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Tax Flash

October 2013 (Special Edition)

2014 Budget Highlights

Executive Summary

13th General Election : News of the past
Political Party Election : Kindly move over

Here comes the most discussed and debatable topic for the man-on-the street and in most coffee shops nationwide for at least the last and the next two weeks to come, 2014 Budget!

With the global economy still struggling to get back onto its feet, the impact of the recent government shutdown in the United States and in light of the recent downgrade of the country's rating by Fitch Rating, it will be a daunting task for the government recently elected by the people to provide measurements to balance between strengthening the country's fiscal credibility and maintaining the social responsibility for the *rakyat*, especially after the grunts from the cut in fuel subsidies.

Beginning with the launch of a dedicated platform for the *rakyat* to come forward with their views for the 2014 Budget on 26th August 2013, it does come as a bittersweet surprise that the post-election 2014 Budget announced by our honourable Prime Minister cum Minister of Finance, Y.A.B. Dato' Sri Mohd Najib Tun Haji Abdul Razak on 25th October 2013 comprises many ambitious yet sensible proposals after receiving overwhelming response to the wish lists of many taxpayers. Whether it is a sweetener despite the cut in sugar subsidies, we shall let you form your opinions.

"Strengthening Economic Resilience, Accelerating Transformation And Fulfilling Promises", the theme for 2014 Budget shall be keenly watched for a number of reasons as it outlines 5 main thrusts:-

1. Invigorating Economic Activity
2. Strengthening Fiscal Management
3. Inculcating Excellence in Human Capital
4. Intensifying Urban and Rural Development
5. Ensuring Well-Being of the *Rakyat*

Here, we look at some of the highlights of the 2014 Budget.

Hyperlinks

Advent Consulting Group
Inland Revenue Board

References

2014 Budget Speech
Appendices to Budget Speech

Event

2014 Budget Seminar

Goods and Services Tax

The hottest item of 2014 Budget.

After an absent of 8 years since it was first proposed in 2005 Budget, Goods and Services Tax is making a comeback and this time, it is for real. With continuous detailed and comprehensive studies, the Goods and Services Tax rate of 6% which is among the lowest within ASEAN countries shall be in force comes 1st April 2015. The implementation of Goods and Services Tax will see the Sales Tax and Service Tax which were introduced in 1972 and 1975 respectively be abolished.

Being a more comprehensive tax system, Goods and Services Tax will be charged on goods and services at all levels starting from production, manufacturing, wholesale and retail. However, basic food items and certain essential services are exempted from Goods and Services Tax.

It comes as no surprise that Goods and Services Tax is finally being implemented. In fact, it has been predicted in previous budgets with gradual indications ranging from reduction in tax rates, enhancing investment and productivity activities to providing subsidies to the *rakyat*. And, during this transition period, various assistance and support will be provided to ensure that all parties are able to adapt and be confident with the new tax system.

Reduction in Tax Rates

Struggling with the increase in cost of living and global uncertainties, the prayers and wishes of taxpayers are being materialised. Taxpayers could breathe a sigh of relieve for now with the reduction in tax rates.

With the enforcement of Goods and Services Tax, both resident and non-resident individuals will enjoy reduction in the tax rates between 1% to 3% whilst the chargeable income band has been broaden from RM100,000 to RM400,000 with effect from the year of assessment 2015. Similarly, the tax rates for co-operative society will be reduced by 1% to 2% on chargeable income exceeding RM150,000 whereas companies will be enjoying a reduced tax rate by 1% with effect from the year of assessment 2016.

Monthly Tax Deductions as Final Tax

Cheers for making Monthly Tax Deductions a final tax. It is a pleasant surprise that the current Monthly Tax Deductions for taxpayers with a single source of employment income becomes a final tax system which is equivalent to pay-as-you-earn from the year of assessment 2014 onwards.

Such move should be welcomed as it enhances the accuracy in calculating the amount to be deducted and reduce the mad rush during the month of April each year. Many within the workforce would be happy to hear the proposal as this would mean headache less for them.

Increase in Real Property Gains Tax Rates

With no luck in the last few budgets to effectively curb the speculative activities of real property market and to address the issue of affordable home, especially the low and middle income earners searching for houses of their own, the effective Real Property Gains Tax rates will yet again be raised to tax capital gains from disposal of real properties and shares in real property company. Commencing 1st January 2014, the following amendments to the Real Property Gains Tax rates for disposal of real properties and shares in real property company have been proposed:-

	Proposed Real Property Gains Tax Rates		
Disposal	**Companies**	**Individuals (Citizens and Permanent Residents)**	**Individuals (Non-Citizens)**
Within 3 years	30%	30%	30%
In the 4th year	20%	20%	30%
In the 5th year	15%	15%	30%
In the 6th year or thereafter	5%	0%	5%

In addition, the minimum price of property that can be purchased by non-citizens has been increased from RM500,000 to RM1,000,000.

