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Tax Flash

MOORE STEPHENS

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PRECISE. PROVEN. PERFORMANCE.

2019 Budget Highlights

Executive Summary

If 2018 Budget was known as the “Mother of All Budgets”, the 14th General Election will definitely be known as “Mother of All Elections”.

If you are a movie buffer and a fan of the award-winning trilogy of Lord of The Rings, you could probably relate the victory of *Pakatan Harapan* in the 14th General Election as if it was taken out from the scripts of Fellowship of the Rings. What’s more when the establishment of the Council of Eminent Persons reminds one of the Jedi Council from Star Wars.

While we celebrated 31st August 2018 as Independence Day and 16th September 2018 as Malaysia Day, many would mark the date of 9th May 2018 as the birth of a New Malaysia. Why? Histories were created on this very day. The once almighty coalition party that served the nation for 61 years since independence was finally defeated. David has finally beaten Goliath after numerous attempts aided by the bravery, courage and unity of the multi-ethnic Malaysians. It was indeed not a race-based tsunami but rather a *Rakyat* tsunami.

From having the oldest serving state leader in the world to the youngest federal minister in Malaysia, the tabling of the 2019 Budget by our Minister of Finance, YB Tuan Lim Guan Eng on 2nd November 2018 was fuelled with much anticipation and excitement as it is the first budget under a new ruling coalition. Many would like to know whether the *Pakatan Harapan* manifestos promised during the 14th General Election would be fulfilled.

Hyperlinks

- Moore Stephens Malaysia
- Moore Stephens International
- Inland Revenue Board
- 2019 Budget Speech
- Appendices to Budget Speech

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Despite triggering a national debt of RM1 trillion and the set-up of *Tabung Harapan* that has thus far collected nearly RM200 million, the 2019 Budget was allocated with the highest budget. Themed "A Resurgent Malaysia, A Dynamic Economy, A Prosperous Society", the 2019 Budget focuses on three areas, namely:-

1. To implement Institutional Reforms;
2. To ensure the Socio-Economic Well-Being of Malaysians; and
3. To foster an Entrepreneurial Economy.

The aim was simple. To revive the country's economy and to be what an Economist would term, an Asian Tiger, with twelve key strategies:-

1. Strengthen fiscal administration
2. Restructuring and rationalising government debt
3. Raising government revenue
4. Ensuring welfare and quality of life
5. Improving employment and employability
6. Enhancing health and social welfare protection
7. Raising real disposable income
8. Education for a better future
9. Unleashing the power of the new economy
10. Seizing opportunities in the face of global challenges
11. Redefining the role of government in business
12. Ensuring equitable and sustainable economic growth

Affordable Housing for All

For years, housing affordability has been one of the *Rakyat's* biggest nagging concerns, primarily contributed by the mismatch of pricing in demand and supply. Despite efforts made in past few budgets, it appears that there were insufficient measure taken to ease the burden of house purchasers. The *Rakyat* may now rejoice further as the government tries to answer their pleas by introducing affordable housing schemes, mainly benefitting first-time home buyers in the lower and middle income group.

As a start, affordable houses priced up to RM150,000 would be eligible for a concessionary financing rate as low as 3.5% per annum through participating financial institution. And, the price of houses in new projects are expected to reduce with the commitment of Real Estate Housing Developers Association.

To effectively curb the speculative activities in the real property market, it was proposed in the 2019 Budget to raise the RPGT rates for gains from disposal of real property. This applies for disposals in the 6th and subsequent years. Good news is that, an exemption is given for disposal of low cost and affordable residential homes priced at RM200,000 and below. Meanwhile, stamp duty on properties worth more than RM1 million will be increased from 3% to 4%.

Move Towards A Healthier Lifestyle

High consumption of sugar is one of the biggest factors giving rise to the increasing diabetes and obesity rates in Malaysia. Ranking highest rate of diabetes in Asia and one of the highest in the world, it is about time that a move be made to impose excise duty on sugar sweetened beverages. Such move is not surprising as neighbouring countries such as Thailand, Indonesia and Singapore had taken similar measures and that the price of sugar in Malaysia remained one of the lowest in South-East Asia. Not only could such move encourage healthier living among the *Rakyat*, it provides an opportunity to raise revenue of the nation and broaden our tax base.

