

2018 Budget Highlights

Executive Summary

The rise of Catalan seeking for independence, the youngest French President elected, British poll results, Donald Trump's win in the United States of America presidential election and the Brexit, are amongst the many manifestation of the disappointment of citizens towards their government's inability to solve their daily problems.

In the local scene, bread-and-butter issues such as job security, education, affordable housing, rising cost of living and healthcare services continue to dominate the wish list of the *Rakyat* that need to be addressed.

Imagine a book that never have an end, where every page turns to a new chapter, the tabling of the 2018 Budget would be scrutinised to determine which sectors or segments of the society will benefit from it. What is more intense is that the 2018 Budget will be the last budget before the polls are called.

The shrinking fiscal deficit with the improving economic outlook will be a pulling factor to appeal to voters in an expected election budget where Malaysia has in recent years continued to be loomed in politics, corruptions, racial and religious controversial issues.

Hyperlinks

- [Moore Stephens Malaysia](#)
- [Moore Stephens International](#)
- [Inland Revenue Board](#)
- [2018 Budget Speech](#)
- [Appendices to Budget Speech](#)

Contact details

Advent MS Tax Consultants Sdn Bhd [703669-U]
Unit 3.3A, 3rd Floor, Surian Tower
No. 1 Jalan PJU 7/3, Mutiara Damansara
47810 Petaling Jaya, Selangor, Malaysia

T +603 7728 1800
F +603 7728 9800
E tax@moorestephens.com.my
www.moorestephens.com.my



Fuelling much anticipation and excitement over the tabling of the 2018 Budget, our honourable Prime Minister, Y.A. B. Dato' Sri Mohd Najib Tun Haji Abdul Razak, who is also the Finance Minister tabled the annual budget in the *Dewan Rakyat*.

“The National Transformation 2050” or TN50 which was announced last year in preparation for the future of the nation in the period 2020 to 2050, Budget 2018 – Prospering an Inclusive Economy, Balancing between Worldly and Hereafter, For the Wellbeing of *Rakyat*, Towards the TN50 Aspiration, continues to strengthen and chart the vision of being a developed nation in terms of economic development, citizen wellbeing and innovation.

Being a continuation of a balance and people-centric budget which intend to spur the wellbeing of the *Rakyat* and economy of the country, the merits of the budget focused on 8 thrusts:-

1. Invigorating Investment, Trade and Industries
2. Towards TN50 Aspiration
3. Empowering Education, Skills and Trainings, and Talent Development
4. Driving Inclusive Development
5. Prioritising The Wellbeing of *Rakyat* and Provide Opportunities to Generate Income
6. Fortifying the Fourth Industrial Revolution and Digital Economy
7. Enhancing Efficiency and Delivery of Government-Linked Companies and Public Service
8. Balancing between the Par Excellence of Worldly and Hereafter

Countering the Rising Cost of Living

Congratulations to the 261,000 lucky individuals who are no longer subject to personal income tax.

With the reduction of 2% on chargeable income band of RM20,001 to RM70,000, the middle income earners are set to benefit from the additional pocket money ranging from RM300 to RM1,000, apart from the lucky winners.

Another notable counter effort that can be seen is the introduction of a 50% exemption from income tax for individuals that rent out their residential homes with a monthly rental below RM2,000. It is a win-win situation for both the landlord and the tenant, whom may save up some cost while eagerly awaiting the opportunity to snap up an affordable dream house.

The abolishment of toll collection in certain locations and the expansion of the public infrastructures are set to help alleviating the plight of the *Rakyat* who are struggling to cope with the replacement of fuel subsidy with a weekly float price system.

Harmonisation of GST

The speculation of a hike in GST rate prior to the tabling of the 2018 Budget made many Malaysians sweat with fear and concern over the rising cost of living, let alone the uncertainties in global economy which is still struggling to stand on its feet. However, it is a mere rumour.

Instead, the Government has taken the initiative to provide GST reliefs on acquisition of goods by the local authorities, construction services for the construction of school buildings and places of worship, and handling services rendered by sea port operators to cruise ships in an effort to promote the economic expansion and lessen the burden of the *Rakyat* of this country.

Mother of All Budgets

That is what our Prime Minister has to say for the 2018 Budget. And, indeed it was announced that year 2018 would be the Women Empowerment Year.

By the end of year 2018, we could expect “girl power” to dominate the local scene.

Starting with government-linked companies, government-linked investment companies and statutory bodies whereby the board of directors should be filled with at least 30% participation of women.

