



2017 BUDGET HIGHLIGHTS

(INCORPORATING FINANCE
BILL 2016)

**Ensuring Unity and
Economic Growth,
Inclusive Prudent Spending,
Well-Being of the Rakyat**

2 November 2016





Overview and Commentary

On Friday, 21 October 2016, the Honourable Prime Minister, YAB Dato' Sri Mohd Najib Tun Haji Abdul Razak, tabled the 2017 Budget themed "Ensuring Unity and Economic Growth, Inclusive Prudent Spending, Wellbeing of the Rakyat".

Standing at RM260.8 billion, Budget 2017 underscores the Government's commitment to exercising fiscal discipline and alleviating the concerns of the Rakyat whilst not detracting from longer-term development goals. Despite economic uncertainty and subdued growth across the global economy, Malaysia's targeted growth trajectory for 2017 is still set at an admirable 4% - 5% as compared to forecast global growth of 3.4%. This is coupled with a fiscal deficit goal of 3% of Gross Domestic Product (reduced from 3.1% in 2016). Similar to 2016, domestic demand and private investment are projected to be the key drivers of growth in 2017.

In support of its People Economy agenda, Budget 2017 introduces a wide spectrum of Rakyat-Centric measures which are premised on the novel concept of "Public Happiness". Such initiatives are aimed at enhancing the Rakyat's quality of life by focusing on key areas such as healthcare, education, housing, and transportation whilst safeguarding the welfare of vulnerable socioeconomic groups. Other welcome measures include the increased BR1M assistance, targeted grants and allocations, and the Government's decision to maintain the GST rate at 6%.

The Government has also highlighted its commitment to pro-business strategies to strengthen Malaysia's Capital Economy. These include, amongst others, stimulating private investment, bolstering the export and tourism sectors, and advancing the digital economy. Small and Medium Enterprises in particular were commended for their significant economic contributions, and various schemes have been announced to promote developing sectors. Notably, the introduction of a new corporate tax rate scheme for Years of Assessment 2017 and 2018 is a welcome and innovative measure to incentivize and reward companies which have achieved growth.

Taken in its entirety, Budget 2017 contains a host of balanced measures to support Malaysia's goal to achieve advanced and high-income status. Details on these measures and other key changes are set out in the following pages. Should you have any queries relating to our 2017 Budget Highlights or any other tax matters, please feel free to contact your KPMG consultants or send us an e-mail at www.kpmg.com.my.

Tai Lai Kok

Executive Director – Head of Tax
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CORPORATE TAX	
<p>Review of Corporate Income Tax Rate for Small and Medium Enterprises (“SMEs¹”) and Limited Liability Partnerships (“LLPs²”)</p>	<p>Currently, SMEs and LLPs are subject to income tax at a rate of 19% on chargeable income of up to RM500,000 and the remaining chargeable income is subject to income tax at 24%.</p> <p>It is proposed that the rate for chargeable income of up to RM500,000 (i.e. 19%) for SMEs and LLPs be reduced to 18%.</p> <p>The proposal is effective from Year of Assessment (“YA”) 2017.</p> <p><i>Note 1: Companies incorporated and resident in Malaysia with paid up capital of up to RM2.5 million and is not related to a company with paid up capital of more than RM2.5 million.</i></p> <p><i>Note 2: LLPs resident in Malaysia with total capital contribution (whether in cash or in kind) of up to RM2.5 million.</i></p>
<p>Reduction of Income Tax Rate Based on the Increase in Chargeable Income</p>	<p>It is proposed that reduction in income tax rate (currently at 24%) be given to the following taxpayers based on the percentage of increase in their chargeable income as compared to the immediate preceding YA:</p> <ol style="list-style-type: none"> i. A company with paid up capital of more than RM2.5 million or a LLP with total contribution of capital of more than RM2.5 million; ii. A company with paid up capital of up to RM2.5 million or a LLP with total contribution of capital of up to RM2.5 million on the chargeable income exceeding RM500,000¹; and iii. Trust body, executor of an estate of an individual who was domiciled outside Malaysia at the time of his death and receiver appointed by the court. <p><i>Note 1: For chargeable income of up to RM500,000, the prevailing income tax rate is 19% (with effect from YA 2017 : 18%).</i></p>