Broadening the Tax Regime

With trade wars and global economic uncertainties expecting to escalate further in year 2019, it is about time we consider reviewing our current tax regime to determine the relevancy of meeting the nation's objectives while maintaining a competitive market and obtaining a more sustainable revenue.

The setting up of a tax reform committee should be applauded. It is a start to mark the initiatives in fostering an entrepreneurial economy and drives a performance that will attract foreign direct investments into the country in a challenging market.

With the advancement of technologies these days, businesses can be performed virtually anywhere with an electronic device. No physical presence is required. The outflow of the revenue without being taxed can be at an alarming rate. Hence, effective 1st January 2020, foreign service providers are required to register with the Royal Malaysian Customs Department, charge and remit relevant service tax on the transactions.

The tourism industry accounts for a major source of revenue for the country. With Visit Malaysia 2020 being around the corner and as much as everyone can fly, the efforts to boost the local tourism are further enhanced with the proposal of imposing a departure levy on all outbound travelers by air.

From 1st March 2016 to 15th December 2016, the Ministry of Finance ran a fairly successful tax amnesty program. It was an effort to encourage taxpayers to come forward and disclose any errors or under-reported taxes which is the nation's revenue base. In a similar fashion, the 2019 Budget has offered taxpayers to come forward and declare any unreported income with reduced penalty rates under the Special Program for Voluntary Disclosure from 3rd November 2018 to 30th June 2019.

Enhancing the Effectiveness of SST

While the coverage of Goods and Services Tax was comprehensive and covered a wide sector, the Sales and Services Tax ["SST"] on the other hand, is much narrower to compare with. Theoretically, the latter is perceived as a more people-friendly tax system. With the expansion of service tax being imposed on import services, it is with the hope that the widening gap on the revenue collection of the government can be narrowed while creating a level playing field for the local sector.

And, to make SST more business friendly with a lower administrative cost, specific business-to-business transactions between registered companies are now exempted from SST. In addition, a credit system for sales tax would be introduced to assist small manufacturers who purchase their products from importers.

Conclusion

The 2019 Budget is the first ever national budget under the *Pakatan Harapan* coalition that took over Putrajaya on 9th May 2018. Ever since that day, many doings of the previous government have been exposed. The national debts have been said to be under-declared and being a reason that manifestos pledged during the election campaign could not be fulfilled. And, many mega projects were scrapped or deferred on the run-up to the 2019 Budget.

Indeed, 2019 Budget was not an easy maiden budget for the first time Finance Minister. In order to strike a balance in overcoming the RM21 billion shortfall in revenue from the switch from GST back to SST and being people centric, the 2019 Budget was very comprehensive in taking steps to raise certain taxes, at the same time introducing new ones. Although it may not be exactly the expectations of many voters that voted them into powers, it is a step towards reforming the country and addressing the dissatisfaction of the *Rakyat*.

For your easy reference, we have summarised the key amendments outlined in the 2019 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. Sales and Services Tax and Indirect Taxes
G. Others

Please take note that due to the unavailability of the Finance Bill 2018 at the time of publication, we will update you on any further developments affecting the above categories in due course.

Legend

IRB	=	Inland Revenue Board
ITA	=	Investment Tax Allowance
ITA 1967	=	Income Tax Act 1967
LBATA 1990	=	Labuan Business Activity Tax Act 1990
LLP	=	Limited Liability Partnership
MIDA	=	Malaysian Investment Development Authority
MITI	=	Ministry of International Trade and Industries
PS	=	Pioneer Status
PTPTN	=	*Perbadanan Tabung Pendidikan Tinggi Nasional*
RA	=	Reinvestment Allowance
RPGT	=	Real Property Gains Tax
SC	=	Securities Commission
SME	=	Small and Medium Enterprise
YA	=	Year of Assessment