In addition, women who decide to return to the workforce after a career break of at least 2 years would enjoy the privilege of having their employment income exempted from personal income tax. And, if you are a public servant in the fifth month of pregnancy, you will be entitled to leave work an hour earlier. Your spouse will enjoy the same benefit too if he is working in the same location.

And, for the mothers-to-be, the private sector has been urged to grant 90 days of maternity leave, which the public sector has accomplished, instead of the current 60 days.

Conclusion

There are a lot of expectations for the 2018 Budget.

It is said to contain goodies in a last effort to please voters for the forthcoming 14th general election.

Yet, there are no drastic measures or taxes that upset the equilibrium. Instead, it provides a comprehensive budget that measures the wellbeing of the *Rakyat* in all aspects. An all-rounder, broad based economic growth budget.

With the global economy landscape continues to evolve towards technology advancement, digital economy is the future. The introduction of Industrial Revolution 4.0 together with human capital development and innovation will unleash the growth potential of Malaysian economy expansion via various incentives such as the TN50 programme.

The key amendments outlined in the 2018 Budget are summarised 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 (No. 2) Bill 2017 at the time of publication, we will update you on any further developments affecting the above categories in due course.

Legend

DGIR	=	Director General of Inland Revenue
DGRMC	=	Director General of Royal Malaysian Customs
GST	=	Goods and Services Tax
GST Act 2014	=	Goods and Services Tax Act 2014
ICT	=	Information and Communication Technology
ITA	=	Investment Tax Allowance
ITA 1967	=	Income Tax Act 1967
MIDA	=	Malaysian Investment Development Authority
MOF	=	Ministry of Finance / Minister of Finance
PS	=	Pioneer Status
REITs	=	Real Estate Investment Trusts
SC	=	Securities Commission
SOCSSO	=	Social Security Organisation
WT	=	Withholding Tax
YA	=	Year of Assessment

A. Income Tax – Changes Affecting Individuals

1. Reduction in Individual Tax Rates

- Tax rates for resident individuals be reduced by 2% for chargeable income bands from RM20,001 to RM70,000
- A comparison is as shown below:-

Chargeable Income RM	Current Tax Rates %	Proposed Tax Rates %	Reduction %
0 – 5,000	0	0	-
5,001 – 20,000	1	1	-
20,001 – 35,000	5	3	2
35,001 – 50,000	10	8	2
50,001 – 70,000	16	14	2
70,001 – 100,000	21	21	-
100,001 – 250,000	24	24	-
250,001 – 400,000	24.5	24.5	-
400,001 – 600,000	25	25	-
600,001 – 1,000,000	26	26	-
Exceeding 1,000,000	28	28	-

- Effective YA 2018

2. Extension of Tax Relief Period for *Skim Simpanan Pendidikan Nasional*

- Relief of up to RM6,000 be given on net 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 extended for another 3 years
- Effective YA 2018 to YA 2020

3. Exemption on Rental Income from Residential Homes

- Exemption of 50% be given to resident individuals for a maximum of 3 consecutive years of assessment in respect of rental income received from letting out of residential homes
- Eligibility criteria:-
 - rental income received for each residential home does not exceed RM2,000 per month; and
 - a legal tenancy agreement is executed for the residential home rented out
- Effective YA 2018 to YA 2020

4. Review of Tax Incentives for VC

- Please refer to Part B10 below

5. Extension of Application Period for Tax Incentive for Angel Investor

- The application period for an Angel Investor to claim tax exemption equivalent to the amount of the investment made in the investee company ["IC"] be extended for another 3 years
- Qualifying criteria:-
 - Angel Investor
 - a tax resident whose income is not solely derived from business;
 - none of his family members makes any investment in the IC;
 - the investment is solely for the purpose of financing the activities of the IC approved by the MOF; and

- does not hold more than 30% of the total paid-up share capital of the IC
- IC
 - incorporated under the Companies Act 1965 (or the Companies Act 2016 subsequent to the repeal of the Companies Act 1965) and a resident in Malaysia;
 - minimum of 51% of the issued share capital is directly owned by a Malaysian citizen (other than the Angel Investor); and
 - carries on the qualifying activities approved by the MOF
- Effective for application received by the MOF from 1st January 2018 to 31st December 2020

6. Exemption of Income for Women Returning to Work After Career Break

- Tax exemption on employment income up to 12 consecutive months be given to female taxpayers who return to work after being on a career break for at least 2 years on 27th October 2017
- Application must be submitted to Talent Corporation Malaysia Berhad from 1st January 2018 to 31st December 2019
- Effective YA 2018 to YA 2020

