

## **LIST OF APPENDICES**

- APPENDIX 1** : Extension of Tax Incentives For New 4 & 5 Star Hotels
- APPENDIX 2** : Tax Incentive For Implementation of Minimum Wages
- APPENDIX 3** : Monthly Tax Deduction As Final Tax
- APPENDIX 4** : Tax Incentive For Flexible Work Arrangements
- APPENDIX 5** : Tax Incentive For Anchor Companies Under Vendor Development Programme
- APPENDIX 6** : Review of Real Property Gains Tax
- APPENDIX 7** : Relief For Middle Income Tax Payers
- APPENDIX 8** : Extension of Accelerated Capital Allowance on Information Technology and Communication Equipment
- APPENDIX 9** : Goods And Services Tax Model
- APPENDIX 10** : Review of Individual Income Tax
- APPENDIX 11** : Review of Corporate Income Tax
- APPENDIX 12** : Review of Co-Operative Income Tax
- APPENDIX 13** : Tax Incentive Package In Line With GST Implementation

**EXTENSION OF TAX INCENTIVES  
FOR NEW 4 & 5 STAR HOTELS**

**Current Position**

Hotel operators undertaking new investments in 4 & 5 star hotels are given the following tax incentives:

**A. Peninsular Malaysia:**

**i. Pioneer Status**

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

**ii. 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 70% of statutory income for each year of assessment.

The above incentives are for applications received by Malaysian Investment Development Authority (MIDA) from 8 October 2011 until 31 December 2013.

**B. Sabah and Sarawak:**

**i. Pioneer Status**

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

**ii. 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 100% of statutory income for each year of assessment.

The above incentives are for applications received by Malaysian Investment Development Authority (MIDA) from 30 August 2008 until 31 December 2013.

## **Proposal**

In conjunction with the Visit Malaysia Year 2014 and to provide adequate international standard accommodation especially to cater for luxury and high spending tourists as well as to increase the facilities for meeting, incentive, convention and exhibition (MICE) activities, it is proposed that Pioneer Status or Investment Tax Allowance for new investments in 4 & 5 star hotels in Peninsular Malaysia, Sabah and Sarawak be extended.

## **Effective Date**

Applications received by Malaysian Investment Development Authority (MIDA) from 1 January 2014 to 31 December 2016.

## TAX INCENTIVE FOR IMPLEMENTATION OF MINIMUM WAGES

### **Current Position**

The minimum wages policy requires employers to pay their employees a minimum wages of RM900 per month in Peninsular Malaysia and RM800 in Sabah, Sarawak and Labuan. Under the minimum wages policy, all enterprises including professional firms are required to pay a minimum wages to local and foreign employees, except those classified as domestic workers.

Wages paid by employers to their employees are eligible for deduction for the purpose of income tax computation.

### **Proposal**

To ensure the smooth implementation of the minimum wages policy, it is proposed that the difference between the original salary and the minimum wages paid by SMEs, cooperatives, associations and organizations employers be given further deduction.

### **Effective Date**

The incentive is given for a period of one year from 1 January 2014 to 31 December 2014.

## MONTHLY TAX DEDUCTION AS FINAL TAX

### Current Position

Monthly Tax Deduction (MTD) is a mechanism to deduct monthly tax payments on employment income received by employees in the current year. Employers are responsible to remit MTD to Inland Revenue Board (IRB) every month as provided under the Income Tax (Deduction from Remuneration) Rules 1994.

Employers are required to make MTD payments after deducting personal relief, relief for spouse with no income, child relief and *zakat* payment through employee salary deductions. In addition, employees may request their employers to deduct other reliefs such as contribution to the Employee Provident Fund so that the MTD payments are equal to the total final tax payable.

Employees for whom income tax has been deducted through the MTD are required to submit tax returns to IRB on or before 30th April in the following year. The submission of tax returns burdens the employees with the need to re-compute income tax which may be equivalent to the MTD made by the employer.

### Proposal

To facilitate employees whose total income tax is equivalent to the amount of MTD, it is proposed that such tax payers no longer need to submit tax returns. This would render that the amount of MTD is the final tax paid.

The proposal is only applicable to:

- i. employees who receive employment income prescribed under section 13 of the Income Tax Act 1967;
- ii. employees whose MTD are made under the Income Tax (Deduction from Remuneration) Rules 1994; and

- iii. employees serving under the same employer for a period of 12 months in a calendar year.

**Effective Date**

From year of assessment 2014.

## TAX INCENTIVE FOR FLEXIBLE WORK ARRANGEMENTS

### Current Position

A flexible and accommodative working environment is among the key factors to retain talent in the labour market. Career development and work-life balance requires employer to implement flexible work arrangements (FWA).