Tax Incentives and Deductions

It has been proposed that pioneer status or investment tax allowance for investors undertaking new investments in 4-star and 5-star hotels in Peninsular Malaysia, Sabah and Sarawak be extended for another 3 years in conjunction with Visit Malaysia Year 2014.

Employers are given double deduction on the difference between the original salary and the minimum wages to ensure a smooth implementation of the minimum wages policy. In addition, double deduction is also granted on expenses incurred for training and consultation in relation to the implementation of “Flexible Work Arrangements”.

With Goods and Services Tax making its debut, expenses incurred for Goods and Services Tax related training in accounting and Information and Communication Technology are being given double deduction. A claim for Accelerated Capital Allowance on cost of Information and Communication Technology equipment and software is also being extended. And after a long period of lobbying, secretarial and tax filing fees are finally seeing the light at the end of the tunnel, deductible from the year of assessment 2015 onwards.

Conclusion

In the wake of a challenging external economic environment while looking into the needs of the *rakyat* affected by the subsidy cuts, 2014 Budget tabled in the *Dewan Rakyat* can be considered as a mild Budget. While it addresses the concerns on cost of living, housing and urban living, healthcare, public safety and other issues close to the hearts of the *rakyat*, it also juggles to reduce deficit expenditure to ensure sovereign over its fiscal credibility.

2014 Budget sets out to be a crucial blueprint for the future in achieving Vision 2020. While the implementation of Goods and Services Tax and the rationalisation in subsidy may take a less popular stance, there are some who lauded for it as well. To what extent will it impact to all of us remain to be seen and with approximately 17 months to go, let the countdown begin.

We have summarised the key amendments outlined in the 2014 Budget into the following broad categories:-

A. Income Tax – Changes Affecting Individuals
B. Income Tax – Changes Affecting Companies and Unincorporated Businesses
C. Investment Incentives
D. Real Property Gains Tax
E. Stamp Duty
F. Indirect Taxes
G. Others

However, due to the unavailability of the Finance Bill 2013 at the time of publication, we will update you on any further amendments affecting the above areas in due course.

A. Income Tax – Changes Affecting Individuals

1. Reduction in Individual Tax Rates

- Tax rates for resident individuals be reduced by 1% to 3% for chargeable income bands from RM5,001 onwards
- Chargeable income band currently subject to maximum tax rate be broaden from RM100,000 to RM400,000 with reduced tax rates
- A comparison is as shown below:-

Chargeable Income RM	**Current Tax Rates %**	**Proposed Tax Rates %**
5,001 – 20,000	2	1
20,001 – 35,000	6	5
35,001 – 50,000	11	10
50,001 – 70,000	19	16
70,001 – 100,000	24	21
100,001 – 250,000	26	24
250,001 – 400,000	26	24.5
Exceeding 400,000	26	25

- Tax rates for non-resident individuals be reduced from 26% to 25%
- Effective year of assessment ["YA"] 2015

2. MTD as Final Tax

- Employees with total income tax equivalent to Monthly Tax Deductions ["MTD"] be exempted from filing of annual tax returns
- Applicable to employees:-
  - o who receive employment income prescribed under Section 13 of the Income Tax Act 1967;
  - o whose MTD are made in accordance to the Income Tax (Deduction from Remuneration) Rules 1994; and
  - o serving under the same employer for a period of 12 months in a calendar year
- Effective YA 2014

3. Relief for Middle Income Taxpayers

- Special relief of RM2,000 be given to resident individuals with monthly earnings up to RM8,000 (aggregate income up to RM96,000 a year)
- For YA 2013

B. Income Tax – Changes Affecting Companies and Unincorporated Businesses

1. Reduction in Tax Rates for Companies etc

- Tax rate be reduced from 25% to 24% for the following entities:-
  - a company;
  - a trust body;
  - an executor of an estate of an individual who was domiciled outside Malaysia at the time of his death;
  - a receiver appointed by the court; and
  - a limited liability partnership
- For a company with paid-up capital of up to RM2.5 million i.e. Small and Medium Enterprise, tax rates be reduced from:-
  - 20% to 19% on chargeable income up to RM500,000; and
  - 25% to 24% on chargeable income exceeding RM500,000
- Effective YA 2016