A. Income Tax – Changes Affecting Individuals

1. Review of Tax Treatment on Unabsorbed Business Losses and Unutilised Capital Allowances

- Please refer to Part B3 below

2. Increase in Tax Relief for Contribution to an Approved Provident Fund or *Takaful* or Payment for Life Insurance Premiums

- Relief of up to RM4,000 be given to a resident individual on contribution made to an approved provident fund
- Relief of up to RM3,000 be given to a resident individual on contribution made to *Takaful* or payment for life insurance premiums
- Relief of up to RM7,000 be given to a public servant under the pension scheme on contribution made to *Takaful* or payment for life insurance premiums
- Effective YA 2019

3. Increase in Tax Relief for Net Savings in the Account of *Skim Simpanan Pendidikan Nasional*

- Relief on net annual savings deposited into *Skim Simpanan Pendidikan Nasional* established under the *Perbadanan Tabung Pendidikan Tinggi Nasional* Act 1997 by a resident individual for his or her child be increased from RM6,000 to RM8,000
- Effective YA 2019 to YA 2020

4. Double Deduction for Remuneration Paid to Senior Citizens and Ex-Convicts

- Please refer to Part B7 below

5. Income Tax Deduction for Employers on Loan Amount Paid to PTPTN on Behalf of Their Employees

- Please refer to Part B8 below

6. Reduction of Penalty for Voluntary Disclosure

- Please refer to Part B10 below

7. Review of Tax Exemption of Interest Received by a Unit Trust

- Please refer to Part B11 below

8. Tax Deduction for Contribution Made to Social Enterprise

- Please refer to Part B12 below

B. Income Tax – Changes Affecting Companies and Unincorporated Businesses

1. Reduction in Tax Rate for SME and LLP

- Tax rate be reduced from 18% to 17% on chargeable income up to RM500,000 for the following entities:-
  - a SME [i.e. a company resident and incorporated in Malaysia with paid-up capital of not more than RM2.5 million and none of its related companies within the group (related by way of shareholding of more than 50%) is having paid-up capital exceeding RM2.5 million]
  - a LLP resident in Malaysia with total contribution of capital (whether in cash or in kind) of not more than RM2.5 million
- Effective YA 2019

2. Review of Tax Treatment on Group Relief

- The adjusted loss surrendered by a surrendering company be limited to 3 consecutive years of assessment instead of indefinitely
- Additional non-application provision be introduced to disallow the claimant company to claim group relief if the claimant company has unutilised ITA or unabsorbed pioneer losses upon the expiry of its ITA or PS incentives
- Effective YA 2019

3. Review of Tax Treatment on Unabsorbed Business Losses and Unutilised Capital Allowances

- Currently, the unabsorbed business losses and unutilised capital allowances are allowed to be carried forward indefinitely until fully absorbed or utilised
- It is proposed that:-
    - the unabsorbed losses in a year of assessment be allowed to be carried forward up to a maximum of 7 consecutive years of assessment; and
    - the unutilised capital allowances in a year of assessment be allowed to be carried forward up to a maximum of 7 consecutive years of assessment
- Effective YA 2019

4. Extension of Deduction for Expenditure on Issuance of *Sukuk*

- The existing deduction for expenditure on issuance of *sukuk* based on *Ijarah* and *Wakalah* principles be extended for another 2 years
- Effective up to YA 2020

5. Extension of Double Deduction for Additional Costs Incurred on Issuance of Retail Bonds and Retail *Sukuk*

- Double deduction for additional expenses incurred on issuance of retail bonds and *sukuk* under the principles of *Mudharabah, Musyarakah, Istisna', Murabahah and Bai' Bithaman Ajil* based on *tawarruq* be extended for another 2 years
- The deductible additional expenses are:-
    - professional fee relating to due diligence, drafting and preparation of prospectus;
    - printing cost of prospectus;
    - advertisement cost of prospectus;
    - SC prospectus registration fee;
    - Bursa Malaysia processing fee and initial listing fee;
    - Bursa Malaysia new issue crediting fee; and
    - primary distribution fee
- Effective up to YA 2020