FWA can be implemented by the employers as follows:

- i. flexible working hours - employees can opt and arrange the number of hours to work in a day as long as they fulfill the prescribed period of working hours in a week;
- ii. telecommuting - employees can work from home or from any location other than the office;
- iii. compressed work week - employees are allowed to shorten the number of working days in a week by working longer hours in a day;
- iv. school holidays work arrangements - employees who have school going children are allowed to work from home during school holidays; and
- v. employees choice of days off - employees are given the option to plan their work schedule and off-days.

FWA not only facilitates employers to align activities of the organisation with the increasingly complex work environment including virtual work, but also helps to boost the motivation and increase the productivity of employees.

## **Proposal**

To encourage companies to adopt and implement FWA as a best practice in human resource management, it is proposed that the expenses incurred in the training of employees, supervisors and managers as well as consultancy fees to design an appropriate FWA to be implemented by the employer be given further deduction.

The eligible expenses include costs for training in:

- i. optimizing a work- life balance;
- ii. technology orientation;
- iii. managing a flexible workforce; and
- iv. helping managers embrace flexible work alternatives.

The incentive is given for a period of 3 years of assessment and subject to the companies obtaining FWA status from Talent Corporation Malaysia Berhad.

## **Effective Date**

For FWA status application received by Talent Corporation Malaysia Berhad from 1 January 2014 to 31 December 2016.

**TAX INCENTIVE FOR ANCHOR COMPANIES UNDER  
VENDOR DEVELOPMENT PROGRAMME**

**Current Position**

Vendor Development Programme (VDP) has been introduced with the objective of creating vendors that are competitive and of world standards. In addition, VDP also aims to strengthen existing vendors and encourage creation of new vendors among Small and Medium Enterprises (SMEs).

VDP targets government-linked companies and multinational companies as anchors whereas local companies and SMEs as vendors. Among anchor companies that have implemented VDP are PETRONAS, PROTON, Tenaga Nasional Berhad, Telekom Malaysia Berhad, MAS and Boustead Naval Shipyard Sdn. Bhd.

A structured and comprehensive VDP requires anchor companies to incur high operating and development expenses. Such expenses do not qualify for deduction.

**Proposal**

The Bumiputera Economic Empowerment Agenda focuses among others to intensify Bumiputera entrepreneurship and businesses. Under this focus area, the Government urges the public and private sectors to continuously strengthen and propel VDP so that Bumiputera entrepreneurs become more competitive.

To encourage more anchor companies to develop local vendors, it is proposed that the operating expenses incurred by anchor companies in implementing VDP be given double deduction. The qualifying operating expenses include:

- 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. anchor companies are required to sign a Memorandum of Understanding (MOU) with the Ministry of International Trade and Industry (MITI) under VDP;
- ii. qualifying operating expenses must be certified by MITI before the anchor companies can claim the deduction;
- iii. qualifying operating expenses are capped at RM300,000 per year; and
- iv. deduction is given for 3 years of assessment.

#### **Effective Date**

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

## REVIEW OF REAL PROPERTY GAINS TAX

### Current Position

Real Property Gains Tax (RPGT) is a tax imposed on gains from the disposal of all types of properties such as residential homes, commercial buildings, land and shares from real property companies.

RPGT rates are between 0% to 30% depending on the holding period. The holding period refers to the period between the date of acquisition of the property and the date of disposal of such property. The date of acquisition of the property refers to the date recorded on the stamped sales and purchase agreement or stamped Form KTN 14A or stamped memorandum of transfer. The date of disposal of the property refers to the date recorded on the stamped sales and purchase agreement or stamped Form KTN 14A or stamped memorandum of transfer.

RPGT rates have been revised as follows:

Disposal	RPGT Rates						
	Before 1.4.07			1.4.07 to 31.12.09	From 1.1.10	From 1.1.12	From 1.1.13
	Companies	Individuals (Citizens & Permanent Residents)	Individuals (Non- Citizens)				
Within 2 years	30%	30%	30%	Exempted	5%	10%	15%
In the 3rd year	20%	20%	30%		5%	5%	10%
In the 4th year	15%	15%	30%		5%	5%	10%
In the 5th year	5%	5%	30%		5%	5%	10%
In the 6th and subsequent years	5%	0%	5%		0%	0%	0%

RPGT is imposed on the net gains from the disposal of the property after deducting the acquisition price and other expenses incurred until the property is disposed. Other expenses include stamp duty, legal fee, cost of renovation, commission for sales and administrative payment. RPGT exemption is given for up to RM10,000 or 10% of the net gains, whichever is higher, from the disposal of real property by all individuals.