	<p>The reduction of the income tax rate is as follows:</p> <table border="1" data-bbox="516 346 1344 871"> <thead> <tr> <th data-bbox="516 346 847 487">Percentage of Increase in Chargeable Income ("CI") as Compared to the Immediate Preceding YA</th> <th data-bbox="847 346 1013 487">Percentage Point Reduction</th> <th data-bbox="1013 346 1344 487">Income Tax Rate Applicable for Increase in Chargeable Income</th> </tr> </thead> <tbody> <tr> <td data-bbox="516 487 847 562">Less than 5.00</td> <td data-bbox="847 487 1013 562">Nil</td> <td data-bbox="1013 487 1344 562">24</td> </tr> <tr> <td data-bbox="516 562 847 638">5.00 – 9.99</td> <td data-bbox="847 562 1013 638">1</td> <td data-bbox="1013 562 1344 638">23</td> </tr> <tr> <td data-bbox="516 638 847 714">10.00 – 14.99</td> <td data-bbox="847 638 1013 714">2</td> <td data-bbox="1013 638 1344 714">22</td> </tr> <tr> <td data-bbox="516 714 847 789">15.00 – 19.99</td> <td data-bbox="847 714 1013 789">3</td> <td data-bbox="1013 714 1344 789">21</td> </tr> <tr> <td data-bbox="516 789 847 865">20.00 and above</td> <td data-bbox="847 789 1013 865">4</td> <td data-bbox="1013 789 1344 865">20</td> </tr> </tbody> </table> <p>The proposal is subject to the statutory order to be gazetted and would be effective for YA 2017 and YA 2018.</p>	Percentage of Increase in Chargeable Income ("CI") as Compared to the Immediate Preceding YA	Percentage Point Reduction	Income Tax Rate Applicable for Increase in 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
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<p>Increase in the Limit of Tax Deduction for Sponsoring Arts, Cultural and Heritage Activities</p>	<p>To further promote arts, cultural and heritage activities in Malaysia, it is proposed that the limit of tax deduction for a company that sponsors such activities be increased from RM500,000 to RM700,000 per year, of which the deduction allowed for sponsoring foreign activities be limited to RM300,000.</p> <p>The proposal is effective from YA 2017.</p>																		
<p>Definition of Royalty</p>	<p>It is proposed that the definition of "royalty" under Section 2(1) of the Income Tax Act, 1967 ("ITA") be expanded to include any sums paid as consideration for, or derived from –</p> <ol style="list-style-type: none"> <li data-bbox="516 1432 1052 1465">i. the use of, or the right to use software; <li data-bbox="516 1495 1380 1600">ii. the reception of, or the right to receive, visual images or sounds, or both, transmitted to the public by satellite, cable, fibre optic or similar technology; <li data-bbox="516 1629 1367 1734">iii. the use of, or the right to use, visual images or sounds, or both, in connection with television broadcasting or radio broadcasting, transmitted by satellite, cable, fibre optic or similar technology; <li data-bbox="516 1764 1286 1831">iv. the use of, or the right to use, some or all of the part of the radiofrequency spectrum specified in a relevant licence; 																		

	<p>v. a total or partial forbearance in respect of the use / reception of, or the granting of the right to use / to receive falling within the definition of royalty.</p> <p>This proposal widens the scope of payments which are subject to withholding tax under Section 109 of the ITA to include as royalties, amongst others, the use of or the right to use software; or the alienation of software.</p> <p>However, it awaits to be seen the approach the Inland Revenue Board (“IRB”) would adopt towards cases where the royalty definition under the relevant double taxation agreements differ from the definition of royalty in the domestic tax legislation.</p> <p>This proposal is effective on the coming into operation of the Finance Act 2016.</p>
<p>Cash Donations to an Approved Fund Held by an Institution or Organisation</p>	<p>Currently, cash donations made by a person in the relevant year to the Government, a State Government, a local authority or an institution or organisation approved by the Director General of Inland Revenue (“DGIR”), is deductible from the aggregate income of that person. The donation to be deducted shall not exceed:-</p> <ul style="list-style-type: none"> i. seven per cent of the aggregate income of that person in the relevant year (in the case of a person other than a company); or ii. ten per cent of the aggregate income in the case of a company. <p>It is proposed that cash donations made by a person to a “fund” approved by the DGIR be deductible.</p> <p>“fund” is defined as a fund administered and augmented by an institution or organisation in Malaysia for the sole purpose of carrying out the objectives for which the fund is established or held and that fund is not established or held primarily for profit.</p> <p>The income of the approved fund will also be exempted from tax as long as the approval status is in force.</p> <p>The proposal is effective from YA 2017.</p>
<p>Contributions for approved Sports Activity</p>	<p>Currently, any gift of money or cost of contribution in kind made for any sports activity approved by Minister of Finance (“MOF”) or to any sports body approved by the Commissioner of Sports appointed under the Sports Development Act 1997, is accorded a tax deduction.</p>

	<p>It is proposed that only cash contributions for any sports activity approved by the MOF be tax deductible.</p> <p>The proposal is effective from YA 2017.</p>
<p>Withholding Tax on Payments for Services Performed Outside Malaysia</p>	<p>It is proposed that the gross income of a non-resident person from the following special classes of income be deemed to be derived from Malaysia irrespective of whether the services are performed in Malaysia or outside Malaysia:</p> <ul style="list-style-type: none"> i. the amounts paid in consideration of services rendered by the non-resident person or his employee in connection with <ul style="list-style-type: none"> a. the use of property rights belonging to him, or b. the installation or operation of any plant, machinery or other apparatus purchased from him [paragraph 4A(i) of the ITA]. ii. amounts paid to a non-resident person in consideration of technical advice, assistance or services rendered in connection with technical management or administration of any scientific, industrial or commercial undertaking, venture, scheme [paragraph 4A(ii) of the ITA]. <p>The proviso to Section 15A of the ITA, which was introduced from 21 September 2002, to exclude payments for services rendered outside Malaysia from being subject to withholding tax under Section 109B of the ITA has been revoked.</p> <p>The above proposed amendment is likely to cause concern for non-residents who may question whether Malaysia has the right to tax such income, in particular where the services are performed by the non-resident outside Malaysia and there is a comprehensive double taxation agreement in place.</p> <p>This proposal is effective on the coming into operation of the Finance Act 2016.</p>
<p>Industrial Building Allowance (“IBA”)</p>	<p>With effect from YA 2016, IBA could not be claimed in respect of expenditure incurred in relation to the following buildings where such buildings or parts thereof are used by the person for letting purposes including the business of letting:-</p> <ul style="list-style-type: none"> i. licensed private hospital, maternity home and nursing home; ii. building used for approved research;

