

2017 Budget Highlights

Executive Summary

Have a seat. Grab a hot dog and a soothing root beer. Let us sit down and ponder upon the headlines that took us by storm throughout the period since Budget 2016.

- Globally: *Pokemon*
- Europe: *Brexit*
- United States of America : *Presidential Election*
- Asia: *Descendants of the Sun*
- Malaysia : *2016 Olympic and Paralympic*

But, would these events impact the economy of our country which is still struggling with global uncertainties?

The speculation of a hike in Goods and Services Tax ["GST"] rate had the majority – if not all Malaysians, shudder to imagine the shrinking Malaysian's wallet, anticipating that the hike will be announced by our honourable Prime Minister cum Minister of Finance, Y.A.B. Dato' Sri Mohd Najib Tun Haji Abdul Razak during 2017 Budget.

To dispel the rumours in the grapevine and at the same time, crushing the hopes of many who had wished that perhaps this time, the curtain will be calling for GST, our honourable Prime Minister has quickly given assurance to the *rakyat* in his opening speech that the existing GST rate of 6% is here to stay, at least for the time being.

Hyperlinks

- [Moore Stephens Malaysia](#)
- [Moore Stephens International](#)
- [Inland Revenue Board](#)
- [2017 Budget Speech](#)
- [Appendices to Budget Speech](#)

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Apart from the uncertainties in the external economy which are beyond our control, it is also a struggle for the face of Malaysia. A battle to assert the true nature of the Malaysian character. Hence, it is not a surprise that 2017 Budget tabled in the *Dewan Rakyat* was themed “Ensuring Unity and Economic Growth, Inclusive Prudent Spending, Wellbeing of the *Rakyat*”

This time around, it is anchored on 5 principles and philosophies of the *Barisan Nasional* Government:-

1. Prioritising national integration in forming a nation state. Our ethnic diversity is an essential asset in the past, present and future;
2. Prioritising and preserving sovereignty, upholding the Constitution and laws as well as national security;
3. Prioritising cohesiveness and stability as well as working as a strong team;
4. Advocating a diligent government with a clear direction, systematic planning as well as holistic, efficient and structured implementation plans; and
5. Upholding the national ideology which is the *Rukun Negara*.

With that in mind, below are some of the highlights of the 2017 Budget.

For Individual Taxpayers

If you are a mum or dad having children aged 6 years and below, you may rejoice at the proposed new tax relief of up to RM1,000 on the cost of child care and early childhood education for your child. Not only that, mothers who have children aged up to 2 years can seek further tax relief via the latest addition to the tax relief family - i.e. a tax relief of up to RM1,000 for the purchase of breastfeeding equipment to be claimed once in every 2 years.

It is worth highlighting that the Government has meshed the relief for purchase of books, sports equipment and computer equipment into one tax relief named “Lifestyle Relief”. For the avid readers, tech junkies and gym enthusiasts, do take note that the relief now encompasses the purchase of printed daily newspaper, smartphones and tablets, internet and gymnasium subscription fees.

For Corporate Taxpayers

Perhaps the most interesting and surprising announcement made would probably be for you, the corporate taxpayers. A never seen before reduction of tax rate of up to a maximum of 4 percent based on the percentage of increase in chargeable income has been introduced amidst the backdrop of a retracting economy climate.

In addition, a Small and Medium Enterprise [“SME”] and Limited Liability Partnership [“LLP”] will enjoy a 1% reduction in tax rate on chargeable income up to RM500,000, a move very much welcomed in the face of the rising business operating cost and slowing economy, whereby the smaller guys will take the bigger brunt.

For the Less-Abled *Rakyat*

Ask any man on the street and they will tell you that they feel the pinch from the implementation of the GST, what’s more our fellow less-abled Malaysians. Budget 2017 sees the relaxation for the claim of GST relief on the purchase of equipment specially designed for disabled persons. The list of equipment eligible for GST relief has been increased from 11 to 31 items. Notable additions to the list include home care / hospital bed and vehicle wheelchair lift and restraints.

