Malaysian Budget 2015

October 2014

This Budget analysis provides details on various tax measures that were announced in the 2015 Budget speech.

Contents

Individual Tax

1. Review of relief on medical expenses for serious diseases

Currently, relief up to RM5,000 is claimable by an individual taxpayer on medical expenses for treatment of serious diseases for oneself, spouse and children. Eligible expenses are for medical treatment of serious diseases such as cancer, kidney failure, heart disease, acquired immune deficiency syndrome (AIDS), Parkinson's disease and leukemia.

To reduce the burden of medical expenses and treatment of serious diseases, it is proposed that the current relief be increased from RM5,000 to a maximum of RM6,000.

Effective date : From year of assessment 2015

2. Review of relief for disabled child

Currently, a taxpayer with disabilities or with disabled dependents is eligible for the following reliefs:

i. Personal relief of RM9,000;
ii. Additional relief of RM6,000 for the disabled taxpayer;
iii. Relief of RM3,000 for the spouse;
iv. Additional relief of RM3,500 for the disabled spouse;
v. Relief of RM5,000 for each disabled child; and
vi. Additional relief of RM6,000 for each disabled child aged 18 years and above pursuing tertiary education at local or overseas institutions.

To alleviate the cost of living of a taxpayer with disabilities or taxpayer with a disabled child, it is proposed that the tax relief for each disabled child be increased from RM5,000 to RM6,000.

Effective date : From year of assessment 2015

3. Review of individual relief for purchase of basic supporting equipment for the disabled

Currently, individual taxpayer is given tax relief of up to RM5,000 for the purchase of basic supporting equipment for the use of the disabled taxpayer, spouse, child and parents. Basic supporting equipment includes haemodialysis machine, wheelchair, artificial limbs and hearing aids.

To reduce the cost of living, it is proposed that the relief for purchase of basic supporting equipment for the disabled taxpayer, spouse, child and parents be increased from RM5,000 to a maximum of RM6,000.

Effective date : From year of assessment 2015

Corporate Tax

1. Tax incentive under Investment Account Platform (IAP)

IAP is a new funding model based on syariah principle with the aim to finance projects and venture companies. The objective of IAP is to attract participation from individual and institutional investors to boost development of small and medium enterprises (SMEs) as well as entrepreneurs through a funding system which is efficient, simple and transparent.

To ensure IAP is able to facilitate the provision of funding for the benefit of both parties namely investors and SMEs as well as entrepreneurs through effective projects financing, it is proposed that profit earned by individual investors from investments made through IAP be accorded income tax exemption.

This incentive is subject to the following conditions:

i. Tax exemption shall only be accorded for 3 consecutive years starting from the first year profit is earned;
ii. The investment is made for a period of 3 years starting from the operation date of the IAP;
iii. Tax incentive shall only be accorded for investment activities in Malaysia, in venture companies owned by Malaysian or locally incorporated companies;
iv. Tax exemption shall only be accorded for investments made in SMEs and venture companies in any sectors; and
v. Definition for SMEs is as per the latest definition issued by SME Corporation Malaysia.

Effective date : From the operational date of IAP scheduled to be from 1 September 2015 to 31 August 2018

2. Extension of tax incentive for the issuance of sukuk

Currently, deduction is given on expenses incurred for the issuance of sukuk under the principles of *Mudhrabah, Musyarakah, Ijarah, Istisna', Murabahah, Bai' Bithaman Ajil* based on *tawarruq* and *Wakalah* approved by the Securities Comission or the Labuan Financial Services Authority. This incentive is given from year of assessment 2003 to year of assessment 2015.

To expand the sukuk market at the international level, it is proposed that deduction on the expenses incurred for the issuance of sukuk under the principles of *Ijarah* and *Wakalah* be extended for another 3 years.

Effective date : From year of assessment 2016 to year of assessment 2018

3. Tax incentive for medical tourism

Currently, a company that provides private healthcare facilities services to healthcare traveller is given exemption on income equivalent to Investment Tax Allowance of 100% of qualifying capital expenditure for a period of 5 years. This incentive is given to new companies as well as existing ones engaged in expansion, modernization or refurbishment.

Eligible companies must be:

i. Licensed by the Ministry of Health; and
ii. Registered with the Malaysian Healthcare Travel Council.

Qualified healthcare traveller is as follows:

i. Malaysia My Second Home participant and his dependents;
ii. Expatriate holding a Malaysian work permit and his dependents; or
iii. Non-Malaysian citizen who visits and receives treatment from private healthcare facilities in Malaysia.

