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Reduction in Tax Rates Based on Percentage of Increase in Chargeable Income for Companies, LLP, Trust Bodies, etc.

Following the Budget 2017 announcement, the Income Tax (Exemption) (No. 2) Order 2017 has been gazetted to provide income tax exemption on business income of a qualifying person which effectively gives rise to reduction in tax rates on incremental chargeable income based on the percentage of increase in chargeable income.

For the purpose of this Order, "qualifying person" means:-

- a company incorporated under the Companies Act 2016;
- a limited liability partnership ["LLP"] registered under the Limited Liability Partnership Act 2012;
- a trust body;
- an executor of an estate of a deceased individual who was domiciled outside Malaysia at the time of his death; and
- a receiver with respect to whom Section 68(4) of the Income Tax Act 1967 ["the Act"] applies,

resident in Malaysia.

Hyperlinks

- [Moore Stephens Malaysia](#)
- [Moore Stephens International](#)
- [Inland Revenue Board](#)

- [Income Tax \(Exemption\) \(No.2\) Order 2017](#)

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Hyperlinks

To be eligible for the above exemption:-

- the qualifying person's business must have been in operation for not less than 24 months; and
- the qualifying person must have chargeable income from a source consisting of a business in the basis period for a year of assessment and the year of assessment immediately preceding that year of assessment and has made up its account for a period of 12 months ending on the same date for each of those years of assessment.

The effective reduced tax rates applicable to the incremental chargeable income of a qualifying person are as shown below:-

Percentage of Incremental Chargeable Income (%)	Percentage Point Reduction	Reduced Tax Rate Applicable to the Incremental Chargeable Income (%)
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

The percentage of incremental chargeable income shall be determined in accordance with the following formula:-

$$\frac{A - B}{B} \times 100$$

where A is the amount of chargeable income from a source consisting of a business of the qualifying person in the basis period for a year of assessment; and

B is the amount of chargeable income from a source consisting of a business of the qualifying person in the year of assessment immediately preceding that year of assessment;

For small and medium enterprises ["SME"], the reduced tax rate is only applicable on incremental chargeable income which form part of the amount exceeding the first RM500,000 of chargeable income. The preferential tax rate applicable to SME of 19% shall be applied to the first RM500,000 of chargeable income.

In determining the incremental chargeable income, any unabsorbed losses or unabsorbed allowances in the year of assessment and the year of assessment immediately preceding that year of assessment shall be disregarded.

Hyperlinks

This Order shall not apply to a qualifying person who in the basis period for a year of assessment:-

- has made a claim for reinvestment allowance under Schedule 7A to the Act or investment allowance for service sector under Schedule 7B to the Act;
- has been granted any incentive under the Promotion of Investments Act 1986;
- has been granted an exemption under section 127 of the Act;
- has made a claim for group relief under section 44A of the Act;
- is an investment holding company under section 60F or 60FA of the Act;
- is a unit trust which is defined under subsection 63C(5) of the Act; or
- has a debt that has been released under subsection 30(4) of the Act

The above Order shall have effect for the year of assessment ["YA"] 2017 and YA 2018.

IRB's Media Release on Tax Treatment of Income Received by Uber and GrabCar Drivers

The Inland Revenue Board ["IRB"] has recently issued a media release dated 31st March 2017 to clarify the tax treatment on Uber and/or GrabCar drivers.

The IRB has informed that the income tax imposed on Uber and/or GrabCar drivers is similar to tax treatment imposed on individuals deriving income from carrying on a business. Income tax will be imposed on the net income of the drivers, i.e. after deducting expenses (such as fuel costs, toll payments, fees paid to operator and vehicle maintenance) from the gross income, together with other income (such as employment income), if any.

In addition, the IRB also advised those individuals who carry on side business activities (such as tutor, makeup artist, online trader etc.) to register a tax file with the IRB and declare their yearly income in the Form B latest by 30th June each year. They are also advised to keep the relevant documents for 7 years for tax audit purposes.

➤ [IRB's Media Release dated 31st March 2017](#)

Hyperlinks

GST Guides

The Royal Malaysian Customs Department ["RMCD"] has recently issued the following revised guides on Goods and Services Tax ["GST"] to provide guidance on GST related matters:-

- Industry Guide
 - Duty Free Shop (revised as at 01.01.2017)
 - Islamic Banking (revised as at 26.04.2017)
 - Tourist Refund Scheme (revised as at 08.05.2017)

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