	<ul style="list-style-type: none"> iii. building used for warehouse, solely for storage of goods for export or for storage for imported goods to be processed and distributed or re-exported; iv. building used for approved service project; v. building used for hotel which is registered with the Ministry of Tourism; vi. airport; vii. approved motor racing circuit; viii. building used as living accommodation for employees of a person carrying on manufacturing, hotel or tourism business or an approved service project; and ix. approved building for school or education institution. <p>A proposed amendment seeks to include into that category buildings used for industrial, technical or vocational training approved by the MOF.</p> <p>A further proposed amendment has also been made to permit claims for IBA in the following situations:</p> <ul style="list-style-type: none"> i. where part of any of the above buildings used by a person for letting purposes is not more than one-tenth of the floor area of the whole building, the whole building will qualify for IBA. ii. where part of the building used by the person for letting purposes is more than one-tenth of the floor area of the whole building, IBA will only be allowed on the floor area on the part of the building which is not used for the purpose of letting of property. <p>The proposals are effective from YA 2016.</p>
<p>Single Tier Dividend</p>	<p>Currently, expenses incurred in relations to single tier dividend are disregarded in ascertaining the adjusted income of a person.</p> <p>To provide more clarity to the non-deduction of expenses associated with single tier dividend, it is proposed that any deduction incurred in relation to such dividend shall be disregarded for the purpose of ascertaining the chargeable income of the person.</p> <p>The proposal is effective from YA 2017.</p>

<p>Restriction of Tax Exemption on Interest Income</p>	<p>Currently, the following interest income are exempted from tax:</p> <ul style="list-style-type: none"> i. Interest paid or credited to any company not resident in Malaysia, other than such interest accruing to a place of business in Malaysia of such company; <ul style="list-style-type: none"> a. in respect of securities issued by the Government; or b. in respect of sukuk or debenture issued in Ringgit Malaysia, other than convertible loan stock, approved or authorized by, or lodged with, the Securities Commission ("SC"). ii. Interest paid or credited to any person in respect of sukuk originating from Malaysia, other than convertible loan stock; <ul style="list-style-type: none"> a. issued in any currency other than Ringgit; and b. approved or authorized by, or lodged with, the SC, or approved by the Labuan Financial Services Authority. <p>It is proposed that the exemption for the interest income as specified above would not apply to interest paid or credited to a company in the same group.</p> <p>In addition, in respect of item (ii) above, tax exemption would also not apply to interest paid or credited to-</p> <ul style="list-style-type: none"> i. a bank licensed under the Financial Services Act 2013 ("FSA"); ii. an Islamic bank licensed under the Islamic Financial Services Act 2013 ("IFSA"); or iii. a development financial institution prescribed under the Development Financial Institutions Act 2002. <p>The above proposals are effective from YA 2017.</p>
<p>REAL PROPERTY GAINS TAX</p>	
<p>Goods and Services Tax ("GST") Adjustment to Incidental Costs and Excluded Expenditure</p>	<p>Where a disposer has incurred expenditure for the purpose of acquisition or disposal of an asset and the input tax on the asset is subject to any adjustment made under the GST Act 2014 ("GST Act"), a corresponding adjustment shall be made on the expenditure. The adjustment shall be made in the YA in which the disposal is made or the YA in which the period of adjustment relating to the asset as provided under the GST Act ends, whichever is earlier;</p>

	<p>In the event that the adjustment of the amount of input tax results in: -</p> <ul style="list-style-type: none"> i. an additional amount, such amount shall be deemed to be part of the expenditure incurred; or ii. a reduced amount, the expenditure incurred shall be reduced by such an amount. <p>The proposal is effective from YA 2015.</p>
<p>Submission of Real Property Gains Tax (“RPGT”) Return</p>	<p>Currently, a nominee has to submit the RPGT return to the IRB’s office in Kuala Lumpur if he has no place of business or abode in Malaysia. It is proposed that such submission can now be made in any IRB office.</p> <p>The proposal is effective on the coming into operation of the Finance Act 2016.</p>
<p>Gifts</p>	<p>Currently, where the donor disposes an asset by way of a gift and the donor and recipient are husband and wife, parent and child or grandparent and grandchild, the donor shall be deemed to have received no gain and suffered no loss on the disposal.</p> <p>It is proposed that the disposal of an asset under the above circumstances would only be deemed as no gain and no loss transaction if the donor is a citizen.</p> <p>The proposal is effective from 1 January 2017.</p>
<p>LABUAN</p>	
<p>Amendment to the Definition of “Labuan Non-Trading Activity” and “Labuan Business Activity”</p>	<p>The following amendments have been proposed to the Labuan Business Activity Tax Act 1990:</p> <ul style="list-style-type: none"> i. The definition of ‘Labuan non-trading activity’ is amended to provide that the holding of investments in properties by Labuan entities must be in properties situated in Labuan. ii. The proviso (b) in the definition of ‘Labuan business activity’ is amended to provide that a Labuan entity may only hold shares (previously investments) in a domestic company with residents and in Malaysian currency. <p>The above proposals are effective on the coming into operation of the Finance Act 2016.</p>

