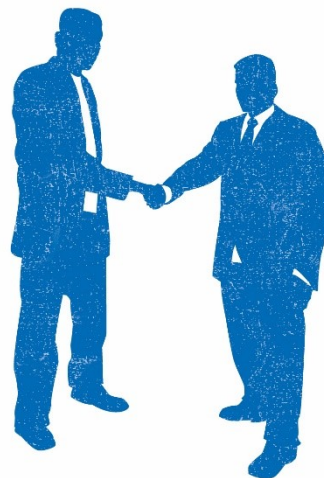
The qualifying criteria for double deduction are as follows:

- i. the qualifying operating expenses must be certified by MITI before the anchor companies can claim the deduction;
- ii. qualifying operating expenses are capped at RM300,000 per year; and
- iii. deduction is given for 3 years of assessment.

The incentive is given to anchor companies that have signed a MoU with MITI from 1 January 2014 to 31 December 2016.

To further encourage the participation of anchor companies in developing more competitive local vendors, it is proposed that the incentive for anchor companies that implement VDP be extended for another 4 years.

Effective date : Anchor companies that have signed MoU with MITI from 1 January 2017 to 31 December 2020



7. Extension of the period and expansion of scope of double deduction incentive for the Structured Internship Programme

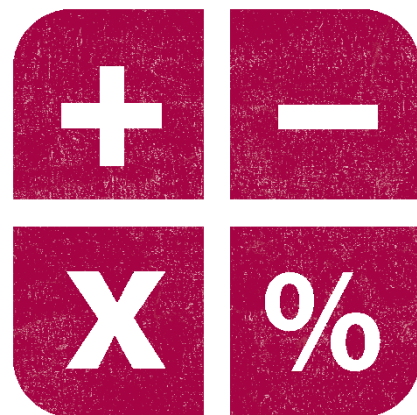
Currently, companies that participate in the Structured Internship Programme (SIP) approved by the TalentCorp are eligible for double deduction on expenses incurred in implementing the programme. This programme is made available for Malaysian students pursuing full-time degree and diploma courses in Institutions of Higher Learning (IHL) that are registered with the Ministry of Higher Education or for equivalent vocational level (Malaysian Skills Certificate Level 4 and 5) as recognised by the Malaysian Qualifications Agency or Department of Skills Development as follows:

- i. Degree level – from year of assessment 2012 until year of assessment 2016; and
- ii. Diploma and vocational level – from year of assessment 2015 until year of assessment 2016.

To encourage more companies to participate in SIP and contribute towards the employability of local graduates through an early exposure to the working environment, it is proposed that the current incentive be extended for a period of 3 years.

This programme will also be expanded to include Malaysian students pursuing full-time vocational level (Malaysian Skills Certificate Level 3).

Effective date : From year of assessment 2017 until year of assessment 2019



Goods and Services Tax (GST)

1. Review of GST relief for disabled persons

Currently, under Item 7, First Schedule, Goods and Services Tax (Relief) Order 2014, GST relief is provided to Private Charitable Entities (PCE) for persons with disabilities registered with the Social Welfare Department on the purchase of equipment specially designed for disabled persons as follows:

- i. Artificial limbs;
- ii. Wheelchair;
- iii. Electrically/mechanically adjustable bed designed for handicapped;
- iv. Braille embossers;
- v. Pick-up sticks;
- vi. Text telephone;
- vii. Whistling cup;
- viii. White canes;
- ix. Specialised footwear;
- x. Hearing aid; and
- xi. Low vision aid.

The relief is subject to the condition that the equipment are to be given free or sold at a nominal value for members of the PCE concerned and the members who are registered under the Persons with Disabilities Act 2008.

To enable more disabled persons including non-PCE members to benefit from the relief, it is proposed that the GST relief be given directly to the valid OKU card holders on the purchase of approved equipment from the suppliers designated by the Social Welfare Department.

The list of equipment that is eligible for the GST relief will be widened to include the following:

- i. Callipers;
- ii. Artificial prosthetic and orthotic;
- iii. Motorized wheelchair;
- iv. Home care/hospital bed;
- v. Braille display;
- vi. Vibrating alarm indicators;
- vii. Flashing/signalling device;
- viii. Magnifier;
- ix. Special lenses;
- x. Optical character recognition (OCR) equipment;
- xi. Medical cushion;
- xii. Ripple mattress;
- xiii. Walking frame;
- xiv. Crutches and rubber ends;
- xv. Vehicle wheelchair lift and restraints;
- xvi. Portable ramps;
- xvii. Hand controls for driving;
- xviii. Shower chair;
- xix. Commode chair; and
- xx. Teletypewriter.

