

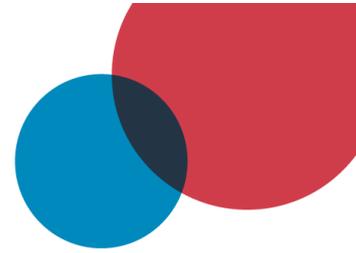


## Highlights

The Malaysian Finance Minister delivered his maiden budget proposals for 2019 on Friday 2 November 2018. Themed “A Resurgent Malaysia, A Dynamic Economy, A Prosperous Society”, measures were introduced to address national debt levels, increase revenue and address the need for prudent spending. Amidst several constraints and headwinds viz: the unprecedented high level of national debt, the substantial erosion of tax revenue due to the repeal of the unpopular GST, the rising prospect of the trade war between the United States of America and China, and the International Monetary Fund’s downward revision of the global economic growth forecast from 3.9% to 3.7%, the task of restoring the nation’s fiscal health is clearly challenging. It is therefore of some surprise that the budget has been somewhat expansionary, standing at RM 314 billion compared to RM290.4 billion in 2018.

The Minister has addressed these challenges with bold action to strengthen fiscal administration coupled with the restructuring and rationalisation of Government debt. Some innovative measures to raise revenue include the leveraging of Government assets including the first ever floating of an Airports REIT. Consistent with the above, Malaysia will be revising downwards its projected GDP growth rate from 5.0-5.5% to 4.8% for 2018 but expects the GDP to continue to grow healthily despite global economic uncertainties in 2019 at 4.9%. The Government deficit is targeted at 3.7% of GDP for 2018 and the Pakatan Harapan administration is committed to maintain a path of fiscal consolidation to achieve a deficit of 3.4% in 2019, 3.0% in 2020 and 2.8% in 2021.

The build up to the 2019 Budget saw quite a bit of discussion on possible new taxes being introduced. Whilst no new taxes have been introduced, new initiatives have been introduced by the Government to expand the scope of service tax, as highlighted below. Apart from those stated below, no other significant tax measures were contained in the Budget proposals. However, this is based only on the Budget speech as the ensuing legislative amendments have not yet been tabled. The legislative amendments would have more details as well as some further administrative changes to the tax laws.

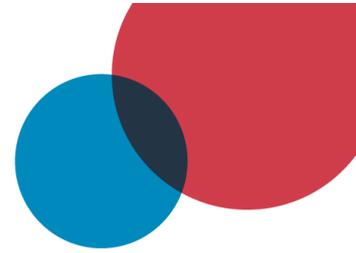


# Corporate Tax

- ❖ Unabsorbed losses and pioneer losses, unutilised capital allowances, reinvestment allowances, investment allowances for the services sector and investment tax allowances can be carried forward up to a **maximum of 7 consecutive years of assessment** with effect from the year of assessment (YA) 2019
- ❖ Review of Group Relief provisions:
  - Surrendering company:
    - Surrendering of losses is only allowed after the **12th month after commencement of operations**
    - Surrendering of losses is **limited up to 3 consecutive YAs**.
  - Claimant companies with **unutilised Investment Tax Allowance or unabsorbed pioneer losses** upon the expiry of its incentive will **not be eligible** to claim group relief.
- ❖ Further deduction on **remuneration paid** by employers to full-time employees who are **senior citizens** above 60 years of age or **ex-convicts** is allowed provided that the employees' monthly remuneration does not exceed RM4,000.
- ❖ Tax deduction for employers who have made payments of Perbadanan Tabung Pendidikan Tinggi Nasional ("PTPTN") loans **on behalf of their full-time employees**, provided that employees are not required to repay the employers in return. This is applicable for payments made between 1 January 2019 and 31 December 2019.
- ❖ The existing tax exemption for **interest earned on wholesale money market funds** will **cease** with effect from 1 January 2019
- ❖ Income tax deductions for **contributions made to any social enterprise** subject to a maximum of 10% of aggregate income of a company or 7% of aggregate income for a person other than a company
- ❖ **Donations to national schools and public institutions of higher learning** registered with the Ministry of Education for the purpose of upgrading infrastructure will be tax exempted starting 1 January 2019
- ❖ **Reduction of corporate tax rate for small medium enterprises (SMEs)** on chargeable income of up to RM500,000 to 17% from 18% effective from YA 2019.

# Incentives

- ❖ **Industry4WRD tax incentives** as follows:
  - Tax deduction on readiness assessment expenses of up to RM27,000 paid to the Malaysian Productivity Corporation
  - Double deduction on qualifying expenses incurred in implementing the Industry4WRD
- Vendor Development Program (capped at RM1 million per year and eligible to be claimed for 3 consecutive YAs)
- Single and double deductions on human capital development expenses incurred in line with the Industry 4.0 requirement.