TAX INCENTIVES	
<p>Stamp Duty Exemption for the Purchase of First Residential Home</p>	<p>To encourage Malaysian citizens to own a home, it is proposed that the following stamp duty exemption be given on instrument of transfer and loan agreement for the purchase of first home as follows:</p> <ul style="list-style-type: none"> i. Full exemption for home priced not exceeding RM300,000; or ii. Full exemption on first RM300,000 for home priced exceeding RM300,000 but not more than RM500,000, with the remaining balance of the value subject to the prevailing rate. <p>The proposal is effective for sales and purchase agreement executed from 1 January 2017 to 31 December 2018.</p>
<p>Extension of Income Tax Incentives for New 4 and 5 Star Hotels</p>	<p>It is proposed that the application period in respect of the following tax incentives for investments in new 4 and 5 star hotels in Peninsular Malaysia, Sabah and Sarawak be extended for another 2 years from 31 December 2016:-</p> <ul style="list-style-type: none"> i. Peninsular Malaysia <ul style="list-style-type: none"> a. Pioneer Status <p>Exemption of 70% of statutory income for a period of 5 years; or</p> b. Investment Tax Allowance <p>Allowance of 60% on the qualifying capital expenditure incurred within a period of 5 years. This allowance can be set off against up to 70% of statutory income for each YA.</p> ii. Sabah and Sarawak <ul style="list-style-type: none"> a. Pioneer Status <p>Exemption of 100% of statutory income for a period of 5 years; or</p> b. Investment Tax Allowance <p>Allowance of 100% on the qualifying capital expenditure incurred within a period of 5 years. This allowance can be set off against up to 100% of statutory income for each YA.</p> <p>The proposal extends the incentive to applications received by the Malaysian Investment Development Authority up to 31 December 2018.</p>

<p>Extension of the Period and Expansion of the Scope of Double Deduction for the Structured Internship Programme (“SIP”)</p>	<p>Currently, companies resident in Malaysia are given double deduction on qualifying expenses incurred to implement SIP approved by Talent Corporation Malaysia Berhad for eligible Malaysian students.</p> <p>In order to encourage more companies to participate in SIP, it is proposed that:-</p> <ul style="list-style-type: none"> i. The incentive be extended for a period of 3 years; and ii. The scope of SIP be expanded to full-time vocational courses (Malaysian Skills Certificate Level 3). <p>Currently, the double deduction is given on the following expenses: -</p> <ul style="list-style-type: none"> i. Minimum monthly allowance of not less than RM500; ii. Expenditure incurred for the provision of training to the students; iii. Expenditure incurred on meal, travelling and accommodation during the internship programme; and iv. Payment to the appointed third party to run the approved SIP. <p>The proposal is effective from YA 2017 to YA 2019.</p>
<p>Extension of Income Tax and Stamp Duty Exemption for Islamic Banking and Takaful Business</p>	<p>It is proposed that the following incentives given to International Currency Business Unit which operates Islamic banking and takaful business activities transacted in foreign currencies be extended for another 4 years:-</p> <ul style="list-style-type: none"> i. Full tax exemption on income received by Islamic banks licensed under the IFSA and financial institutions licensed under the FSA operating Islamic banking business transacted in foreign currencies including transactions with Malaysian residents; ii. Full tax exemption on income received by takaful companies and takaful unit licensed under the IFSA and FSA operating takaful business transacted in foreign currencies including transactions with Malaysian residents; and iii. Full stamp duty exemption on instruments executed pertaining to Islamic banking and takaful activities transacted in foreign currencies. <p>The proposal extends the tax incentive period up to YA 2020 for items (i) and (ii) whilst item (iii) is extended for instruments executed up to 31 December 2020.</p>

<p>Extension of Tax Incentive for Anchor Companies under the Vendor Development Programme (“VDP”)</p>	<p>Currently, local anchor companies that participate in the VDP and have signed a Memorandum of Understanding (“MoU”) with the Ministry of International Trade and Industry (“MITI”) between 1 January 2014 and 31 December 2016 are given double deduction of up to RM300,000 per YA for a period of 3 consecutive YAs for the following operating expenses certified by MITI:</p> <ul style="list-style-type: none"> i. Cost incurred on activities in relation to product development namely product quality development, product innovation or research and development; ii. Cost incurred on activities in relation to capability improvement namely certification programme (including ISO, Kaizen and 5S certifications), assessment programme or business process re-engineering; and iii. Cost incurred on activities in relation to human capital namely hard skill training, lean management, financial management system or capacity building. <p>To further encourage the participation of anchor companies in developing more competitive local vendors, it is proposed that the incentive for anchor companies that implement VDP be extended to 31 December 2020.</p> <p>The proposal to extend a double deduction is effective for MoU signed with MITI up to 31 December 2020.</p>
<p>Expansion of the Scope of Halal Products Eligible for Incentives for Halal Industry Players</p>	<p>Currently, tax incentives given for Halal Industry Players operating in Halal Parks, promoted by Halal Development Corporation (“HDC”) are as follows:</p> <ul style="list-style-type: none"> i. Full income tax exemption on qualifying capital expenditure for a period of 10 years; or ii. Income tax exemption on increase of export sales for a period of 5 years. iii. Import duty exemption on raw materials used for the development and production of promoted halal products; and iv. Double deduction on expenses incurred in obtaining international quality standards certification such as HACCP, GMP Codex Alimentarius (food standards guidelines of FAO and WHO), Sanitation Standard Operating Procedures and regulations for