This incentive is for applications received by Malaysian Investment Development Authority (MIDA) from 1 January 2010 to 31 December 2014.

In view that Malaysia has the potential to be a hub for medical tourism in the region and to further stimulate its growth, it is proposed that new companies and existing companies engaged in expansion, modernization and refurbishment that provide private healthcare facilities to at least 5% healthcare traveller from their total patients be given exemption on income equivalent to Investment Tax Allowance of 100% of qualifying capital expenditure for a period of 5 years.

Effective date : Applications received by MIDA from 1 January 2015 to 31 December 2017

4. Tax incentive for scholarships

Currently, scholarships awarded by companies to students pursuing diploma or bachelor degree course at higher educational institution are given double deduction. Scholarships eligibility criteria for students are:

i. Malaysian citizen and resident in Malaysia;
ii. pursuing full time course;
iii. have no source of income; and
iv. whose parents or guardian total monthly income does not exceed RM5,000.

Double deduction is given on allowable expenses as follows:

i. Fee on course of study required by higher educational institution; and
ii. Educational aid and cost of living expenses throughout the student's period of study at higher educational institution.

This incentive takes effect from year of assessment 2011 until year of assessment 2016.

To encourage companies to provide scholarships in the field of vocational and technical, it is proposed that the scholarships awarded by the company to Malaysian students studying in the vocational and technical fields in institutions recognised by the Government be given double deduction. Eligibility criteria for the incentives are maintained.

Effective date : From year of assessment 2015 to year of assessment 2016

5. Tax incentive for Structured Internship Programme (SIP)

Currently, the Ministry of Education in collaboration with Talent Corporation Malaysia Berhad (TalentCorp) has implemented a programme called SIP that provides practical experience which emphasizes on the development of specific knowledge or skills, including technical, communication or business skills. The SIP programme has to be approved by TalentCorp. Companies that implement SIP are eligible to claim double deduction on the expenses incurred.

The eligibility criteria for the students and conditions for companies under SIP programme are as follows:

i. The students are Malaysian citizens;
ii. The students are pursuing full-time first degree programme in higher education institution registered with the Ministry of Education;
iii. The students complete the approved internship programme before the completion of final semester of his first degree;
iv. Internship programme is for a minimum period of 10 weeks; and
v. Monthly allowance for the students of not less than RM500.

Double deduction is given on the following allowable expenses:

i. Minimum monthly allowance of not less than RM500;
ii. Expenditure incurred for the provision of training to the students;
iii. Meals, transport and accommodation allowances; and
iv. Payment to the appointed third party to run the SIP programme.

This incentive is effective from year of assessment 2012 until year of assessment 2016.

To encourage companies to extend the SIP programme to full time students pursuing training at the vocational and diploma levels, it is proposed that expenses incurred in implementing SIP programme for students in vocational and diploma courses be given double deduction. The eligibility criteria for students and conditions for the companies under the current SIP programme is to be maintained.

Effective date : From year of assessment 2015 to year of assessment 2016

6. Tax incentive for training

Currently, expenses incurred by a company to send employees for training at approved training institutions are eligible for further deduction subject to:

<u>Manufacturing companies</u>

i. Training programs approved by the Malaysian Investment Development Authority (MIDA); or

ii. Training programs conducted by training institutions approved by the Minister of Finance.

<u>Non-manufacturing companies</u>

i. Training programs approved by the Minister of Finance or any agencies appointed by the Minister of Finance; or

ii. Training programs conducted by training institutions approved by the Minister of Finance.

<u>Companies carrying on hotel or tour operating business</u>

i. Training programs approved by the Minister of Tourism and Culture; or

ii. Training programs conducted by training institutions approved by the Minister of Finance.

Incentives are effective from year of assessment 1991.

Incentives should be provided to employers on training cost incurred to enhance skills, knowledge and qualifications of their employees and thus support the Government's effort to strengthen the development of human capital. It is proposed that further deduction be given on the training expenses incurred by companies for the employees to obtain industry recognized certifications and professional qualifications such as in the field of accounting, finance and project management. Training programs are those approved by agencies appointed by the Minister of Finance.

Effective date : From year of assessment 2015

7. Capital allowance to increase automation in labour intensive industries

The Government will provide incentive in the form of capital allowance on automation expenditure to encourage automation in the manufacturing sector, according to the following categories:

First category : For high labour intensive industries (such as rubber products, plastics, wood, furniture and textiles), an automation capital allowance of 200% will be provided on the first RM4 million expenditure incurred within the period from 2015 to 2017; and

Second category : For other industries, automation capital allowance of 200% will be provided on the first RM2 million expenditure incurred within the period from 2015 to 2020.

