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**Malaysia – Budget 2016
Taxes High Earners More,
Relief for Low-to-Middle
Incomes**

by KPMG, Kuala Lumpur
(KPMG in Malaysia is a KPMG
International member firm)

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For coverage of last year's budget, see [Flash International Executive Alert 2014-102](#) (14 November 2014).

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Malaysia's 2016 Budget proposals offer some relief to lower- and middle-income taxpayers, but increases the tax rate for higher-income individuals.

The 2016 Budget proposals were presented by the country's Prime Minister YAB Dato' Sri Mohd Najib Tun Haji Abdul Razak on 23 October 2015.¹

Why This Matters

One of the key proposals in this year's Budget is the increase in personal income tax rates for two chargeable income brackets (as set out below), from 25 percent to 26 percent and from 25 percent to 28 percent. In addition, reliefs were increased to benefit lower-to-middle-income earners, with the overall effect of increasing their disposable income; although each individual's tax status should be determined in light of his or her particular situation.

Companies with high net-worth international assignees are likely to see an increase in their assignment-related costs.

In cases of assignments to Malaysia where assignees are subject to Malaysian taxation, and for assignees working outside Malaysia but still subject to Malaysian taxation, international assignment cost projections and budgeting should reflect the changes described in this newsletter once they come into effect. Where appropriate, adjustments to gross-up packages and withholding taxes need to be considered.

Outlined below are some of the tax measures that affect individuals – including those on international assignment – and their employers.

Increase in Personal Income Tax Rates for High Income Earners

The government has proposed that the marginal tax rate for tax-resident individuals for the MYR 600,001 to MYR 1,000,000 chargeable income bracket will be increased from 25 percent to 26 percent. For the chargeable income bracket exceeding MYR 1,000,000, the income tax rate is increased by 3 percentage points from 25 percent to 28 percent. Income tax rates for tax resident individuals for the chargeable income bands below MYR 600,000, remain unchanged.

The comparison between the current and proposed individual income tax rates and thresholds is shown in Appendix A at the end of this newsletter.

The nonresident individuals' fixed income tax rate is increased by 3 percentage points from 25 percent to 28 percent.

These measures are planned to be effective from 1 January 2016.

KPMG Note

Tax residency is based on physical presence. In view of the higher tax liability if the individual is assessed as a nonresident, due consideration should be given to his pattern of stay in Malaysia. The possibility exists of a reduced tax liability if the taxpayer could qualify as a tax resident in a calendar year.

For example, for a taxpayer with annual total income of MYR 1,000,000, the estimated tax liability for a resident individual would be MYR 236,000, while the estimated tax liability for a nonresident individual would be MYR 280,000. Thus, the potential estimated tax savings would be MYR 44,000, if he could qualify as a tax resident in a calendar year.

Tax Relief for Taxpayers with Non-Working Spouse and/or Pays Alimony to Former Wife

An individual resident taxpayer whose spouse has no income and/or pays alimony to his or her former spouse is entitled to tax relief, available as a tax deduction. The government is proposing to raise the deductible amount from MYR 3,000 to MYR 4,000.

This is planned to be effective from 1 January 2016.

Tax Relief for Parental Care

The government is proposing to help individuals undertaking care of elderly and/or infirm parents by means of a new tax relief:

- MYR 1,500 for a mother; and
- MYR 1,500 for a father.

The relief will be available as a tax deduction for individual resident taxpayers caring for their qualifying parents. This relief can be shared with other siblings provided that the total relief claimed does not exceed MYR 1,500 for a mother and MYR 1,500 for a father.

To claim this relief, the taxpayer must satisfy all the following conditions:

- The taxpayer does not claim expenses related to the medical treatment and care of parents.
- The parents are the legitimate natural parents and foster parents in accordance with the law (subject to a maximum of two persons).
- The parents are aged 60 years and above.
- The parents are tax residents in Malaysia in the current year of assessment.
- The parents have an annual income not exceeding MYR 24,000 per annum for each parent.

This is planned to be effective from 1 January 2016 to 31 December 2020.