- ❖ **Extension** of the following incentives:
  - Tax deduction for cost of issuing sukuk under the principles of Ijarah and Wakalah, retail bonds and retail sukuk under the principles of Mudharabah, Musyarakah, Istisna', Murabahah and Bai' Bithaman Ajil based on Tawarruq until YA 2020
  - Period for application of venture capital tax incentives to 31 December 2019
- ❖ Companies already participating in the **Principal Hub** will be subject to a concessionary tax rate of 10% on the overall statutory income related to

Principal Hub activities for a period of 5 years, instead of only enjoying a tax exemption on incremental income

- ❖ Pioneer status incentive of 70% or investment allowance of 60% for 5 years to be granted to companies producing **environmentally friendly plastics** based on bio-resin and biopolymer
- ❖ Expansion of the list of green assets which qualify for the Green Technology Investment Allowance from 9 assets to 40 assets in the MyHijau directory

## Sales and Service Tax

- ❖ Imposition of service tax on **taxable services imported** into Malaysia in phases as follows:
  - Services imported by businesses (business to business – B2B) from 1 January 2019
  - Services imported by consumers (business to consumer – B2C) from 1 January 2020
- ❖ Foreign service providers providing **online services** imported by consumers (e.g. Spotify, Netflix, etc) will be required to register with the Royal Malaysian Customs Department and

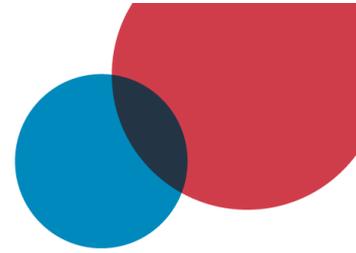
charge and remit the relevant service tax on transactions with effect from 1 January 2020. Such services will include but are not limited to downloaded software, music, video or digital advertising.

- ❖ Exemptions for specific B2B service tax for registered service tax entities
- ❖ Introduction of a credit system for sales tax deduction starting 1 January 2019

## Personal Tax

- ❖ The current tax relief of RM6,000 for **EPF contributions** and payments made for **life insurance premiums or takaful contributions** granted to resident individuals is **increased to RM7,000 and separated** as follows:
  - EPF contributions – up to RM4,000
  - Life insurance premiums or takaful contributions – up to RM3,000

- ❖ Income tax relief on takaful contributions or payment for life insurance premiums for **public servants under the pension scheme** is increased to RM7,000
- ❖ Tax relief for net savings into the **National Education Savings Scheme (“SSPN”)** is increased from RM6,000 to RM8,000 for YAs 2019 to 2020



# Real Property Gains Tax (“RPGT”)

- ❖ RPGT on chargeable gains from the disposal of real properties and shares in real property companies in the 6th and subsequent years of disposal is revised as follows:

Person	Existing Rate	Proposed Rate
Company	5%	10%
Citizen and Permanent Resident Individual	0%	5%
Non-Citizen and Non-Permanent Resident Individual	5%	10%

- ❖ RPGT exemption is given for Malaysian citizens for the disposal of low cost, medium low and affordable residential homes at the price of RM200,000 and below in the 6th and subsequent years of disposal

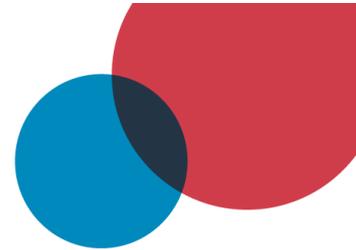
## Others

- ❖ Introduction of a Special Voluntary Disclosure Program (“SVDP”) for taxpayers to voluntarily declare any unreported income for Malaysian tax purposes, including that which is in offshore accounts. SVDP will be offered from 3 November 2018 to 30 June 2019 where taxpayers will be subject to reduced penalty rates as follows:

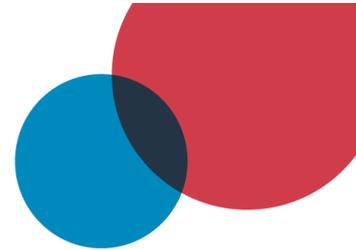
Disclosure Period	Penalty Rate
3 November 2018 – 31 March 2019	10%
1 April 2019 – 30 June 2019	15%
After 30 June 2019	80% - 300%

- ❖ IRB will continue to scrutinise and investigate unexplained extraordinary wealth displayed by possession of luxury goods, jewellery, handbags or property.

- ❖ Departure levy to be imposed for all outbound travellers by air starting 1 June 2019, as follows:
  - Travellers to ASEAN countries – RM20
  - Travellers to countries other than ASEAN – RM40
- ❖ Increase in rate of stamp duty from 3% to 4% for the transfer of real property in excess of RM1 million with effect from 1 January 2019
- ❖ Stamp duty exemption on Perlindungan Tenang insurance policy and takaful certificate with yearly premium/contribution not exceeding RM100 for policies/certificates issued from 1 January 2019 to 31 December 2020.