8. Instalment payment scheme (Section 107C of the Income Tax Act 1967)

Currently, when an estimate of tax payable for a year of assessment has been furnished to the Director General, that amount shall be paid to the Director General in equal monthly instalments determined according to the number of months in the basis period and each instalment shall be paid by the due date which is the tenth day of a calendar month beginning from the second month (or sixth month for company first commences operation) of the basis period for the year of assessment in respect of which that estimate has been furnished.

It is proposed that the due date to remit the monthly instalments to the IRB be changed to the fifteenth day.

Effective date : 1 January 2015

9. Claim for special allowances for small value assets

Currently, the qualifying plant expenditure for small value assets is not more than RM1,000 and the claim for the special allowances is restricted to a maximum amount of RM10,000 for each year of assessment.

It is proposed that the qualifying plant expenditure and the maximum claim of small value assets be increased to RM1,300 and RM13,000 respectively.

Effective date : From year of assessment 2015 and subsequent years of assessment

Stamp Duty, Goods and Services Tax (GST) and Others

1. Extension of stamp duty exemption for the purchase of first residential property

To encourage home ownership, the Government had provided stamp duty exemptions on the following instruments:

Year	Tax Incentive for Home Ownership	Exemption Period
2008 Budget	50% stamp duty exemption on instrument of transfer for the purchase of residential property priced not exceeding RM250,000.	For sales and purchase agreement (S&P) executed from 8.9.2007 to 31.12.2010.
2009 Budget	50% stamp duty exemption on loan agreement for the purchase of residential property priced not exceeding RM250,000.	For S&P executed from 30.8.2008 to 31.12.2010.
2011 Budget	50% stamp duty exemption on instrument of transfer and loan agreement for the purchase of residential property priced not exceeding RM350,000.	For S&P executed from 1.1.2011 to 31.12.2012.
2013 Budget	50% stamp duty exemption on instrument of transfer and loan agreement for the purchase of first residential property priced not exceeding RM400,000.	For S&P executed from 1.1.2013 to 31.12.2014.

To reduce the cost of ownership of the first residential property and in light of increasing price of residential property, it is proposed that 50% stamp duty exemption on instrument of transfer and loan agreement be extended to the purchase of the first residential property priced not exceeding RM500,000.

The stamp duty exemption is only eligible for Malaysian who has never owned a residential property.

Effective date : For sales and purchase agreement executed from 1 January 2015 to 31 December 2016

2. Implementation of GST

During the announcement of GST in the 2014 Budget, the Government proposed not to impose GST on basic food items and services. Based on the feedback received from all segments of society, the Government agrees to widen the scope of items that will not be subjected to GST as follows:

i. All types of fruits whether local or imported;
ii. White bread and wholemeal bread;
iii. Coffee powder, tea dust and cocoa powder;
iv. Yellow mee, kuey teow, laksa and meehoon;
v. The National Essential Medicine covering almost 2,900 medicine brands. These medicines are used to treat 30 types of diseases including heart failure, diabetes, hypertension, cancer and fertility treatment;
vi. Reading materials such as children's colouring books, exercise and reference books, text books, dictionaries and religious books; and
vii. Newspapers.

In addition, the Government has agreed electricity consumption that is not subject to GST be increased from the first 200 units to 300 units.

To ensure the implementation of GST does not burden the rakyat, the Government has also agreed that the retail sale of RON95 petrol, diesel and LPG be given relief from the payment of GST. Through this measure, consumers and targeted groups will not have to pay GST on the purchase of RON95 petrol, diesel and LPG.

3. Review of withholding rate of Real Property Gains Tax (RPGT) on the disposal of real property

Currently, a fixed rate of 5% of RPGT is imposed on gains from disposal of real property. The tax is collected through a withholding mechanism whereby the purchaser withholds 2% of the purchase value and pays to the Inland Revenue Board.

It is proposed that the withholding rate of 2% be increased to 3%.

Effective date : 1 January 2015

4. Review of RPGT assessment system

Currently, gains from the disposal of property under the RPGT Act 1976 are assessed formally.

In tandem with the Government's aspiration to modernise the tax system, it is proposed that tax on gains from the disposal of property be self-assessed by the taxpayer effective from the year 2016.

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