	<p>compliance for export markets such as Food and Traceability from farm to fork.</p> <p>The qualifying halal products are as follows:</p> <ol style="list-style-type: none"> i. Specialty processed food; ii. Pharmaceuticals, cosmetics and personal care; iii. Livestock and meat products; and iv. Halal ingredients. <p>To further increase investments as well as enhance Malaysia's competitiveness in the halal products industry, it is proposed that the existing incentives be extended to include production of nutraceutical and probiotic products by Halal Industry Players in Halal Parks.</p> <p>The proposal is applicable to applications received by HDC from 22 October 2016.</p>
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PERSONAL TAX

<p>Tax Relief for Lifestyle</p>	<p>Currently, in order to inculcate reading habit, lead a healthy lifestyle and enhance the usage of computers and internet, a tax resident individual is entitled to claim the following reliefs:</p> <ol style="list-style-type: none"> i. Tax relief of up to RM1,000 for the purchase of reading materials (excluding newspapers and banned reading materials); ii. Tax relief of up to RM300 for the purchase of sports equipment for sports activities as defined under the Sports Development Act 1997; and iii. Tax relief of up to RM3,000 for the purchase of a computer to be claimable once in 3 years. <p>Tax relief of up to RM500 for the subscription of broadband internet was granted from YA 2010 until YA 2012.</p> <p>To provide flexibility for taxpayers to claim the above tax reliefs, it is proposed that the reliefs be combined into a new relief known as the lifestyle relief with a limit of up to RM2,500 per YA.</p> <p>Further, the scope of the lifestyle relief is expanded to include:</p> <ol style="list-style-type: none"> i. Purchase of printed daily newspaper; ii. Purchase of smartphone or tablet; iii. Internet subscription; and
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	<p>iv. Gymnasium membership fee.</p> <p>The proposal is effective from YA 2017.</p>
<p>Tax Relief for Fees Paid to Child Care Centres and Kindergartens</p>	<p>To ease the burden of taxpayers with regards to the cost of child care and early childhood education, it is proposed that a new tax relief of up to RM1,000 be given to tax resident individuals who enrol their children aged up to 6 years old in child care centres or kindergartens registered with the Department of Social Welfare or the Ministry of Education.</p> <p>This relief can only be claimed by either parent of the children.</p> <p>The proposal is effective from YA 2017.</p>
<p>Tax Relief for Purchase of Breastfeeding Equipment</p>	<p>To encourage and support women to return to work while continuing to breastfeed their infants, it is proposed that a new tax relief of up to RM1,000 be provided for the purchase of breastfeeding equipment. The purchase can be made either in a complete set or separate parts consisting of breast pump kit, ice pack, breast milk collection and storage equipment and cooler set or bag. Only women taxpayers (who are tax residents) with children up to 2 years old are eligible to claim the relief. The relief shall be given once every 2 years.</p> <p>The proposal is effective from YA 2017.</p>
<p>Restriction for Spouse Relief</p>	<p>Currently, the spouse is entitled to a relief of RM4,000 if the husband or wife as the case may be, has no source of income or has no total income to be aggregated with that of the spouse and he/she elects to be assessed in his/her name for that YA.</p> <p>It is proposed that the spouse shall no longer enjoy the above relief if the husband or wife (other than husband or wife who is a disabled person) as the case may be, has income derived from sources outside Malaysia for that same YA and the income exceeds the amount of deduction of RM4,000.</p> <p>The proposal is effective from YA 2017.</p>
<p>New definition of Public Entertainer</p>	<p>Any payments to a non-resident public entertainer for services performed or rendered in Malaysia, is subject to 15% withholding tax.</p> <p>Currently “public entertainer” is defined to mean a stage, radio or television artiste, a musician, sportsperson or an individual exercising any profession, vocation or employment of a similar nature .</p> <p>It is proposed that the definition of “public entertainer ” is replaced with the following :-</p>