For citizens and permanent residents, RPGT is not imposed for the disposal of one residential property once in a lifetime. For all individuals, RPGT is also not imposed on gains from the disposal of property between husband and wife, parents and children, grandparents and grandchildren.

### **Proposal**

To further curb speculative activities which exert pressure on property prices, it is proposed that RPGT rates on the disposal of properties and shares in real property companies be reviewed as follows:

<b>Disposal</b>	<b>Proposed RPGT Rates</b>		
	<b>Companies</b>	<b>Individuals (Citizens &amp; Permanent Residents)</b>	<b>Individuals (Non Citizens)</b>
Within 3 years	30%	30%	30%
In the 4th year	20%	20%	30%
In the 5th year	15%	15%	30%
In the 6th and subsequent years	5%	0%	5%

### **Effective Date**

For disposal of properties and shares in real property companies from 1 January 2014.

## RELIEF FOR MIDDLE INCOME TAX PAYERS

### Current Position

Resident individuals are subject to tax at progressive rates from 0% to 26% on their income derived in Malaysia as follows:

Chargeable Income (RM)	Tax Rate (%)
1 - 5,000	0
5,001 - 20,000	2
20,001 - 35,000	6
35,001 - 50,000	11
50,001 - 70,000	19
70,001 - 100,000	24
Exceeding 100,000	26

Resident individuals are subject to tax on their chargeable income after deducting allowable expenses from their aggregate income. The aggregate income comprises income from employment, business and other sources. Allowable expenses deducted from the aggregate income are:

- i. contributions to approved institutions; and
- ii. tax reliefs.

The amount of tax charged on the chargeable income can be further reduced by deducting 2 types of rebates as follows:

- i. RM400 for a tax payer with chargeable income up to RM35,000 and RM400 for the spouse; and
- ii. the amount equivalent to zakat paid by Muslim tax payers.

These deductions, reliefs and rebates alleviate the burden of low and lower middle income tax payers. However, some in the middle income group earning monthly income between RM4,000 to RM8,000 are still burdened with tax liabilities and the increasing costs of living.

## **Proposal**

To increase the disposable income of the middle income group, it is proposed that a special relief of RM2,000 be given to resident tax payers earning up to RM8,000 a month (aggregate income up to RM96,000 a year). This measure will provide tax saving up to RM480 depending on the amount of tax payable after taking into consideration all the deductions.

## **Effective Date**

For year of assessment 2013.

**EXTENSION OF ACCELERATED CAPITAL ALLOWANCE ON  
INFORMATION TECHNOLOGY AND COMMUNICATION EQUIPMENT**

**Current position**

To encourage companies to invest in the latest information, technology and communication (ICT) equipment, expenses on the purchase and installation of qualifying ICT equipment and software for business purposes is given Accelerated Capital Allowance (ACA). This allowance can be fully claimed in the same year of assessment the equipment was purchased with an initial allowance of 20% and an annual allowance of 80%.

This incentive is effective from year of assessment 2009 until year of assessment 2013.

**Proposal**

In line with the evolution of technology, companies need to constantly replace and upgrade ICT equipment in order to improve operational efficiency and speed of delivery to the customer. To further encourage the use of ICT by companies, it is proposed that expenses on the purchase and installation of ICT equipment and software be given ACA with an initial allowance of 20% and an annual allowance of 80%.

**Effective Date**

From year of assessment 2014 until year of assessment 2016.

## GOODS AND SERVICES TAX MODEL

### Current Position

Consumption taxes that are being implemented in the country comprise of sales tax and service tax. Sales tax is imposed on certain locally manufactured goods and imported goods. Service tax is imposed on selected services.

Sales tax was introduced in 1972 under the Sales Tax Act 1972. Local sales tax is imposed when annual sales turnover (threshold) exceeds RM100,000. Sales tax rates are 5%, 10% and at a specific rate.

Service tax was introduced in 1975 under the Service Tax Act 1975. The rate is 6% while specific rate is charged on credit cards. Most services are not subject to a threshold except for a few type of services where the thresholds are set at RM150,000, RM300,000 and RM3 million a year.

### Proposal

The current sales tax and service tax be abolished and be replaced with a consumption tax based on the value-added concept and known as Goods and Services Tax (GST).