2. Reduction in Tax Rates for Co-operative Society

- Tax rates for co-operative society be reduced by 1% to 2% for chargeable income exceeding RM150,000
- A comparison is as shown below:-

Chargeable Income RM	Current Tax Rates %	Proposed Tax Rates %
150,001 – 250,000	20	18
250,001 – 500,000	22	21
500,001 – 750,000	24	23
Exceeding 750,000	25	24

- Effective YA 2015

3. Double Deduction for Implementation of Minimum Wages

- Employers be required to pay their employees minimum wages of RM900 per month in Peninsular Malaysia and RM800 in Sabah, Sarawak and Labuan
- Double deduction be given to employers on the difference between the original salary and the minimum wages paid to their employees
- Effective 1st January 2014 to 31st December 2014

4. Deduction for Secretarial and Tax Filing Fees

- Secretarial fee and tax filing fee of up to RM5,000 and RM10,000 respectively be given tax deduction
- Effective YA 2015

5. Review of ACA for ICT Equipment

- The existing accelerated capital allowance ["ACA"] of 100% claimable on qualifying expenditure incurred on information and communication technology ["ICT"] equipment be extended for another 3 years to YA 2016
- Effective up to YA 2016

6. Double Deduction on Expenses Incurred by Anchor Companies under VDP

- Double deduction be given on operating and development expenses incurred by anchor companies under the Vendor Development Programme ["VDP"] to develop local vendors
- Qualifying expenses:-
  - o Cost of product development, research and development, innovation and quality improvement;
  - o Cost of obtaining ISO/Kaizen/5S certifications, evaluation programmes and business process reengineering exercises for the purpose of increasing vendor capabilities; and
  - o Cost of vendor skills training, capacity building, lean management systems and financial management systems
- Conditions:-
  - o Anchor companies are required to sign a Memorandum of Understanding ["MOU"] with the Ministry of International Trade and Industry ["MITI"] on VDP;
  - o Qualifying expenses must be certified by MITI prior to the claim for deduction;
  - o Qualifying expenses eligible for deduction is restricted to RM300,000 per year; and
  - o Double deduction is given for 3 years of assessment
- Effective for MOUs signed by anchor companies with MITI between 1st January 2014 to 31st December 2016

7. Extension of Incentives Under the Green Lane Policy Programme

- The following incentives under the Green Lane Policy Programme given to SME be extended to applications submitted to the Ministry of Finance ["MOF"] on or before 31st December 2017:-
  - o Interest subsidy of 2% per year subject to a maximum of RM200,000 per year or accumulated amount of RM1,000,000 for a period of 5 years
  - o Stamp duty exemption on loan agreements under the soft loan incentive scheme
  - o Deduction for expenses incurred in obtaining first 1-InnoCERT certification
  - o Government procurement incentive
    - Approved as registered manufacturing company without on-site inspection
    - Bonus marks be awarded for technical evaluation
    - Priority in participating in procurement exercise by MOF Incorporated Companies
- Effective for applications received by MOF on or before 31st December 2017

8. Double Deduction for Implementation of FWA

- Companies obtaining Flexible Work Arrangements ["FWA"] status from Talent Corporation Malaysia Berhad be given double deduction on the expenses incurred for training of employees and consultancy fees for designing an appropriate FWA
- Eligible expenses include costs for training in:-
  - optimising a work-life balance;
  - technology orientation;
  - managing a flexible workforce; and
  - helping managers embrace flexible work alternatives
- The above tax incentive be given for a period of 3 years of assessment
- Effective for application received by Talent Corporation Malaysia Berhad from 1st January 2014 to 31st December 2016

9. Double Deduction for Expenses Incurred on GST Related Training

- Employers be given double deduction on the expenses incurred for Goods and Services Tax ["GST"] related training of employees in accounting and ICT
- Effective YA 2014 and YA 2015

C. Investment Incentives

1. Extension of Tax Incentives for New 4-Star and 5-Star Hotels in Peninsular Malaysia, Sabah and Sarawak

- The following tax incentives currently given to investors undertaking new investments in 4-star and 5-star hotels be extended for another 3 years until 31st December 2016:-
  - Peninsular Malaysia
    - Pioneer Status ["PS"] with income tax exemption of 70% of statutory income for a period of 5 years; or
    - Investment Tax Allowance ["ITA"] of 60% on the qualifying expenditure incurred within a period of 5 years to be set off against 70% of statutory income for each year of assessment
  - Sabah and Sarawak
    - PS with income tax exemption of 100% of statutory income for a period of 5 years; or
    - ITA of 100% on the qualifying expenditure incurred within a period of 5 years to be set off against 100% of statutory income for each year of assessment
- Effective for applications received by the Malaysian Investment Development Authority on or before 31st December 2016