	<ul style="list-style-type: none"> i. compere, model, circus performer, lecturer, speaker, sportsperson, an artiste or individual exercising any profession, vocation or employment of a similar nature; or ii. an individual who uses his intellectual, artistic, musical, personal or physical skill or character in, <ul style="list-style-type: none"> carrying out any activity in connection with any purpose through live, print, electronic, satellite, cable, fibre optic or other medium, for film or tape, or for television or radio broadcast, as the case may be . <p>The proposal is effective from the day of operation of the Finance Act 2016.</p>
<p>Employment Income includes Output Tax under GST Borne by the Employer</p>	<p>It is proposed that any amount of output tax paid which is liable to be paid by an employee under the GST Act but borne by his employer shall be included as gross income of the employee in respect of gains or profits from an employment.</p> <p>The proposal is effective from YA 2015.</p>
<p>INDIRECT TAX</p>	
<p>GST Relief for Disabled Persons</p>	<p>To enable more disabled persons (“OKU”) to benefit from the GST relief, it is proposed that the relief be given to the valid OKU card holders on the purchase of approved equipment from the suppliers designated by the Social Welfare Department.</p> <p>The current list of approved equipment which are given GST relief will be expanded to include, amongst others:</p> <ul style="list-style-type: none"> i. Artificial prosthetic and orthotic; ii. Motorized wheel chair; iii. Braille display; and iv. Crutches and rubber ends. <p>The proposal is effective from 1 January 2017.</p>
<p>GST Treatment in Free Zones</p>	<p>To streamline the GST treatment in free zones, which consist of Free Industrial Zone (“FIZ”) and Free Commercial Zone (“FCZ”), it is proposed that the GST treatment be determined as follows:</p> <ul style="list-style-type: none"> i. GST is not chargeable on the supply and removal of goods made: <ul style="list-style-type: none"> a. within and between FCZ;

	<ul style="list-style-type: none"> b. within and between FIZ; and c. between FCZ and FIZ. <ul style="list-style-type: none"> ii. GST shall not be due and payable on the goods imported into FIZ; iii. GST is suspended on the removal of goods from free zone to Designated Areas i.e. Langkawi, Labuan and Tioman, vice versa; and iv. GST is suspended on the removal of goods from free zone to an approved warehouse under the Warehousing Scheme, vice versa. <p>The above treatment shall not be applicable on the following supplies:-</p> <ul style="list-style-type: none"> i. Goods as prescribed under the Free Zones (Exemption of Goods and Services) Order 1998; ii. Goods and services as prescribed under Goods and Services Tax (Imposition of Tax for Supplies in Respect of Designated Areas) Order 2014; and iii. Any other goods prescribed by the MOF. <p>The definition of Free Zone is proposed to be the same definition based on subsection 2(1) of the Free Zones Act 1990.</p> <p>The proposals are effective from 1 January 2017.</p>
<p>GST Treatment Under the Warehousing Scheme</p>	<p>To streamline the GST treatment between imported goods and goods from Principal Customs Area allowed to be deposited into warehouses under the Warehousing Scheme, it is proposed that in relation to goods that have been approved by Royal Malaysian Customs Department (“RMCD”) to be deposited in the warehouse, there shall be a scheme to be known as the “Warehousing Scheme” which allows:</p> <ul style="list-style-type: none"> i. tax due and payable on the goods that have been imported to be suspended when such goods are deposited in the warehouse; and ii. tax chargeable on any supply of taxable goods made within or between the warehouse to be disregarded. <p>Tax shall be due and payable upon all goods removed from a warehouse to all intents as if the removal were importation into Malaysia unless the goods are removed:</p> <ul style="list-style-type: none"> i. for export; ii. for deposit to another warehouse;

	<ul style="list-style-type: none"> iii. for deposit to a free zone; or iv. for deposit to a designated area <p>with the approval of the proper officer of the RMCD.</p> <p>The Warehousing Scheme shall not be applicable to certain goods as may be prescribed by the MOF.</p> <p>The proposal is effective from 1 January 2017.</p>
<p>GST Treatment for Designated Areas (“DA”)</p>	<p>Currently, GST shall be due and payable upon all goods including any goods under any lease agreement supplied from a DA to Malaysia to all intents as if the supply were importation into Malaysia.</p> <p>It is proposed that the following amendments be made:</p> <ul style="list-style-type: none"> i. Tax shall be due and payable upon all goods including any goods under any lease agreement removed from a DA to another DA through Malaysia or from a DA to Malaysia to all intents as if the removal were importation into Malaysia. <p>It is also proposed that the payment of tax shall be suspended on any goods removed from a DA through Malaysia to:</p> <ul style="list-style-type: none"> i. another DA; ii. a free zone; or iii. a warehouse under Section 70 of the GST Act (i.e. Warehousing Scheme). <p>unless the MOF otherwise directs.</p> <p>This proposal is effective from 1 January 2017.</p>
<p>Time of Supply for Imported Services</p>	<p>Currently, the time of supply of imported services shall be treated to have been made at the earlier of the following dates:</p> <ul style="list-style-type: none"> i. the date when any payment is made by the recipient; or ii. the date when any invoice is issued by the supplier who belongs in a country other than Malaysia or who carries on business outside Malaysia. <p>It is proposed that the time of supply of imported services be amended and shall be treated to have been made at the earlier of the following dates:</p> <ul style="list-style-type: none"> i. the date when any payment is made by the recipient; or

