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Tax Espresso
(Special Edition Budget 2017)
A snappy delight

Greetings from Deloitte Malaysia Tax Services

The Prime Minister and Minister of Finance, Y.A.B. Dato' Seri Mohd. Najib Tun Razak, unveiled the Budget 2017 on 21 October 2016. The budget is unveiled during a period of continuous challenges facing the economy - uncertain direction of oil and commodity prices, depreciation of Ringgit, net outflow of foreign funds, etc. In order to navigate the myriad of challenges and ensure that the economy remains in the trajectory of becoming a high-income advanced economy, it is imperative for the Budget 2017 to be designed not only to address short term issues but also long term and sustainable growth. At RM260.8 billion, the sum allocated for Budget 2017 is 3.4% higher than

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Inland Revenue Board

Takeaways:
Highlights in Budget 2017

Upcoming events
Deloitte TaxMax – The 42nd Series One World Hotel 8 November 2016

Important deadlines:

Due date for 2017 tax estimates for companies with November year-end (31 October 2016)

6th month revision of tax estimates for companies with April year-end (31 October 2016) that during the Budget 2016 Recalibration. Other salient features of the Budget 2017 are as follows:-

1. RM214.8 billion is allocated for Operating Expenditure, while RM46 billion for Development Expenditure. This does not include contingencies which amounts to RM2 billion.
2. Under the Operating Expenditure, a total of RM77.4 billion is for Emolument, RM32 billion for Supplies and Services, RM103.9 billion for Fixed Charges and Grants, RM691 million for Purchase of Assets and RM816.6 million for Other Expenditures.
3. Under the Development Expenditure, the economic sector will receive the highest share at RM25.9 billion followed by the social sector with RM12.2 billion. The security sector will be allocated RM5.3 billion and the general administration more than RM2.5 billion.
4. The revenue collection in 2017 is expected to expand at around 3% to RM219.7 billion.
5. The Government is expected to achieve the fiscal deficit target of 3% of GDP in 2017, compared with 3.1% this year.

In Budget 2017, construction, property, manufacturing, and tourism sector are some of the beneficiaries. The construction and property sectors should be spurred further given the substantial allocation for infrastructure and affordable homes. The extended tax incentive for the new 4 and 5 star hotels will boost the tourism sector. However, overall, there may not be sufficient focus given to double down

9th month revision of tax estimates for companies with January year-end
(31 October 2016)

Statutory filing of 2016 tax returns for companies with March year-end
(31 October 2016)

the investment on the 12 National Key Economic Areas (NKEAs) that have the impact of transforming our economy. It appears that the limited budget allocations were "peanut buttered" across all sectors, geographies and income groups. Hence, the desired impact on our economy that is needed as we journey towards a high income nation may not be fully achieved.

Following our executive summary, we bring you herewith some of the salient tax centric proposals of Budget 2017:

Corporate Tax

Proposals	Description
Review of corporate income tax rate for Small and Medium Enterprises ("SME")	It is proposed that the corporate income tax rate of SME on chargeable income up to the first RM500,000 be reduced from 19% to 18%. Effective: Year of assessment 2017
Reduction of corporate income tax based on the increase in chargeable income	The following companies and entities are taxed at a fixed rate of 24%: 1. Company with paid-up capital of more than RM2.5 million or a Limited Liability Partnership (LLP) with total capital contribution of more than RM2.5 million; 2. Company with paid-up capital of up to RM2.5 million or a LLP with total capital contribution of up to RM2.5 million on the chargeable income exceeding RM500,000; 3. Trust body; and 4. Executor of an estate of an individual who was domiciled outside Malaysia at a time

	of his death and receiver appointed by the court. It is proposed that the incremental portion of the chargeable income compared to the immediate preceding year of assessment enjoys reduced income tax rate as follows:

% of increase in chargeable income as compared to the immediate preceding year of assessment	Percentage point reduction in tax rate	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

For example, if the chargeable income of a company (a non-SME) is increased from RM10 million for year of assessment 2016 to RM12 million for year of assessment 2017 (i.e. 20% of increase), the income tax payable for year of assessment 2017 will be as follows:

Chargeable Income (RM)	Tax rate (%)	Tax Payable (RM)
10 million	24	2,400,000.00
2 million	20	400,000.00
Total		**2,800,000.00**

Effective: Years of assessment 2017 and 2018

Increase in the limit of tax deduction for sponsoring arts,	The deduction limit for expenditure incurred by a company in a basis period to sponsor arts, cultural or heritage activities approved by the Ministry of Tourism and Culture is to be increased from RM500,000 to RM700,000

cultural and heritage activities	of which the deduction limit for sponsorship of foreign arts, cultural or heritage activities is to be increased from RM200,000 to RM300,000. Effective: Year of assessment 2017