The proposed GST model to be implemented in Malaysia is as follows:

#### 1. Scope

- i. GST to be charged on goods and services at all levels starting from production, manufacture, wholesale and retail;
- ii. GST to be charged on goods and services supplied within the country or imported into the country;
- iii. Supplies made by the Federal and State Government departments are not within the scope of GST except for some services prescribed by the Minister of Finance;

- iv. Supplies made by the local authorities and statutory bodies in relation to regulatory and enforcement functions are not within the scope of GST; and
- v. GST charged on all business inputs such as capital assets and raw materials is known as input tax. Meanwhile, GST charged on all supplies made (sales) is known as output tax. For eligible businesses, the input tax incurred is fully recoverable from the Government through the input tax credit mechanism.

## **2. Zero-Rated Supply**

Zero-rated supply means goods and services sold by businesses are charged GST at zero rate. For businesses, GST paid on their inputs can be claimed as credits. The goods and services subject to GST at zero rate are as in **Appendix A1**.

## **3. Exempt Supply**

Exempt supply means goods and services sold by the businesses are exempted from GST. For businesses, GST paid on their inputs cannot be claimed as credit. The goods and services exempted from GST are as in **Appendix A2**.

## **4. Standard Rate**

GST standard rate is 6%.

## **5. Threshold**

The threshold for purpose of registration under GST is the annual sales value of RM500,000. This means that any business with annual sales of RM500,000 and above is required to be registered under the GST legislation. Businesses below the threshold are not required to register but may register on a voluntary basis.

## **Effective Date**

From 1 April 2015.

## REVIEW OF INDIVIDUAL INCOME TAX

### Current Position

Income tax structure for resident individuals is as follows:

Chargeable Income (RM)	Tax Rate (%)
1 - 5,000	0
5,001 - 20,000	2
20,001 - 35,000	6
35,001 - 50,000	11
50,001 - 70,000	19
70,001 - 100,000	24
Exceeding 100,000	26

Non-resident individuals are subject to income tax at a fixed rate of 26%.

### Proposal

To increase the disposable income and in line with GST implementation, it is proposed that the income tax rates for resident individuals be reduced by 1 percentage point to 3 percentage points as follows:

Chargeable Income (RM)	Current Tax Rate (%)	Proposed Tax Rate (%)	Reduction (%)
1 – 5,000	0	0	-
5,001 – 20,000	2	1	1
20,001 – 35,000	6	5	1
35,001 – 50,000	11	10	1
50,001 – 70,000	19	16	3
70,001 – 100,000	24	21	3
100,001 – 250,000	26	24	2
250,001 – 400,000	26	24.5	1.5
Exceeding 400,000	26	25	1

Non-resident individuals income tax rate is reduced by 1 percentage point from 26% to 25%.

To enhance the tax structure to be more competitive and more progressive as well as to retain and attract talents into the country, it is proposed that the chargeable income band exceeding RM100,000 be restructured as follows:

Current	Proposed
Chargeable Income (RM)	Chargeable Income (RM)
Exceeding 100,000	100,001 – 250,000
	250,001 – 400,000
	Exceeding 400,000

The above measure resulted in tax savings as follows:

Chargeable Income (RM)	Current			Proposed			Tax Savings	
	Tax Rate (%)	Tax Without Rebate (RM)	Tax Paid (RM)	Tax Rate (%)	Tax Without Rebate (RM)	Tax Paid (RM)	(RM)	(%)
1 – 5,000	0	0		0	0			
		0	* 0		0	* 0	-	-
5,001 – 20,000	2	300		1	150			
		300	* 0		150	* 0	-	-
20,001 – 35,000	6	900		5	750			
		1,200	* 800		900	* 500	300	37.5
35,001 – 50,000	11	1,650		10	1,500			
		2,850	2,850		2,400	2,400	450	15.8
50,001 – 70,000	19	3,800		16	3,200			
		6,650	6,650		5,600	5,600	1,050	15.8
70,001 – 100,000	24	7,200		21	6,300			
		13,850	13,850		11,900	11,900	1,950	14.1
100,001 – 250,000	26	39,000		24	36,000			
		52,850	52,850		47,900	47,900	4,950	9.4
250,001 – 400,000	26	39,000		24.5	36,750			
		91,850	91,850		84,650	84,650	7,200	7.8
Exceeding 400,000	26			25				

\* after RM400 rebate

### Effective Date

From year of assessment 2015.

## REVIEW OF CORPORATE INCOME TAX

### Current Position

Income tax at a fixed rate of 25% is imposed on a company and the following entities:

- i. a trust body;
- ii. an executor of an estate of an individual who was domiciled outside Malaysia at the time of his death;
- iii. a receiver appointed by the court; and
- iv. a limited liability partnership.

A company with paid-up capital of up to RM2.5 million is subject to the following tax rates:

- i. 20% on chargeable income up to RM500,000; and
- ii. 25% on the remaining chargeable income.