6. New Tax Incentives for Industry4WRD

- Deduction for expenses incurred on Industry4.0 ["I4.0"] Readiness Assessment
    - Companies undertaking I4.0 Readiness Assessment be given deduction on expenses incurred of up to RM27,000 paid to the Malaysian Productivity Corporation
    - Effective YA 2019 to YA 2021
- Double deduction for expenses incurred in implementing Industry4WRD Vendor Development Programme
    - Anchor companies developing local vendors in I4.0 be given double deduction on operating expenditure in respect of costs of product development, upgrading capabilities of vendors and training of skills of vendors, as verified by MITI
    - The qualifying operating expenditure is restricted to RM1 million per year and eligible to be claimed for 3 consecutive years of assessment
    - Effective for memorandum of understanding signed between anchor companies and MITI from 1st January 2019 to 31st December 2021

- Double deduction for scholarships
  - Double deduction be given to companies providing scholarships to students pursuing studies at technical and vocational levels, diplomas and degrees in the fields of engineering and technology
  - The students receiving scholarship must fulfill the following criteria:-
    - a Malaysian and resident in Malaysia;
    - receives full-time course of study;
    - has no means on his own; and
    - whose parents or guardian have total monthly income not exceeding RM8,000 per month
  - Effective YA 2019 to YA 2021
- Deduction for expenses incurred by companies participating in the National Dual Training System Training Scheme
  - Deduction be given on expenses incurred by companies participating in the National Dual Training System Training Scheme for the I4.0 programme approved by the Ministry of Human Resources
  - Effective for programmes implemented from 1st January 2019 to 31st December 2019
- Deduction for expenses incurred in respect of development of new I4.0 technology and engineering courses
  - Private higher education institutions be given deduction on expenses incurred for development of new I4.0 technology and engineering courses verified by the Ministry of Education
  - Effective YA 2019 to YA 2021
- Double deduction for expenditure incurred in upgrading and developing employees' technical skills
  - Companies participating in the Readiness Assessment Intervention Plan be given double deduction on expenditure incurred in upgrading and developing its employees' technical skills in I4.0 technology for training programmes approved by MIDA
  - Effective for participation from 1st January 2019 to 31st December 2019
- Double deduction for expenditure incurred in conducting internship programme
  - Double deduction be given on expenditure incurred by a company in conducting internship programme approved by the Ministry of Human Resources for undergraduate students in fields of engineering and technology
  - Effective YA 2019 to YA 2021
- Deduction for contribution of equipment and machinery
  - Deduction be given to companies contributing equipment and machinery to Skills Development Centres, Polytechnics or Vocational Colleges certified by the Ministry of Human Resources or the Ministry of Education
  - Effective for contributions made from 1st January 2019 to 31st December 2021

7. Double Deduction for Remuneration Paid to Senior Citizens and Ex-Convicts

- Double deduction be given to employers on the remuneration paid to their employees who are senior citizens above 60 years of age or ex-convicts
- Eligibility criteria:-
  - must be full-time employee; and
  - total monthly remuneration of the senior citizens or ex-convicts does not exceed RM4,000 for each employee
- Effective YA 2019 to YA 2020

8. Tax Deduction for Employers on Loan Amount Paid to PTPTN on Behalf of Their Employees

- Income tax deduction be given to employers who have made repayments of PTPTN loans on behalf of their full-time employees, provided that the employees shall not be required to make any payment to the employers in return for the repayment of the PTPTN loans
- Effective for payment made between 1st January 2019 and 31st December 2019

9. Extension of Period for Application on Venture Capital Tax Incentives

- The current tax incentives given to the following for applications received by the SC until 31st December 2018 be extended for another year until 31st December 2019:-
  - a venture capital management corporation ["VCMC"];
  - a venture capital company ["VCC"] investing in a venture company ["VC"]; and
  - tax deduction for a company or an individual with business income investing in a VC or VCC funds created by VCMC