	<p>ii. the date when any invoice is received from the supplier who belongs in a country other than Malaysia or who carries on business outside Malaysia.</p> <p>The proposal is effective from 1 January 2017.</p>
<p>Liability to be Registered</p>	<p>Currently, certain supplies are excluded in determining the value of any person’s supplies for GST registration purposes.</p> <p>It is proposed that the following amendments are made:</p> <p>i. Only supplies of goods that are capital assets of the business in the course or furtherance of which they are supplied or to be supplied due to cessation of business are excluded; and</p> <p>ii. Supplies made within or between the free zone under Section 162 of the GST Act except where such supply is subject to an order by the MOF are also excluded.</p> <p>The proposal is effective from 1 January 2017.</p>
<p>Prescribed Device</p>	<p>It is proposed that any prescribed registered person shall provide information on all supply made and payment received by him to the Director General of Customs and Excise (“DGC”) using a device and in the manner as prescribed by the MOF.</p> <p>The DGC may approve any person;</p> <p>i. to install, configure and integrate the prescribed device;</p> <p>ii. to provide the services for the support and maintenance of the prescribed device as scheduled or upon being notified of the failure of the prescribed device to function or operate in normal condition; or</p> <p>iii. to carry out an inspection in the case of any sign of interference, destruction, damage, manipulation of data stored or obstruction of the lawful use of the prescribed device.</p> <p>The prescribed registered person shall —</p> <p>i. at any time allow any officer of GST or any person approved by the DGC to install the device and to configure, integrate or inspect the device installed at his business premises;</p> <p>ii. make all effort to ensure —</p>



	<p>a. that the device, after being supplied and installed, is not moved, manipulated or tampered or interfered with; and</p> <p>b. that the use of the device is not obstructed by any person or any other device; and</p> <p>iii. notify immediately the DGC of any failure of functionality and operation of the prescribed device in normal condition.</p> <p>Any person who has access to the prescribed device shall not give, publish or disclose any information obtained from the device.</p> <p>This proposal is effective from 1 January 2017.</p>												
<p>Payment of GST</p>	<p>It is proposed that the late payment penalty rate (where no prosecution is instituted) be amended as follows:</p> <table border="1" data-bbox="516 835 1284 1104"> <thead> <tr> <th>Number of days late</th> <th>Existing Penalty Rate (%)</th> <th>Proposed Penalty Rate (%)</th> </tr> </thead> <tbody> <tr> <td>1 – 30</td> <td>5</td> <td>10</td> </tr> <tr> <td>31 - 60</td> <td>15</td> <td>25</td> </tr> <tr> <td>61 - 90</td> <td>25</td> <td>40</td> </tr> </tbody> </table> <p>It is also proposed that the late payment penalty is calculated on the amount of GST remain unpaid as opposed to the current amount of GST due and payable.</p> <p>The above late payment penalty is also proposed to cover persons other than a taxable person who has a liability to pay GST.</p> <p>This proposal is effective from 1 January 2017.</p>	Number of days late	Existing Penalty Rate (%)	Proposed Penalty Rate (%)	1 – 30	5	10	31 - 60	15	25	61 - 90	25	40
Number of days late	Existing Penalty Rate (%)	Proposed Penalty Rate (%)											
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<p>Refund of GST paid for Supplies Granted Relief</p>	<p>It is proposed that a person who has been granted relief and has paid any of the GST to which the relief relates, is entitled to a refund of tax which has been paid subject to obtaining approval from the MOF.</p> <p>The claim for refund must be made in a prescribed form and be made to the DGC within 6 years from the time such entitlement of the refund occurred. The DGC may make such refund after being satisfied that the person has properly established the claim.</p> <p>This proposal is effective from 1 January 2017.</p>												

<p>Supply of Land in Compliance with Requirements of Written Law, Government or Local Authority</p>	<p>It is proposed that a new paragraph be included in the Second Schedule of the GST Act whereby any supply of land by a developer or an owner of the land to the Government, local authority or any person for the purposes of providing public amenities and public utilities whether for no consideration or at nominal value shall be treated as neither a supply of goods nor supply of services.</p> <p>Public amenities and public utilities means the amenities and utilities provided in the layout plan for a project which has been approved by the relevant local authority.</p> <p>This proposal is effective from 1 January 2017.</p>								
<p>MISCELLANEOUS</p>									
<p>Increase in Stamp Duty Rate</p>	<p>The current ad valorem rate of stamp duty on instruments of transfer of real estate is as follows:-</p> <table border="1" data-bbox="516 863 1214 1171"> <thead> <tr> <th>Value</th> <th>Rate of Duty</th> </tr> </thead> <tbody> <tr> <td>First RM100,000</td> <td>1%</td> </tr> <tr> <td>RM100,001 to RM500,000</td> <td>2%</td> </tr> <tr> <td>Excess of RM500,000</td> <td>3%</td> </tr> </tbody> </table> <p>It is proposed that the stamp duty rate for real estate with value in excess of RM1,000,000 be increased from 3% to 4% with effect from 1 January 2018.</p>	Value	Rate of Duty	First RM100,000	1%	RM100,001 to RM500,000	2%	Excess of RM500,000	3%
Value	Rate of Duty								
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<p>Fee for Advance Pricing Arrangement Applications</p>	<p>It is proposed that the MOF shall be empowered to make rules to prescribe fees pertaining to Advance Pricing Agreement applications.</p> <p>The proposal is effective on the coming into operation of the Finance Act 2016.</p>								
<p>Removal of Various Income Tax Exemptions</p>	<p>It is proposed that the following income tax exemptions be removed:</p> <ul style="list-style-type: none"> i. Income derived by non-residents from trading in Malaysia through consignees in rubber, copra, pepper, tin, tin ore, gambier, sago flour or cloves produced outside Malaysia. ii. Interest income derived by non-residents from an approved loan. <p>The proposal are effective from YA 2017.</p>								