Effective date : From 1 January 2017

2. Review of GST treatment in free zones

Currently, Goods and Services Tax Act 2014 (GST Act) is applicable to free zones namely Free Commercial Zone (FCZ) and Free Industrial Zone (FIZ) established under the Free Zones Act 1990 (Free Zones Act). Special treatment is provided under Section 162(a) of the GST Act whereby GST is not imposed on imported goods into FCZ for the following purposes:

- i. Commercial activities; or
- ii. Retail trade activities approved under the Free Zones Act.

GST is imposed on goods imported into the FCZ if it is to be consumed within the zone. GST is also levied on goods imported into the FIZ, on the supply or removal of goods made within FIZ and between FIZ and between FIZ and FCZ.

The removal of goods made from FCZ and FIZ to the Designated Areas i.e. Langkawi, Labuan and Tioman, vice versa and also removal to an approved warehouse under the Warehousing Scheme, vice versa is subjected to GST.

To streamline the GST treatment in the free zones which consist of FIZ and FCZ, it is proposed that the GST treatment be determined as follows:

- i. GST is not chargeable on the supply and removal of goods made within and between FCZ;
- ii. GST shall not be due and payable on the goods imported into the FIZ;
- iii. GST is not chargeable on the supply and removal of goods made within and between FIZ;
- iv. GST is not chargeable on the supply and removal of goods made within FCZ and FIZ, vice versa;
- v. GST is suspended on the removal of goods from free zone to Designated Areas i.e. Langkawi, Labuan and Tioman, vice versa; and
- vi. GST is suspended on the removal of goods from free zone to an approved warehouse under the Warehousing Scheme, vice versa.

The above GST treatment shall not be applicable on the following supplies:

- i. Goods as prescribed under the Free Zones (Exemption of Goods and Services) Order 1998;
- ii. Goods and services as prescribed under Goods and Services Tax (Imposition of Tax for Supplies in Respect of Designated Areas) Order 2014; and
- iii. Any other goods prescribed by the Minister of Finance.

Effective date : From 1 January 2017

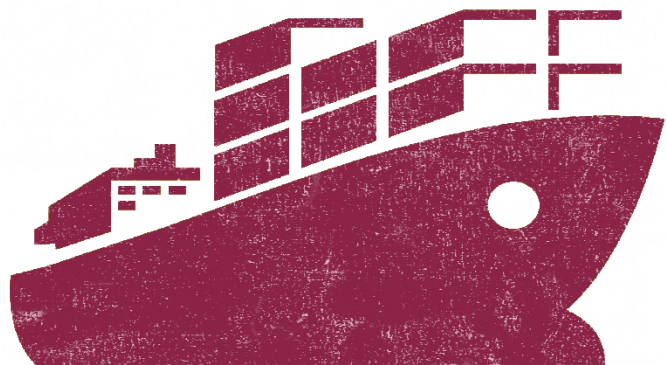
3. Review of GST treatment under the warehousing scheme

Currently, the Warehousing Scheme under Section 70 of the Goods and Services Tax Act 2014 allows GST to be suspended on goods imported and deposited into the approved warehouse. Approved warehouses under this scheme include Licensed Manufacturing Warehouse, Public Bonded Warehouse, Private Bonded Warehouse, Duty Free Shops and Inland Clearance Depot. Under the scheme, imported goods deposited into the warehouse and supplied within and between warehouse is not subjected to GST. Removal of goods from the warehouses are subjected to the imposition of GST.

Goods from the Principal Customs Area (PCA) and Free Industrial Zone (FIZ), deposited into and supplied within the warehouse is not entitled for the facility provided under the warehousing scheme and such supply of goods made within and between the warehouse is subjected to GST.

To streamline GST treatment between imported goods and goods from PCA and to facilitate the GST administration under the Warehousing Scheme, it is proposed that no GST shall be charged on the goods from PCA which consist of the Licensed Manufacturing Warehouse, Excise Warehouse and FIZ that are deposited into and supplied within and between warehouse under the Warehousing Scheme.

Effective date : From 1 January 2017



Stamp Duty

1. Extension of income tax and stamp duty exemptions for Islamic banking and takaful businesses

Currently, International Currency Business Unit (ICBU) which operates Islamic banking and takaful business activities transacted in foreign currencies are given tax incentives as follows:

- i. Full tax exemption on income received by Islamic banks licensed under the Islamic Financial Services Act 2013 and financial institutions licensed under the Financial Services Act 2013 operating Islamic banking business transacted in foreign currencies including transactions with Malaysian residents;
- ii. Full tax exemption on income received by takaful companies and takaful unit licensed under the Islamic Financial Services Act 2013 operating takaful business transacted in foreign currencies including transactions with Malaysian residents; and
- iii. Full stamp duty exemption on instruments executed pertaining to Islamic banking and takaful activities transacted in foreign currencies.