For the First-Time House Buyers

Security may mean different things to different people. To some, it means having to cough up enough savings in the bank while to others, it may mean having a stable job. More often than not, most of us feel that having a property in our name is the best security simply because the price of properties defies the law of gravity.

If you are an eager first-time home buyer like many of us, you would have come across the words “stamp duty” in the course of researching on the cost of purchasing a property. In Budget 2015, it was announced that 50% stamp duty exemption on instrument of transfer and loan agreement for the purchase of first home priced not exceeding RM500,000 will be given to Sales and Purchase Agreement executed from 1st January 2015 to 31st December 2016. Budget 2017 further proposed that the 100% stamp duty exemption on instrument of transfer and loan agreement will be given for first home priced not exceeding RM300,000. Even if the price of the home exceeds RM300,000 but below RM500,000, 100% stamp duty exemption will still be available on the first RM300,000. This is probably worth dwelling on since the new exemption will be applicable to Sales and Purchase Agreement executed from 1st January 2017 to 31st December 2018.

Conclusion

Nowadays whenever people talk about the economy, more often than not, it is about businesses slowing down, prices of commodities rising and the shrinking disposable income. The *Barisan Nasional* led Government is certainly aware of these issues and has been trying to tackle them through national budgets for the past years.

This budget is no difference from the rest. It strives to improve on the well-being of the *rakyat* in a number of areas which include more affordable houses, education and healthcare, security and public order, subsidies and incentives while juggling to strike a balance in achieving a fiscal deficit target of 3% of Gross Domestic Products for the year 2017.

It is a huge task to take on, especially when the 14th General Election and Vision 2020 are around the corner. Not to mention the “lucky charm” of 2050 National Transformation which will be branded as TN50 which will spur the nation’s new direction by the younger, diverse generation of all races.

For your easy reference, we have summarised the key amendments outlined in the 2017 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. Stamp Duty
- E. Goods and Services Tax
- F. Others

Please take note that due to the unavailability of the Finance Bill 2016 at the time of publication, we will update you on any further developments affecting the above categories in due course.

A. Income Tax – Changes Affecting Individuals

1. Relief for Lifestyle

- Relief for purchase of reading materials, computer and sports equipment be combined into a new relief known as “Lifestyle Relief” with a limit of up to RM2,500
- The scope of this relief be expanded to include:-
 - purchase of printed daily newspaper;
 - purchase of smartphone or tablet;
 - internet subscription; and
 - gymnasium membership fee
- Effective year of assessment [“YA”] 2017

2. Relief for Fees Paid to Child Care Centres and Kindergartens

- Relief of up to RM1,000 be given to either parent of a child on fees paid to child care centres and kindergartens
- Eligibility criteria:-
 - child aged 6 and below; and
 - child care centres or kindergartens are registered with the Department of Social Welfare or the Ministry of Education
- Effective YA 2017

3. Relief for Purchase of Breastfeeding Equipment

- Relief of up to RM1,000 be given to female taxpayers with children aged 2 years and below
- Relief is claimable once in every 2 years
- Effective YA 2017

B. Income Tax – Changes Affecting Companies and Unincorporated Businesses

1. Reduction in Tax Rate for SME and LLP

- Tax rate be reduced from 19% to 18% 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 2017

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

- Currently, the tax rate of 24% is applicable to the following entities:-
 - a company with paid-up capital of more than RM2.5 million;
 - a LLP with total contribution of capital more than RM2.5 million;
 - a company with paid-up capital of up to RM2.5 million on the chargeable income exceeding RM500,000;
 - a LLP with total contribution of capital up to RM2.5 million on the chargeable income exceeding RM500,000
 - a trust body;
 - an executor of an estate of an individual who was domiciled outside Malaysia at the time of his death; and
 - a receiver appointed by the court