10. Reduction of Penalty for Voluntary Disclosure

- Following the budget announcement to offer to taxpayers reduced penalty rates for voluntary disclosure in reporting their income under the Special Program for Voluntary Disclosure, the IRB has on the same day issued a media release and the Operational Guidelines No. 1/2018 on the subject matter
- The reduction of penalty at specific rate is offered to all categories of taxpayers who opt for voluntary disclosure in respect of the following cases:-
  - income not previously declared / under declared, expenses over claimed / not allowed and reliefs/deductions/rebates over claimed;
  - gains on disposal of assets (real properties and shares in real property companies); and
  - stamping of instruments not previously stamped
- The reduction of penalty rates under this Special Program for Voluntary Disclosure are summarised below:-

Categories of Voluntary Disclosure	**Period of Voluntary Disclosure and Rates of Penalty**		**Penalty Rates After the Special Program**
	03.11.2018 - 31.03.2019	**01.04.2019 - 30.06.2019**	
Taxpayers who are not registered with IRB	10% (Payment to be made on or before 01.04.2019)	15% (Payment to be made on or before 01.07.2019)	80% to 300%
Taxpayers who are registered with IRB but have not submitted the Income Tax Return Form ["ITRF"] / Petroleum Return Form ["PRF"] / Real Property Gains Tax Return Form ["RPGTRF"] for any year of assessment			
Taxpayers who have submitted the ITRF / PRF / RPGTRF but have not reported the correct income / gains on disposal of assets for any year of assessment			80% to 100%
Persons who present an instrument for stamping exceeding six (6) months from the stamping period (30 days from the date of the instrument's execution)	10% or a minimum of RM50	15% or a minimum of RM100	Penalty under Section 47A(1) of the Stamp Act 1949 on amount of deficient duty

- This Special Program also applies to the transfer pricing issues. However, the penalty rate is in accordance with the existing Transfer Pricing Audit Framework
- Voluntary disclosure can be made from 3rd November 2018 until 30th June 2019

11. Review of Tax Exemption of Interest Received by a Unit Trust

- Currently, tax exemption is granted on interest income derived by a unit trust from Malaysia and paid or credited by any bank licensed under the Financial Services Act 2013 or an Islamic bank licensed under the Islamic Financial Services Act 2013 or any development financial institution regulated under the Development Financial Institutions Act 2002 through a wholesale fund which is a money market fund that complies with the criteria as set out in the relevant guidelines of the SC
- It is proposed that the above exemption granted be ceased
- Effective 1st January 2019

12. Tax Deduction for Contribution Made to Social Enterprise

- It is proposed that contributions made to a social enterprise by a person (donor) be allowed for deduction against the aggregate income of the donor
- The amount to be deducted is restricted to:-
    - in the case of a person other than a company, 7% of the aggregate income; or
    - in the case of a company, 10% of the aggregate income
- A social enterprise is defined as an organisation that has a social cause as its primary mission, such as poverty reduction or preserving the environment, and uses a private sector business model to sustain itself

C. Investment Incentives

1. Review of Tax Treatment on Unutilised RA and IASS

- RA is eligible to be claimed by manufacturing companies and companies undertaking selected agricultural activities for the purpose of expansion, modernisation or diversification
- A company is entitled to RA for 15 consecutive years of assessment commencing from the year of assessment in which the first RA claim is made
- Special RA has also been introduced to encourage reinvestment by existing companies of which the qualifying period of the RA has expired and applicable to qualifying capital expenditure incurred from YA 2016 to YA 2018
- Investment Allowance for Service Sector ["IASS"] was introduced specifically to intensify investments under the approved service projects scheme for communications, transportation and utilities sectors
- Currently, the unutilised RA and IASS can be carried forward indefinitely until fully set-off against future statutory income
- It is proposed that the unutilised RA and IASS be allowed to be carried forward for a maximum of 7 consecutive years of assessment upon expiry of qualifying period of RA and IASS
- Effective YA 2019

2. Review of Tax Treatment on Unabsorbed Pioneer Losses and ITA

- Currently, the unabsorbed pioneer losses and ITA are allowed to be carried forward indefinitely until fully absorbed even after the pioneer period or after the period of ITA has ended
- It is proposed that:-
    - the unabsorbed pioneer losses after the end of pioneer period be allowed to be carried forward up to a maximum of 7 consecutive years of assessment; and
    - the unabsorbed ITA after the end of ITA period be allowed to be carried forward up to a maximum of 7 consecutive years of assessment
- Effective YA 2019