B. Income Tax – Changes Affecting Companies and Unincorporated Businesses

1. Implementation of Earning Stripping Rules to Replace Thin Capitalisation Rules

- Earning Stripping Rules [“ESR”] be introduced to replace the Thin Capitalisation Rules which has been deferred for enforcement until 31st December 2017
- Under the ESR, interest deduction on loans between related companies within the same group will be limited to a ratio ranging from 10% to 30% of the company’s Earning Before Interest and Taxes [“EBIT”] or Earning Before Interest, Tax, Depreciation and Amortisation [“EBITDA”]
- Effective 1st January 2019

2. Income Tax Exemption on Green SRI Sukuk Grant

- Income tax exemption be given to the recipient of the Green Sustainable and Responsible Investments [“Green SRI”] *sukuk* grant to finance the external review expenditure incurred for the issuance of *sukuk*
- Effective for applications received by the SC from 1st January 2018 to 31st December 2020
- Pending the gazette of the relevant legislations, it is unknown whether the external review expenditure incurred out of the grant received will be disallowed for tax deduction

3. Expansion of Scope of Tax Exemption for Fund Management Services

- Currently, tax exemption is given to companies providing management services to foreign investors, local investors, business trusts and REITs in Malaysia if the *Shariah*-compliant funds are approved by the SC
- The tax exemption be extended to include management fee income from management of conventional and *Shariah*-compliant SRI funds approved by the SC
- Effective YA 2018 to YA 2020

4. Capital Allowance for ICT Equipment, Computer Software Packages and Customised Software

- Expenditure incurred on the following be allowed for the claim of capital allowance at the initial and annual rates of 20% respectively:-
 - i. purchase of ICT equipment and computer packages; and
 - ii. development of customised software comprising of consultation fee, licensing fee and incidental fee related to software development
- Effective YA 2017 for (i) and YA 2018 for (ii)

5. Extension of Tax Incentive Period for Automation in Labour Intensive Industries

- Accelerated capital allowance ["ACA"] of 100% on the first RM4 million automation expenditure and automation equipment allowance ["AEA"] equivalent to 100% of the automation expenditure be extended for another 3 years to encourage automation in the manufacturing sector
- Eligible criteria:-
 - For manufacturing companies which undertake qualifying project relating to rubber, plastic, wood, furniture and textile; and
 - The automation expenditure must be incurred within YA 2015 to YA 2020
- Extended for application received by MIDA from 1st January 2018 to 31st December 2020

6. New Tax Incentive for Transformation to Industry 4.0

- Tax incentives be given in the form of ACA and AEA to encourage companies in the manufacturing and manufacturing related services sectors which adopt advanced technology to transform to Industry 4.0
- The ACA and AEA will be provided on the first RM10 million qualifying capital expenditure incurred in the YA 2018 to YA 2020 and is fully claimable within 2 years of assessment
- Effective for applications received by MIDA from 1st January 2018 to 31st December 2020

7. Further Deductions for Employment of Disabled Person

- Employers be given further deduction on salary paid to an employee who has been affected by accidents or critical illnesses and certified by the Medical Board of SOCSO that he/she is able to work within his/her capabilities
- Effective YA 2018

8. Extension of Tax Incentive Period for Tour Operating Companies

- Income tax exemption of 100% on statutory income derived from the following tour packages operated by tour operating companies licenced under the Tourism Industry Act 1992 be extended for another 2 years:-
 - Tour packages within Malaysia participated by not less than 1,500 local tourists annually; and
 - Tour packages to Malaysia participated by not less than 750 foreign tourists annually
- Effective YA 2019 and YA 2020

9. Double Deduction for Expenses Incurred in Obtaining Certification for Quality Systems and Standards

- Double deduction for expenses, not being capital expenditure, incurred in obtaining certification for quality systems and standards from the following approved certification bodies be given to companies registered with Malaysia Healthcare Travel Council that provide dental and ambulatory healthcare services:-
 - Malaysian Society for Quality in Health – Malaysia;
 - Joint Commission International – United States of America;
 - CHKS Accreditation Unit – United Kingdom;
 - The Australian Council on Health Care Standard – Australia; and
 - Accreditation Canada – Canada
- Effective YA 2018