<p>Exemption for Real Estate Investment Trust (“REIT”) / Property Trust Fund (“PTF”)</p>	<p>Currently, income of a REIT or PTF which is approved by the SC, is exempted from income tax if ninety per cent or more of its total income is distributed to the unit holders in the basis period for that YA.</p> <p>It is proposed that to qualify for the above tax exemption, the REIT or PTF which is approved by the SC must now be listed on Bursa Malaysia.</p> <p>The proposal is effective from YA 2017.</p>
<p>Review of Provision on Notification of Non-Chargeability</p>	<p>Currently, a person has to apply for a notification of non-chargeability deemed to be a notice of assessment from the DGIR for the purpose of making an appeal to the Special Commissioners of Income Tax.</p> <p>It is proposed under the ITA and Petroleum (Income Tax) Act, 1967 (“PITA”) that where a person who has made a tax return is aggrieved by a public ruling or any practice of the DGIR and there is no chargeable income, the tax return shall be deemed a notification of non-chargeability made by the DGIR. The person is deemed to have been notified on the day the return is furnished.</p> <p>The above proposals are effective from 1 January 2017.</p>
<p>Amendment to Tax Return with no Chargeable Income</p>	<p>It is proposed under the ITA and PITA that a person may amend his tax return which has no chargeable income if there is an error or a mistake made by the person in his tax return.</p> <p>However, the application must be made within six (6) months from the date of the tax return is furnished.</p> <p>The above proposals are effective from 1 January 2017.</p>
<p>Application for Relief Other Than In Respect of an Error or a Mistake</p>	<p>Currently, a taxpayer who has paid tax for a YA and alleges that the assessment relating to that YA is excessive by reason of some error or mistake in the tax return submitted may make an application in writing within 5 years after the end of that YA for relief in respect of the error or mistake.</p> <p>It is proposed that the application for relief for circumstances which are not due to errors or mistakes as indicated below be provided.</p> <p>i. Where the exemption, relief, remission, allowance or deduction under the ITA or any other written law for that YA is published in the Gazette or approval is granted after the tax return is submitted.</p> <p>The application for the above relief must be made within 5 years following the year in which the Gazette for the exemption, relief, remission, allowance or deduction is published or the approval is granted, whichever is later.</p>

	<p>ii. Where a tax deduction was not allowed on expenses payable to non-residents as the corresponding withholding taxes are not due to be paid when the tax return is submitted.</p> <p>The application for the above relief must be made within 1 year following the year in which the payment is made.</p> <p>The proposal is effective from 1 January 2017.</p>						
<p>Restriction of Tax Exemption on Interest Income Received by a Unit Trust</p>	<p>Presently, interest income derived by a unit trust from Malaysia and paid by a licensed bank/Islamic bank or prescribed development financial institution would be exempted from income tax.</p> <p>It is proposed that where the unit trust is a money market fund, the tax exemption shall only apply to a wholesale fund which complies with the relevant guidelines of the SC.</p> <p>The proposal is effective from YA 2017.</p>						
<p>Electronic Submission of Tax Estimates</p>	<p>It is proposed that a LLP, trust body or co-operative society must furnish its estimate or revised estimate of tax payable by way of an electronic medium or electronic transmission.</p> <p>The proposal is effective from YA 2019.</p>						
<p>Offences and Penalties for Non-Compliance with Country-by-Country (“CBC”) Reporting and Mutual Administrative Assistance (“MAA”) Requirements</p>	<p>The following provisions under the ITA have been proposed, which introduce various offences and penalties for non-compliance with the CBC reporting and MAA requirements.</p> <table border="1" data-bbox="516 1255 1360 1612"> <thead> <tr> <th style="text-align: center;">Offence</th> <th style="text-align: center;">Penalty Upon Conviction</th> </tr> </thead> <tbody> <tr> <td>a) Failure to furnish a CBC Report</td> <td rowspan="3"> <ul style="list-style-type: none"> • Fine between RM20,000 to RM100,000; or • Imprisonment for a term not exceeding 6 months; or • Both the above fine and imprisonment term. </td> </tr> <tr> <td>b) Incorrect returns, information returns or reports to implement or facilitate MAA arrangements</td> </tr> <tr> <td>c) Failure to comply with the MAA rules</td> </tr> </tbody> </table> <p>For (a) and (c) above, it is proposed that the court may make a further order that the convicted person shall comply with the requirements within 30 days, or such other period as the court deems fit, from the date the order is made.</p> <p>The above proposals are effective on the coming into operation of the Finance Act 2016.</p>	Offence	Penalty Upon Conviction	a) Failure to furnish a CBC Report	<ul style="list-style-type: none"> • Fine between RM20,000 to RM100,000; or • Imprisonment for a term not exceeding 6 months; or • Both the above fine and imprisonment term. 	b) Incorrect returns, information returns or reports to implement or facilitate MAA arrangements	c) Failure to comply with the MAA rules
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