3. Tax Incentive for Principal Hub

- Currently, Principal Hub is given income tax exemption according to 3-tier preferential tax rates of 0%, 5% or 10%
- It is now proposed that a concessionary 10% income tax rate be charged on the overall statutory income related to Principal Hub activities for a period of 5 years
- Effective date and the further details for this proposal are unknown, pending the gazette of the relevant legislations

4. New Tax Incentives for Environmental-Friendly Investors

- The following tax incentives be given to companies which produce environmental-friendly plastics based on bio-resin and biopolymer:-
  - PS with income tax exemption of 70% of statutory income for a period of 5 years; or
  - ITA of 60% on the qualifying expenditure incurred for a period of 5 years to be set off against 70% of statutory income for each year of assessment
- Effective date of this proposal is unknown, pending the gazette of the relevant legislations

5. Tax Incentives for Green Technology

- Currently, ITA of 100% of qualifying capital expenditure on green assets (9 assets) is given for set off against 70% of statutory income for each year of assessment from YA 2013 (date on which the first qualifying capital expenditure incurred is not earlier than 25th October 2013) until YA 2020 to encourage companies to develop green technology
- This incentive is applicable for companies that acquire any of the 9 qualifying green technology assets listed under the MyHIJAU Directory and approved by the Minister of Finance. The 9 qualifying green technology assets are:-
  - Energy efficient transformer (up to 33kV)
  - Solar air-conditioning equipment/system
  - Thermal energy storage equipment/system
  - Variable air volume (VAV) equipment/system
  - Variable-refrigerant-volume (VRV) equipment/system
  - Electric motorcycle/scooter
  - Electric bus
  - Electric MPV/truck
  - Electric vehicle (EV) charging equipment/system
- It is now proposed that the 9 qualifying green technology assets be expanded to 40 assets. The types of additional assets are currently unknown
- Effective for application received by MIDA until 31st December 2020

D. RPGT

1. Review of RPGT Rates

- It is proposed that the following amendments be made to the RPGT rates:-

<table>
<tr><th rowspan="3">Disposal</th><th colspan="6">RPGT Rates</th></tr>
<tr><th colspan="2">Companies</th><th colspan="2">Individuals (Non-Citizens and Non-Permanent Residents)</th><th colspan="2">Others (such as Citizens and Permanent Residents)</th></tr>
<tr><td>Existing</td><td>Proposed</td><td>Existing</td><td>Proposed</td><td>Existing</td><td>Proposed</td></tr>
<tr><td>After 5 years from the date of acquisition</td><td>5%</td><td>10%</td><td>5%</td><td>10%</td><td>NIL</td><td>5% / Exemption*</td></tr>
</table>

*RPGT exemption is given to Malaysian citizens for the disposal of residential homes at the price of RM200,000 and below

- Effective for disposal from 1st January 2019

E. Stamp Duty

1. Review of Stamp Duty on Transfer of Real Property

- Stamp duty on instruments of transfer of real property on amount exceeding RM1 million be increased from 3% to 4%
- Effective 1st January 2019

2. Stamp Duty Exemption on Insurance Policies and *Takaful* Certificates under *Perlindungan Tenang* Products

- Stamp duty exemption be given on insurance policies and *Takaful* certificates issued for *Perlindungan Tenang* Products with an annual premium or contribution not exceeding RM100
- Effective for policies or certificates issued from 1st January 2019 to 31st December 2020

3. Extension of Stamp Duty Exemption for the Purchase of First Residential Property

- First residential property priced up to RM300,000
  - Stamp duty exemption be given on instrument of transfer and loan agreement for the purchase of first residential property with a price not exceeding RM300,000
  - Effective for sales and purchase agreements executed from 1st January 2019 to 31st December 2020
- First residential property priced exceeding RM300,000 up to RM1 million
  - Stamp duty exemption be given on instrument of transfer for the purchase of first residential property priced between RM300,001 to RM1 million from any housing developer
  - Effective for sales and purchase agreements executed from 1st January 2019 to 30th June 2019
- First residential property priced exceeding RM300,000 up to RM500,000
  - For acquisition of first residential property exceeding RM300,000 up to RM500,000, stamp duty exemption be given on instrument of transfer and loan agreement but limited to the first RM300,000 of the value of property with the remaining value subject to the prevailing rate of stamp duty
  - Effective for sales and purchase agreements executed from 1st July 2019 to 31st December 2020