- ❖ Stamp duty exemption for **first time homebuyers** expanded and extended as follows:
  - 100% stamp duty exemption on the instrument of transfer and the loan agreement for purchase of a first residential home priced up to RM300,000 for a sale and purchase agreement (S&P) executed from 1 January 2019 to 31 December 2020
  - 100% stamp duty exemption is limited to the instrument of transfer for the purchase of a first residential home priced between RM300,001 and RM1 million from any housing developer for a period of 6 months for S&P executed from 1 January 2019 to 30 June 2019; and
  - Stamp duty exemption on the instrument of transfer and the loan agreement for purchase of a first residential home priced between RM300,001 and RM500,000 for S&P executed from 1 July 2019 to 31 December 2020. The stamp duty is fully exempted but is limited to the first RM300,000 of the price of the home. The remaining balance of the price of the home is subject to the prevailing rate of stamp duty.
- ❖ Review of tax treatment of **Labuan** activities
  - Abolishment of election for income tax at the fixed rate of RM20,000. Hence, such companies will be subject to tax at 3%.
  - Transactions conducted in Ringgit Malaysia allowed
  - Transactions between a Labuan entity and a resident of Malaysia allowed
  - Compliance with substance requirements
  - Intellectual property assets held by a Labuan entity to be taxed under the Income Tax Act 1967 (at the normal corporate tax rate)
  - Restriction of tax deduction claimed by a resident who transacts with a Labuan entity to 3% of the allowable expenditure incurred
- ❖ Imposition of excise duty at the rate of RM0.40 per litre on **sugar sweetened beverages** based on the sugar content as follows:
  - Fruit juices and vegetable juices which contains added sugar exceeding 12 grams per 100 millilitres; and
  - Beverages including carbonated drink and other non-alcoholic beverages which contains sugar exceeding 5 grams per 100 millilitres
- ❖ Import duty rate for bicycles falling under the tariff code 8712.00.30.00 (i.e. bicycles other than racing bicycles and bicycles designed to be ridden by children) to be reduced from 25% to 15%.
- ❖ Taxes, fees and levy on the **Gaming Industry** is revised as follows:
  - Casino license increased from RM120 million to RM150 million per annum
  - Casino duties increased up to 35% on gross collection
  - Machine dealer's license to be increased from RM10,000 to RM50,000 per annum
  - Gaming machine duties to be increased from 20% to 30% on gross collection



## Conclusion

The 2019 Budget reflects the Government's commitment to stronger governance, transparency and disciplined fiscal management. The proposals are comprehensive and pragmatic in nature and places strong emphasis on improving the economic well-being of the middle and lower-income groups, in particular the B40 group. From a tax perspective, there were no significant reforms of the tax regime, understandable given the short time frame since the PH government assumed power. Nevertheless, measures have been introduced to tighten obvious leakages in the existing tax regime. This is evident with the increased restriction of group relief provisions and ability to carry forward unabsorbed losses and unutilised allowances. The Tax Reform Committee that has been set up is expected to continue to look into suggesting improvements to the tax system aimed at making it more progressive and effective as well as at reviewing tax incentives with the view of making these more relevant and curtailing leakages.

This Budget should go a long way to support the Government's goal of restoring fiscal health and restore the Malaysian economy as an Asian Tiger.



**BUDGET SEMINAR**  
22 NOVEMBER 2018  
ISTANA HOTEL, KL

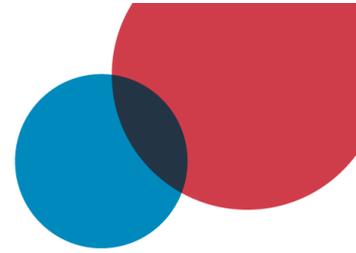
### SEMINAR HIGHLIGHTS

- 2019 Budget Proposals
- Economic Impact of Budget 2019
- Reforming the Malaysian Tax System
- Recent SST Developments
- Case Law Update
- Recent Tax Developments

*Featuring a session by the Director General of Customs*

**For further details, [click here](#)**

**REGISTER NOW!**



---

## Contact Us

### Corporate Tax and Advisory

- ❖ Thang Mee Lee – [mlee@axcelasia.com](mailto:mlee@axcelasia.com)
- ❖ Lim Kah Fan – [lkf@axcelasia.com](mailto:lkf@axcelasia.com)

---

### Transfer Pricing

- ❖ Leow Mui Lee – [lml@axcelasia.com](mailto:lml@axcelasia.com)
- ❖ Sarah Chew – [chl@axcelasia.com](mailto:chl@axcelasia.com)
- ❖ Vivian New – [vnlw@axcelasia.com](mailto:vnlw@axcelasia.com)

---

### Indirect Taxes

- ❖ Dato Peter Tang – [dpt@axcelasia.com](mailto:dpt@axcelasia.com)
- ❖ Brynner Chiam – [bczh@axcelasia.com](mailto:bczh@axcelasia.com)

---

### Individual Tax

- ❖ Thang Mee Lee – [mlee@axcelasia.com](mailto:mlee@axcelasia.com)
- ❖ Shiranee Niles – [smn@axcelasia.com](mailto:smn@axcelasia.com)

---

### Tax Audit and Investigation

- ❖ Lim Kah Fan – [lkf@axcelasia.com](mailto:lkf@axcelasia.com)
- ❖ Thisha Gunasilan – [tg@axcelasia.com](mailto:tg@axcelasia.com)

---

### Knowledge Management

- ❖ Vivian New – [vnlw@axcelasia.com](mailto:vnlw@axcelasia.com)
  - ❖ Shiranee Niles – [smn@axcelasia.com](mailto:smn@axcelasia.com)
-