- It is proposed that the tax rate for the above entities be reduced based on the percentage of increase in chargeable income as compared to the immediate preceding year of assessment
- Depending on the percentage of increase in chargeable income, the reduced tax rates applicable to the incremental chargeable income are as shown below:-

Percentage of Increase in Chargeable Income as Compared to the Immediate Preceding Year of Assessment (%)	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

- Applicable to YA 2017 and YA 2018

3. Increase in the Limit of Tax Deduction for Sponsoring Arts, Cultural and Heritage Activities

- Tax deduction for sponsoring arts, cultural and heritage activities, approved by the Ministry of Tourism and Culture, be increased to RM700,000 per year where the maximum limit allowed for sponsoring foreign arts, cultural and heritage activities be increased to RM300,000 per year
- Effective YA 2017

4. Extension of Double Deduction on Expenses Incurred by Anchor Companies under VDP

- Double deduction currently given on expenses incurred by anchor companies under the Vendor Development Programme ["VDP"] to develop local vendors be extended for another 4 years
- Qualifying expenses:-
 - Cost of product development, research and development, innovation and quality improvement;
 - Cost of obtaining ISO/Kaizen/5S certifications, evaluation programme and business process reengineering exercises for the purpose of increasing vendor capabilities; and
 - Cost of vendor skills training, capacity building, lean management systems and financial management systems
- Conditions:-
 - Anchor companies are required to sign a Memorandum of Understanding ["MOU"] with the Ministry of International Trade and Industry ["MITI"] on VDP;
 - Qualifying expenses must be certified by MITI prior to the claim for deduction;
 - Qualifying expenses eligible for deduction is restricted to RM300,000 per year; and
 - Double deduction is given for 3 years of assessment
- Effective for MOUs signed by anchor companies with MITI between 1st January 2017 to 31st December 2020

5. Extension and Expansion of Scope of Double Deduction on Expenses Incurred on SIP

- Double deduction currently given on qualifying expenses incurred by companies that participate in the Structured Internship Programme ["SIP"] implemented by the Ministry of Higher Education in collaboration with Talent Corporation Malaysia Berhad on the development of specific knowledge or skills be extended for another 3 years
- In addition, the scope of double deduction for SIP be expanded to SIP for students pursuing full-time vocational courses (Malaysian Skills Certificate Level 3). Currently, this incentive is only applicable to degree and diploma courses as well as the equivalent vocational courses (Malaysian Skills Certificate Level 4 and 5)
- Effective until YA 2019

C. Investment Incentives

1. Extension of Income Tax and Stamp Duty Exemptions for Islamic Banking and *Takaful* Operator

- Currently, the following exemptions are given to Islamic banks and *Takaful* operators for a period of 10 years:-
 - 100% income tax exemption on income received by Islamic banks licensed under the 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;
 - 100% income tax exemption on income received by *Takaful* companies and *Takaful* units 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; and
 - 100% stamp duty exemption on instruments executed relating to Islamic banking and *takaful* activities transacted in foreign currencies
- The above income tax exemption be extended for another 4 years until YA 2020
- The above stamp duty exemption be extended for another 4 years until 31st December 2020

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

- The following tax incentives currently given to investors undertaking new investments in 4 and 5-star hotels be extended for another 2 years until 31st December 2018:-
 - 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 Malaysian Investment Development Authority on or before 31st December 2018

3. Expansion of the Scope of *Halal* Products Eligible for Incentives for *Halal* Industry Players

- The following tax incentives are currently given to *Halal* Industry Players operating in *Halal* Parks:-
 - 100% income tax exemption on qualifying capital expenditure for a period of 10 years; or income tax exemption on increase of export sales for a period of 5 years;
 - import duty exemption on raw materials used for the development and production of promoted *halal* products; and
 - double deduction on expenses incurred in obtaining international quality standards certification such as HACCP, GMP Codex Alimentarius (food standard guidelines of FAO and WHO), Sanitation Standard Operating Procedures and regulations for compliance for export markets such Food and Traceability from farm to fork
- The qualifying *halal* products are as follows:-
 - specialty processed food;
 - pharmaceuticals, cosmetics and personal care;
 - livestock and meat products; and
 - *halal* ingredients
- The qualifying *halal* products be expanded to include the following:-
 - production of nutraceutical; and
 - probiotic products
- Effective for application received by *Halal* Industry Development Corporation from 22nd October 2016