2. Tax Incentives for R&D for the Development of Bioeconomy

- The following tax incentives be given for viable projects to encourage the development of Bioeconomy:-
  - Tax deduction for companies that invest to acquire technology platform in bio-based industry
  - Import duty exemption on research and development ["R&D"] equipment for investment in pilot plants for the purpose of pre-commercialisation in Malaysia
  - A special incentive for companies to partially cover the operational cost for human capital development for Centre of Excellence for R&D
- Effective for applications received by Malaysian Biotechnology Corporation Sdn Bhd from 1st January 2014 to 31st December 2018

3. New Tax Incentives for Green Technology

- The following tax incentives be given to encourage the development of green technology:-
  - ITA on the purchase of green technology equipment; and
  - Income tax exemption on the use of green technology services and system
- Effective date of this proposal is unknown, pending the gazette of the relevant legislations

D. Real Property Gains Tax

1. Review of RPGT Rates

- Real Property Gains Tax ["RPGT"] rates on the gains from disposal of all chargeable assets (including shares in a real property company) be revised to:-

Disposal	Proposed RPGT Rates		
	Companies	**Individuals (Citizens and Permanent Residents)**	**Individuals (Non-Citizens)**
Within 3 years	30%	30%	30%
In the 4th year	20%	20%	30%
In the 5th year	15%	15%	30%
In the 6th year or thereafter	5%	0%	5%

- Effective for disposal from 1st January 2014

E. Stamp Duty

1. Stamp Duty Exemption under the Green Lane Policy Programme

- Please refer to B7 above

F. Indirect Taxes

1. Implementation of GST

- The present sales tax and service tax be abolished and replaced by a broad based consumption tax based on the value-added concept known as the Goods and Services Tax or GST
- The GST rate is fixed at 6%
- Compulsory for businesses to register for GST when their annual sales reach RM500,000 or more. Businesses below the threshold are not required to be registered but may register on a voluntary basis
- Scope of chargeability of GST:-
  - goods and services at all levels starting from production, manufacture, wholesale and retail
  - goods and services supplied within Malaysia or imported into Malaysia
- Scope of non-chargeability of GST:-
  - supplies made by the Federal and State Government departments (except for certain services prescribed by MOF)
  - supplies made by the local authorities and statutory bodies in relation to regulatory and enforcement functions
- GST charged on all business inputs such as capital assets and raw materials is known as "input tax"
- GST charged on all supplies made (sales) is known as "output tax"
- The input tax incurred by eligible businesses is fully recoverable from the Government through the input tax credit mechanism

Zero-rated Supply

- "Zero-rated supply" is defined as goods and services sold by businesses which are chargeable to GST at zero rate. GST paid on the inputs for business of zero-rated supply can be claimed as credits from the Government
- Examples of goods and services subject to GST at zero rate are basic food items, supply of treated water to domestic consumers, supply of first 200 units of electricity to domestic household and etc.

Exempt Supply

- "Exempt supply" is defined as goods and services sold by businesses which are exempted from GST. GST paid on the inputs cannot be claimed as credits from the Government
- Examples of goods and services exempted from GST are transportation of passengers, tolled highway, sale, purchase and rental of residential properties, education by private school, childcare, private healthcare services, selected financial services and etc.
- Effective 1st April 2015

2. Import Duty Exemption for R&D for the Development of Bioeconomy

- Please refer to C2 above

G. Others

1. Enhancing 1Malaysia Pension Scheme ["SP1M"]

- Government contribution be increased from 5% to 10% or from a maximum of RM60 to RM120 per year
- Effective 1st January 2014 to 31st December 2017

2. Promoting PRS

- One-off payment of RM500 be given by the Government to contributors of Private Retirement Scheme ["PRS"] aged between 20 and 30 years with a minimum cumulative investment of RM1,000 within a year
- Effective 1st January 2014 to 31st December 2018

3. Review of Threshold Applicable to Foreigners on Acquisition of Properties

- Minimum price of property that can be purchased by foreigners be increased from RM500,000 to RM1,000,000

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