The tax incentive in (i) and (ii) is effective from year of assessment 2007 to year of assessment 2016.

The tax incentive in (iii) is effective for instruments executed from 8 September 2007 until 31 December 2016.

To further widening Islamic financial markets chain through the enhancement of Islamic banking and takaful businesses, it is proposed that the above incentives be extended for another 4 years.

Effective date:

- i. The tax incentives in (i) and (ii) is effective from year of assessment 2017 to year of assessment 2020
- ii. The tax incentive in (iii) is effective for instruments executed from 1 January 2017 to 31 December 2020

2. Extension of stamp duty exemption for the purchase of first residential home

Currently, to encourage home ownership, the Government has provided stamp duty exemptions on the following instruments:

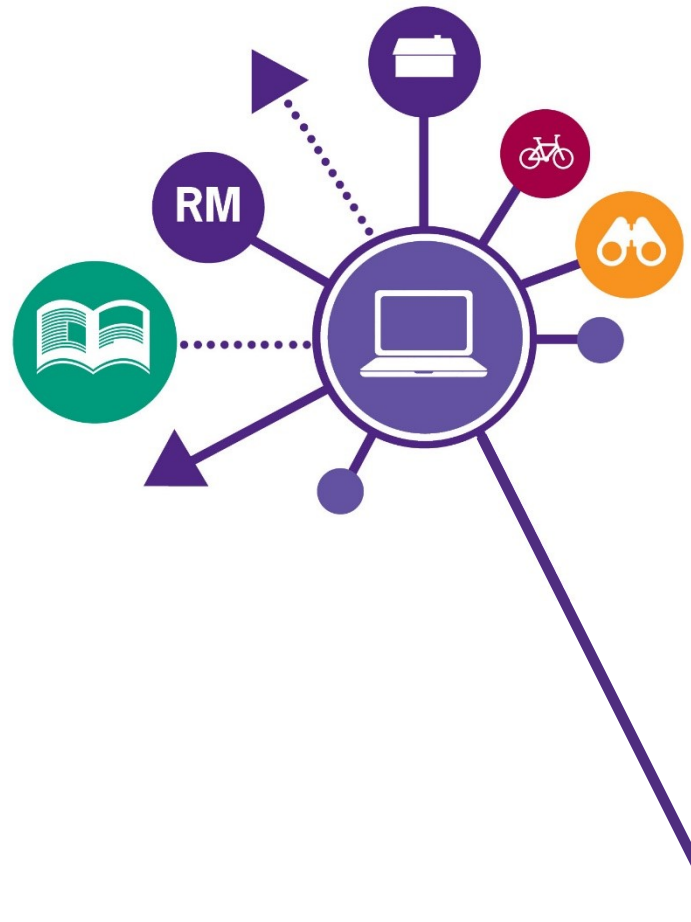
Year	Tax Incentive For Home Ownership	Exemption Period
2003 Budget	100% stamp duty exemption on instrument of transfer, loan agreement and sales & purchase agreement for the purchase of low cost house priced not exceeding RM42,000 if situated in Peninsular Malaysia or priced not exceeding RM47,000 if situated in Sabah, Sarawak and the Federal Territory of Labuan.	For sales and purchase agreement (S&P) executed from 1 January 2002.
2012 Budget	100% stamp duty exemption on loan agreement for the purchase of a home priced not exceeding RM300,000 under the Perumahan Rakyat 1Malaysia (PR1MA) programme.	S&P executed from 1 January 2012 to 31 December 2016.
2015 Budget	50% stamp duty exemption on instrument of transfer and loan agreement for the purchase of first home priced not exceeding RM500,000.	S&P executed from 1 January 2015 to 31 December 2016.

To reduce the cost of ownership of the first home, it is proposed that 100% stamp duty exemption be given on instrument of transfer and loan agreement for the purchase of first home priced not exceeding RM300,000.

For the purchase of first home priced exceeding RM300,000 up to RM500,000, stamp duty is fully exempted but limited to first RM300,000 of the value of the home. The exemption is given on instrument of transfer and loan agreement. The remaining balance of the value of the home is subject to the prevailing rate of stamp duty.

Malaysian citizens who have yet to own a home are eligible for this duty exemption.

Effective date : For sales and purchase agreement executed from 1 January 2017 to 31 December 2018



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