Individual Tax

Proposals	Description
Tax Relief for Lifestyle	The existing tax reliefs for the purchase of reading materials, computers and sports equipment are now combined into a new relief known as the lifestyle tax relief which is limited to RM2,500 per year. This relief is extended to include purchase of printed newspapers, smartphones and tablets, internet subscriptions as well as gymnasium membership fees. Effective: Year of assessment 2017
Tax relief for fees paid to child care centres and kindergartens	It is proposed that a new tax relief of up to RM1,000 be provided to individual taxpayers (claimed by either parent of the children) who enrol 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. Effective: Year of assessment 2017
Tax relief for the purchase of breastfeeding equipment	It is proposed that a new tax relief of up to RM1,000 be provided for the purchase of breastfeeding equipment (complete set or separate parts) consisting of manual or electric breast pump, cooler bag, containers for collection and storage.

	This relief which can be claimed once in 2 years is given to women taxpayers with children aged up to 2 years. Effective: Year of assessment 2017

Tax Incentives

Proposals	Description
Extension of tax incentive for anchor companies under the Vendor Development Programme (VDP)	Currently, anchor companies that develop local vendors under the VDP and have signed the Memorandum of Understanding (MoU) with the Ministry of International Trade and Industry (MITI) from 1 January 2014 to 31 December 2016 are given double deduction for the following operating expenses: (a) cost of product development, R&D, innovation and quality improvement; (b) cost of obtaining ISO/Kaizen/5S certifications, evaluation programme and business process reengineering for the purpose of increasing vendor capabilities; and (c) cost of vendor skills training, capacity building, lean management system and financial management system. The qualifying criteria for double deduction are as follows: (a) the qualifying operating expenses must be certified by MITI before the anchor companies can claim deduction; (b) qualifying operating expenses are capped at RM300,000 per year; and (c) deduction is given for 3 years of assessment. 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: For MoUs signed with MITI from 1 January 2017 to 31 December 2020.
Extension of the period and expansion of scope of double deduction incentive for the Structured Internship Programme (SIP)	Currently, companies that participate in SIP approved by 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 recognized by Malaysian Qualifications Agency or Department of Skills Development as follows: (a) Degree level – from years of assessment 2012 to 2016; and (b) Diploma and vocational level – from years of assessments 2015 to 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. It is also proposed that this programme be expanded to include Malaysian students pursuing full-time vocational level (Malaysian Skills Certificate Level 3). Effective: Years of assessment 2017 to 2019.
Extension of tax incentives for new	The following tax incentives available to companies undertaking investments in new 4 and 5 star hotels and for applications received

<table>
<tr>
<td>4 and 5 star hotels</td>
<td>by the Malaysian Investment Development Authority by 31 December 2016 will be extended for another 2 years:
<table>
<tr><th>Location</th><th>Incentives</th></tr>
<tr><td>Peninsular Malaysia</td><td>(a) Pioneer status: 70% exemption on 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 to be set-off against statutory income of up to 70%.</td></tr>
<tr><td>Sabah and Sarawak</td><td>(a) Pioneer status: 100% exemption on 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 to be set-off against statutory income of up to 100%.</td></tr>
</table>

Effective: For applications received by Malaysian Investment Development Authority from 1 January 2017 to 31 December 2018</td>
</tr>
<tr>
<td>Expansion of the scope of halal products eligible for tax incentive</td>
<td>The existing tax incentives of income tax exemption, import duty exemption on raw materials and double deduction on expenses incurred in obtaining international quality standards certification are to be extended to Halal Industry Players operating in Halal Parks and involved in the production of nutraceutical and probiotic products.</td>
</tr>
</table>

	Effective: For applications received by Halal Industry Development Corporation from 22 October 2016
Extension of Income Tax and Stamp Duty Exemptions for Islamic Banking and Takaful Businesses	a) The tax exemption on statutory income received by Islamic banks licensed under 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 which is effective from year of assessment 2007 until year of assessment 2016 is extended for another 4 years. Effective: Years of assessment 2017 to 2020 b) The tax exemption on statutory income received by takaful companies and takaful unit licensed under the Islamic Financial Services Act 2013 and Financial Services Act 2013 operating takaful business transacted in foreign currencies including transactions with Malaysian residents which is effective from year of assessment 2007 until year of assessment 2016 is extended for another 4 years. Effective: Years of assessment 2017 to 2020 c) The stamp duty exemption on all instruments executed until 31 December 2016 pertaining to Islamic banking and takaful activities transacted in foreign currencies is extended for another 4 years. Effective: For instruments executed from 1 January 2017 to 31 December 2020

Tax Administration

Proposals	Description
Establishment of the Collection Intelligence Arrangement	The establishment of the Collection Intelligence Arrangement under the Ministry of Finance will involve the Malaysian Inland Revenue Board, the Royal Malaysian Customs Department and the Companies Commission of Malaysia. Under this arrangement, these agencies will share data to enhance efficiency in tax collection and compliance.