D. Stamp Duty

1. Extension of Stamp Duty Exemption for the Purchase of First Residential Home

- Stamp duty exemption be given on instrument of transfer of ownership and loan agreement for acquisition of first residential property not exceeding RM300,000
- For acquisition of first residential property exceeding RM300,000 up to RM500,000, stamp duty exemption be given on instrument of transfer of ownership and loan agreement but limited to 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 January 2017 to 31st December 2018

2. Review of Stamp Duty on Transfer of Real Estate

- Stamp duty on instruments of transfer of real estate on amount exceeding RM1 million be increased from 3% to 4%
- Effective 1st January 2018

E. Goods and Services Tax

1. GST Relief for Disabled Persons

- It is proposed that GST relief be extended to more disabled persons including non Private Charitable Entities members i.e. valid OKU card holders on the purchase of approved equipment from the suppliers designated by the Social Welfare Department and be expanded to include the following equipment:-
 - Callipers;
 - Artificial prosthetic and orthotic;
 - Motorised wheelchair;
 - Home care / hospital bed;
 - Braille display;
 - Vibrating alarm indicators;
 - Flashing / signalling device;
 - Magnifier;
 - Special lenses;
 - Optical character recognition (OCR) equipment;
 - Medical cushion;
 - Ripple mattress;
 - Walking frame;
 - Crutches and rubber ends;
 - Vehicle wheelchair lift and restraints;
 - Portable ramps;
 - Hand controls for driving;
 - Shower chair;
 - Commode chair; and
 - Teletypewriter
- Effective 1st January 2017

2. Review of GST Treatment in Free Zones

- To streamline the GST treatment in free zones, namely Free Commercial Zone ["FCZ"] and Free Industrial Zone ["FIZ"], it is proposed that the GST treatment be determined as follows:-
 - GST is not chargeable on the supply and removal of goods made within and between FCZ;
 - GST shall not be due and payable on the goods imported into the FIZ;
 - GST is not chargeable on the supply and removal of goods made within and between FIZ;
 - GST is not chargeable on the supply and removal of goods made within FCZ and FIZ, vice versa;
 - GST is suspended on the removal of goods from free zone to Designated Areas i.e. Langkawi, Labuan and Tioman, vice versa; and
 - GST is suspended on the removal of goods from free zone to an approved warehouse under the Warehousing Scheme, vice versa.
- The above shall not apply to the following supplies:-
 - goods as prescribed under the Free Zones (Exemption of Goods and Services) Order 1998;
 - goods and services as prescribed under Goods and Services Tax (Imposition of Tax for Supplies in Respect of Designated Areas) Order 2014; and
 - any other goods prescribed by the Minister of Finance
- Effective 1st January 2017

3. Warehousing Scheme

- To streamline the GST treatment between imported goods and goods supplied from Principal Customs Area as well as to facilitate the GST administration under the Warehousing Scheme, it is proposed that no GST shall be charged on the goods supplied from Licensed Manufacturing Warehouse, Excise Warehouse and FIZ that are deposited into and supplied within and between warehouse under the Warehousing Scheme
- Warehouse in this context means customs warehouse, licensed warehouse, duty free shop and inland clearance depot
- Effective 1st January 2017

F. Others

1. Private Retirement Scheme

- For youth contributors of Private Retirement Scheme ["PRS"] with a minimum cumulative investment of RM1,000 during the period of 2 years, a one-off payment from existing RM500 to RM1,000 incentive be given by the Government in the form of purchase of additional units in the PRS with approved PRS providers
- Effective 2017

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