F. Sales and Services Tax and Indirect Taxes

1. Imposition of Excise Duty on Sugar Sweetened Beverages

- It is proposed that excise duty at the rate of RM0.40 per litre be charged on sugar sweetened beverages based on the sugar content as follows:-
  - fruit juices and vegetable juices whether or not containing added sugar or other sweetening matter under the tariff heading of 20.09, which contains sugar exceeding 12 grams per 100 milliliters; and
  - beverages including carbonated drink containing added sugar or other sweetening matter or flavoured and other non-alcoholic beverages under the tariff heading of 22.02, which contains sugar exceeding 5 grams per 100 milliliters
- Effective 1st April 2019

2. Treatment of Service Tax on Imported Services

- It is proposed that service tax on prescribed taxable services imported into Malaysia be imposed in phases, as follows:-
  - for services imported by businesses ["B2B"] – service tax be imposed on importation of services effective 1st January 2019
  - for services imported by consumers ["B2C"] – service tax be imposed on importation of services effective 1st January 2020

- It is further proposed that:-
  - the service tax on imported services in respect of B2B transactions be accounted for by the recipients of the services
  - the service tax on imported services in respect of B2C (such as importation of digital products and services) be charged or accounted for by the foreign suppliers who are required to be registered under the Service Tax Act 2018

3. Reduction of Import Duty Rate for Bicycles

- It is proposed that the import duty rate be reduced from 25% to 15% for bicycles falling under the tariff code 8712.00.30 00 (i.e. other bicycles)
- Effective 1st January 2019

4. Exemption from Service Tax in respect of Specific B2B Transactions

- It is proposed that exemption from service tax be granted to registered service tax entities in respect of specific B2B transactions
- Effective 1st January 2019

5. Introduction of Credit System for Sales Tax Deduction

- A credit system for sales tax deduction be introduced to overcome the problems faced by small manufacturers who purchase products from importers instead of other registered manufacturers
- Effective 1st January 2019

6. Increased Rate of Duties for Gaming Industry

- It is proposed that the duties on gaming industry be increased as follows:-
  - Casino duties be increased up to 35% on gross collection
  - Gaming machine duties be increased from 20% to 30%

G. Others

1. Review on Tax Treatment for Labuan International Business Financial Centre

- To further enhance competitiveness of Labuan as an international financial hub, as well as ensuring compliance to the internationally agreed taxation standards, it is proposed as follows:-
  - Election for income tax at the tax ceiling of RM20,000 under LBATA 1990 be abolished
  - Restriction on transactions conducted in Ringgit Malaysia be abolished
  - Restriction on transactions between Labuan entity and resident of Malaysia be abolished
  - The Labuan International Business Financial Centre activity carrying out in Labuan be subject to substantive condition as determined by a committee
  - Income from intellectual property assets held by Labuan entity be subject to the prevailing income tax rate under the ITA 1967
  - Resident who transacts with Labuan entity be entitled for tax deduction on expenditure incurred, restricted to 3% of the allowable expenditure
- Effective 1st January 2019

2. Imposition of Departure Levy

- It is proposed that the following departure levy be imposed on all outbound travellers via air routes:-

Destinations	Departure Levy
ASEAN countries	RM20
Other than ASEAN countries	RM40

- Effective 1st June 2019

3. EPF Contributions for Senior Citizens

- It is proposed that the EPF contributions by the employer to the senior citizen employees who are above 60 years old be reduced from 6% to 4%

4. Minimum Wages

- Further to the Minimum Wagers Order 2018 released on 16th October 2018, it is proposed that the minimum wages be revised from RM1,050 per month to RM1,100 per month
- Effective 1st January 2019