10. Review of Tax Incentives for VC

- Income of a venture capital management corporation ["VCMC"] that is exempted from the payment of income tax be expanded to include the following statutory income received in managing venture capital companies ["VCC"] funds:-
 - management fees; and
 - performance fees

- The condition for VCC to invest at least 70% of its invested funds in a venture capital ["VC"] in the form of seed capital, start-up or early stage financing in order to qualify for tax exemption be reduced from 70% to 50%
- Tax deduction equivalent to the amount of investment made in a VC given to company and individual with business income be expanded to include the amount of investment made on VCC funds created by VCMC, subject to a maximum of RM20 million per year for each company or individual
- Applications must be received by the SC from 1st January 2018 to 31st December 2018
- Effective YA 2018 to YA 2022

C. Investment Incentives

1. Extension of 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% based on the following criteria:-
 - Minimum paid-up capital of RM2.5 million;
 - Minimum annual sales of RM300 million;
 - Monitoring and providing services to at least 3 related companies located and operating outside Malaysia;
 - Carrying out at least 3 qualifying services, out of which one must be from "Strategic Services" cluster;
 - Acquiring local professionals and local financial services
- The above income tax exemption be extended for another 3 years until 31st December 2020 subject to the adherence to the criteria of Forum on Harmful Tax Practices
- Effective for applications received by MIDA 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 given to investors undertaking new investments in 4 and 5-star hotels be extended for another 2 years until 31st December 2020:-
 - Peninsular Malaysia
 - 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 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 MIDA until 31st December 2020

3. Extension of Tax Incentive for Medical Tourism

- Currently, ITA of 100% on the qualifying capital expenditure for a period of 5 years is given to new or existing companies that are providing private healthcare facilities services to healthcare traveller and carrying out a new investment or engaging in expansion, modernisation or refurbishment of its existing private healthcare facility business
- Conditions:-
 - Eligible companies must be:-
 - Incorporated under the Companies Act 2016 and residing in Malaysia;
 - Licensed by the Ministry of Health Malaysia; and
 - Registered with the Malaysian Healthcare Tourism Council

- Eligible healthcare traveller must be:-
 - Non-Malaysian citizen who participates in Malaysia My Second Home programme and his dependents;
 - Expatriate holding a Malaysian work permit and his dependents; or
 - Non-Malaysian citizen who visits and receives treatment from private healthcare facilities in Malaysia
- At least 5% of the total number of patients receiving private healthcare services are qualified healthcare travellers per year of assessment; and
- At least 5% of the company's gross income is derived from qualified healthcare travellers for each year of assessment
- This tax incentive be extended for another 3 years until 31st December 2020 and all the above conditions remained unchanged except for the following:-
 - At least 10% of the total number of patients receiving private healthcare services are qualified healthcare travellers per year of assessment; and
 - At least 10% of the company's gross income is derived from qualified healthcare travellers for each year of assessment
- Effective for applications received by MIDA until 31st December 2020

4. Review of Tax Incentive for Export of Private Healthcare Services

- Currently, the private healthcare sector is given an exemption of statutory income equivalent to 50% of the value of increased exports of healthcare services and the exemption can be set-off against 70% of statutory income
- It is proposed that the income tax exemption be increased from 50% to 100% of the value of increased exports of services, subject to the following additional conditions:-
 - At least 10% of the total number of patients receiving private healthcare services are qualified healthcare travellers per year of assessment; and
 - At least 10% of the company's gross income is derived from qualified healthcare travellers for each year of assessment
- Effective YA 2018 to YA 2020

D. Stamp Duty

1. Extension of Stamp Duty Exemption for Revival of Abandoned Housing Projects

- The stamp duty exemption given to the following parties on instruments executed from 1st January 2013 to 31st December 2017 be extended for another 3 years:-
 - Rescuing contractor / developer
 - Loan agreements to finance the revival of the abandoned housing project
 - Instruments of transfer of title for land and houses in the abandoned housing project
 - Original house purchaser in the abandoned housing project
 - Loan agreements for additional financing facilities
 - Instruments of transfer of the house
- The abandoned housing projects must be certified by the Ministry of Urban Wellbeing, Housing and Local Government
- Effective for loan agreements and memorandums of transfer executed from 1st January 2018 to 31st December 2020

2. Stamp Duty Exemption on Contract Notes for Trading of ETF and SW

- Stamp duty exemption be given on contract notes for trading of Exchange Traded Funds ["ETF"] and Structured Warrants ["SW"] by investors
- Effective for contract notes for trading of ETF and SW executed from 1st January 2018 to 31st December 2020