### Proposal

To support the smooth implementation of GST and to further enhance the competitiveness of the nation, it is proposed that the tax rate for a company be reduced by 1 percentage point to 24%. This rate also applies to the following entities:

- i. a trust body;
- ii. an executor of an estate of an individual who was domiciled outside Malaysia at the time of his death;
- iii. a receiver appointed by the court; and
- iv. a limited liability partnership.

For a company with paid-up capital of up to RM2.5 million, the rates be reduced by 1 percentage point as follows:

- i. 19% on chargeable income up to RM500,000; and
- ii. 24% on the remaining chargeable income.

**Effective Date**

From year of assessment 2016.

## REVIEW OF CO-OPERATIVE INCOME TAX

### Current Position

Income tax structure for co-operative is as follows:

Chargeable Income (RM)	Tax Rate (%)
1 – 30,000	0
30,001 – 60,000	5
60,001 – 100,000	10
100,001 – 150,000	15
150,001 – 250,000	20
250,001 – 500,000	22
500,001 – 750,000	24
Exceeding 750,000	25

Co-operatives are exempted from income tax for a period of 5 years from the date of registration. After this period, co-operatives are still exempted from income tax if their Members' Fund is less than RM750,000. Dividends received by co-operative members are exempted from tax.

### Proposal

In line with GST implementation and to further drive the growth of co-operative, it is proposed that co-operative income tax rates be reduced by 1 percentage point to 2 percentage points for chargeable income exceeding RM150,000.

A comparison between current and proposed co-operative income tax rates is as follows:

Chargeable Income (RM)	Current Tax Rate (%)	Proposed Tax Rate (%)
1 – 30,000	0	0
30,001 – 60,000	5	5
60,001 – 100,000	10	10
100,001 – 150,000	15	15
150,001 – 250,000	20	<b>18</b>
250,001 – 500,000	22	<b>21</b>
500,001 – 750,000	24	<b>23</b>
Exceeding 750,000	25	<b>24</b>

The above measure resulted in tax savings as follows:

Chargeable Income (RM)	Current		Proposed		Tax Savings	
	Tax Rate (%)	Tax Paid (RM)	Tax Rate (%)	Tax Paid (RM)	(RM)	(%)
1 – 30,000	0	0	0	0		
		0		0	-	-
30,001 – 60,000	5	1,500	5	1,500		
		1,500		1,500	-	-
60,001 – 100,000	10	4,000	10	4,000		
		5,500		5,500	-	-
100,001 – 150,000	15	7,500	15	7,500		
		13,000		13,000	-	-
150,001 – 250,000	20	20,000	<b>18</b>	18,000		
		33,000		31,000	2,000	6.1
250,001 – 500,000	22	55,000	<b>21</b>	52,500		
		88,000		83,500	4,500	5.1
500,001 – 750,000	24	60,000	<b>23</b>	57,500		
		148,000		141,000	7,000	4.7
Exceeding 750,000	25		<b>24</b>			

### Effective Date

From year of assessment 2015.

**TAX INCENTIVE PACKAGE IN LINE WITH  
GST IMPLEMENTATION**

**Current Position**

**A. Secretarial fee and tax filing fee:**

Secretarial fee and tax filing fee are expenses borne by taxpayers to comply with legal requirements in carrying on a business. These fees are not deductible expenses for the purpose of computing income tax since they are not incurred directly in the production of business income.

**B. Expenses for the purchase of information and communication technology (ICT) equipment and software:**

Expenses for the purchase of ICT equipment and software are eligible for Accelerated Capital Allowance (ACA). The allowance is fully deductible in the year of purchase with initial allowance of 20% and annual allowance of 80%.

The incentive is effective from year of assessment 2009 until year of assessment 2013.

**C. Expenses relating to training in accounting and ICT:**

Expenses relating to training of employees in accounting and ICT are deductible under Section 33(1) of the Income Tax Act 1967.

**Proposal**

To support the smooth implementation of GST, enhance tax compliance and reduce the cost of doing business, it is proposed that the following incentives be given:

**A. Secretarial fee and tax filing fee:**

Secretarial fee and filing fee be given the following deductions:

- i. secretarial fee - up to RM5,000.
- ii. tax filing fee - up to RM10,000.

**B. Expenses for the purchase of ICT equipment and software:**

Expenses for the purchase of ICT equipment and software be given ACA.

**C. Expenses for GST related training in accounting and ICT:**

Expenses for GST related training of employees in accounting and ICT be given further deduction.

**Effective Date**

Proposal A : For year of assessment 2015 and subsequent years of assessment.

Proposal B : For year of assessment 2014, 2015 and 2016.

Proposal C : For year of assessment 2014 and 2015.