Goods and Services Tax

Proposals	Description
Review of GST relief for disabled persons	GST relief for the purchase of equipment specially designed for disabled persons is extended to registered persons with disabilities (OKU card holders) who are not members of Private Charitable Entities (PCE). The approved equipment has to be purchased from suppliers designated by the Social Welfare Department. The list of approved equipment has also been widened to include 20 additional items, e.g. Callipers, Braille display, etc. Effective: 1 January 2017
Review of GST treatment for Free Zones	To streamline the GST treatment of free zones, which consist of Free Industrial Zone (FIZ) and Free Commercial Zone (FCZ), it is proposed that GST is not due and payable in the following circumstances: i. Supply and removal of goods made within and between FCZ; ii. Goods imported into the FIZ;

	iii. Supply and removal of goods made within and between FIZ; iv. Supply and removal of goods made between FCZ and FIZ; v. Removal of goods from free zone to the Designated Area i.e. Langkawi, Labuan and Tioman, or, vice versa; and vi. Removal of goods from free zone to an approved warehouse under the Warehousing Scheme, or, vice versa. The above GST treatment shall not be applicable to the following supplies: i. Goods as prescribed under the Free Zones (Exclusion of Goods and Services) Order 1998; ii. Goods as prescribed under the Goods and Services Tax (Imposition of Tax for Supplies in Respect of Designated Areas) Order 2014; and iii. Any other goods as prescribed by the Minister of Finance. Effective: 1 January 2017
Review of GST treatment under the Warehousing Scheme	No GST is to be charged on goods from the Principal Customs Area* (PCA) and Free Industrial Zone (FIZ), that are deposited into and supplied within or between the approved warehouses under the Warehousing Scheme. * For this purpose, PCA consists of Licensed Manufacturing Warehouse (LMW) and Excise Warehouse only. Effective: 1 January 2017
Recent announcement by RMCD **Imposition of Compound on**	Registrants are given until 31 October 2016 to settle outstanding tax for the year 2015, failing which a compound up to the maximum amount of RM20,000 will be imposed.

outstanding GST payments	For year 2016 outstanding tax, if the outstanding amount is paid by 31 December 2016, a reduction in the amount of compound will be given. However, compound up to the maximum amount of RM25,000 will be imposed if the outstanding tax is paid after 31 December 2016.

Stamp duty

<table>
<tr><th>Proposals</th><th>Description</th></tr>
<tr><td>Extension of stamp duty exemption for the purchase of first residential home</td><td>Currently, the following stamp duty exemptions are available for the purchase of first residential home:
<table>
<tr><th>Stamp duty exemption</th><th>Exemption period</th></tr>
<tr><td>100% stamp duty exemption on loan agreement for the purchase of home priced not exceeding RM300,000 under Perumahan Rakyat 1Malaysia (PR1MA) programme</td><td>Sale and purchase agreement (S&P) executed from 1 January 2012 to 31 December 2016</td></tr>
<tr><td>50% stamp duty exemption on instrument of transfer and loan agreement for the purchase of first home priced not exceeding RM500,000</td><td>S&P executed from 1 January 2015 to 31 December 2016</td></tr>
</table>

To further reduce the cost of ownership of first home, it is proposed that the stamp duty exemption be given as follows:
<table>
<tr><th>Property price</th><th>Stamp duty exemption</th></tr>
<tr><td>RM300,000 and below</td><td>100% stamp duty exemption on instrument of transfer and loan agreement</td></tr>
</table>
</td></tr>
</table>

RM300,001 to RM500,000	100% stamp duty exemption on instrument of transfer and loan agreement for value of the home up to RM300,000. The remaining value of the home is subject to the prevailing rate of stamp duty.
More than RM500,000	Not applicable

Effective: For S&P executed from 1 January 2017 to 31 December 2018.

Revision in stamp duty rates for transfer of real estate	It is proposed that the stamp duty rate will be increased from 3% to 4% on the instruments of transfer of real estate valued more than RM1 million. It remains to be seen whether the above increase in the stamp duty rate would also be applicable to other “properties” such as goodwill and debtors. Effective: 1 January 2018

We invite you to explore other tax related information at:
http://www2.deloitte.com/my/en/services/tax.html

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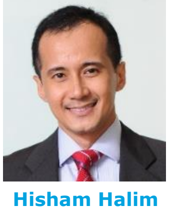
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