E. Goods and Services Tax

1. Review of GST Treatment for Local Authorities

- To streamline the GST treatment between the Federal Government, the State Government and the Local Authorities, it is proposed that all supplies made by the Local Authorities be regarded as out of scope supply and not subject to GST
- GST relief be given to the Local Authorities on the acquisition of all goods excluding petroleum, commercial buildings, land and imported motor vehicles
- Effective 1st April 2018 or 1st October 2018 as opted by the Local Authorities

2. Harmonising GST Treatment on Reading Materials

- Supply of magazines, journals, periodicals and comics (currently subject to 6% GST) be treated as zero-rated supply in order to streamline the GST treatment on all types of reading materials
- Effective 1st January 2018

3. Exemption of GST in respect of Management and Maintenance Services of Stratified Residential Buildings

- It is proposed that the exemption of GST in respect of management and maintenance services (including recovery of group insurance cost, assessment tax and quit rent) supplied by a joint management body and management corporation to owners of stratified residential buildings be widen to cover the similar supplies made by housing developers
- Effective 1st January 2018

4. GST Relief on Construction Services for School Buildings and Places of Worship

- It is proposed that GST relief be given on construction services for the construction of school buildings and places of worship financed through public donations. The GST relief does not apply to the purchase of commercial buildings
- The GST relief is restricted to the construction services for which the invoice has not been issued
- Additional conditions for entitlement to the GST relief:-
 - The approval under Section 44(6) of the ITA 1967 for the construction fund has been obtained;
 - The approvals for development and construction by the Local Authorities, the Ministry of Education Malaysia or State Religious Councils (for *surau* or mosques) have been obtained;
 - The school buildings including hall and sports facilities constructed are directly used for teaching and learning purposes; and
 - The construction services contract is signed on or after 1st April 2017
- Effective for applications submitted to MOF from 27th October 2017

5. GST Relief on Importation of Big Ticket Items

- It is proposed that GST relief be given on importation of big ticket items such as:-
 - aircrafts and ships by companies in the aviation and shipping industries
 - oil rigs or floating structures by companies in the oil and gas industry
- A list of the big ticket items and the terms and conditions of the approvals will be stipulated by MOF
- Effective 1st January 2018

6. Relief from Payment of GST on Importation of Goods under Lease Agreements into Malaysia from Designated Areas

- It is proposed that relief from payment of GST be given to companies involved in the oil and gas industry on the importation of goods under lease agreements into Malaysia from Designated Areas (i.e. Langkawi, Labuan and Tioman)
- A list of goods and the terms and conditions of approvals will be stipulated by the MOF
- Effective 1st January 2018

7. GST Relief on Handling Services Rendered to Operators of Cruise Ships

- Currently, the definition of “ship” under Item 2 of the GST (Zero-Rated Supply) Order 2014 does not include any vessel which is designed or adapted for the purpose of recreation or pleasure such as cruise ship
- It is proposed that GST relief be given to cruise ship operators on handling services [as defined under Item 3(2), Second Schedule of the GST (Zero-Rated Supply) Order 2014] provided by sea port operators in Malaysia
- Effective 1st January 2018 to 31st December 2020

8. The Merger of Customs Appeal Tribunal and GST Appeal Tribunal

- It is proposed that both Customs Appeal Tribunal [“CAT”] and GST Appeal Tribunal [“GSTAT”] be merged to a single tribunal called CAT to ensure smooth and efficient management of appeals and optimum use of resources
- Any taxpayer or company aggrieved by the decision of the DGRMC on matters relating to customs and GST (except for certain prescribed non-appealable matters under the Fourth Schedule of the GST Act 2014) may lodge an appeal to CAT
- Effective 1st January 2019

F. Others

1. Duty-Free Island

- Pulau Pangkor in Perak will be regarded as duty-free Island. The duty-free status shall exclude alcoholic beverages, tobaccos and motor vehicles

2. Free Industrial Zone

- The Special Border Economic Zone in Bukit Kayu Hitam will be developed as a Free Industrial Zone to stimulate economic growth in the northern area

3. 1Malaysia Retirement Scheme [“SP1M”]

- Government contribution be increased from 10% to 15% or from a maximum of RM120 to RM250 per year
- Effective 1st January 2018 to 31st December 2022

4. Domestic Investment Strategic Fund

- The government will provide a matching grant of RM245 million under the Domestic Investment Strategic Fund in enhancing the Smart Manufacturing Facilities to encourage the transformation to Industry 4.0

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