Tax Relief for Children Below 18 Years of Age

To alleviate the cost of bringing up children, the tax relief, available as a deduction, for each unmarried child of an individual resident taxpayer is proposed to be increased from MYR 1,000 to MYR 2,000.

This is planned to be effective from 1 January 2016.

Tax Relief for Children Studying At Tertiary Level

To help ease the financial burden on parents with children in tertiary education, the government is proposing to increase the tax relief, available as a deduction, from MYR 6,000 to MYR 8,000, for an individual taxpayer who is a tax resident. The tax relief is available to the taxpayer for each unmarried child over 18 years old receiving full-time education at diploma level and above at a recognized institution of higher learning in Malaysia or at degree level and above at a recognized institution of higher learning outside Malaysia. The course undertaken and the institution must be approved by the Public Service Department of Malaysia.

For an unmarried disabled child, there is an existing relief of MYR 6,000, available as a tax deduction. Said child must be certified by the Department of Social Welfare as a disabled person. Therefore, the taxpayer is eligible to claim relief of MYR 14,000 for each of his unmarried and disabled children.

This is planned to be effective from 1 January 2016.

Tax Relief on Fees for Tertiary Education

The government is proposing to increase the tax relief, available as a tax deduction, from MYR 5,000 to MYR 7,000, per year for study fees incurred by an individual taxpayer who is a tax resident pursuing any course of study up to tertiary level in selected fields of study, or Master or Doctorate level in any field, at any institution or professional body in Malaysia recognized by the government or approved by the Minister of Finance. The aim of this measure is to encourage life-long learning and to support the growth of Malaysia's word-class talent.

This is planned to be effective from 1 January 2016.

Tax Relief on Employees' Contributions to Social Protection Scheme

It is compulsory for Malaysian citizen employees to register and contribute to the Social Security Organisation (SOCSO) if their starting salary upon commencement of their first employment is MYR 3,000 or less (this threshold will be increased to MYR 4,000 as announced in the Budget (effective date yet to be announced)).

Currently, there is no tax relief for contributions made by employees to the SOCSO.

The government is proposing to introduce a new relief up to a maximum of MYR 250 per year available as a tax deduction.

This is planned to be effective from 1 January 2016.

APPENDIX A

Chargeable Income (MYR)	Current			Proposed			Increase in Tax	
	<i>Tax Rate</i>	<i>Tax Without Rebate</i>	<i>Tax liability</i>	<i>Tax Rate</i>	<i>Tax Without Rebate</i>	<i>Tax liability</i>		
	(%)	(MYR)	(MYR)	(%)	(MYR)	(MYR)	(MYR)	(%)
1 - 5,000	0	0		0	0			
		0	0*		0	0*		
5,001 - 20,000	1	150		1	150			
		150	0*		150	0*		
20,001 – 35,000	5	750		5	750			
		900	500*		900	500*		
35,001 – 50,000	10	1,500		10	1,500			
		2,400	2,400		2,400	2,400		
50,001 – 70,000	16	3,200		16	3,200			
		5,600	5,600		5,600	5,600		
70,001 – 100,000	21	6,300		21	6,300			
		11,900	11,900		11,900	11,900		
100,001 – 250,000	24	36,000		24	36,000			
		47,900	47,900		47,900	47,900		
250,001 – 400,000	24.5	36,750		24.5	36,750			
		84,650	84,650		84,650	84,650		
400,001 – 600,000	25	50,000		25	50,000			
		134,650	134,650		134,650	134,650		
600,001 – 1,000,000	25	100,000		26	104,000			
		234,650	234,650		238,650	238,650	4,000	1.7
Exceeding 1,000,000	25			28				

* The yellow-shaded rows represent the taxpayer's liability in this bracket after personal tax rebate of MYR 400 for chargeable income up to MYR 35,000.

Footnote:

1 The Budget speech and related budget documents can be found on the “Bajet 2016” Web page on the Web site for Malaysia’s Ministry of Finance: <http://www.treasury.gov.my/>

Also, see: <http://www.treasury.gov.my/pdf/bajet/ucapan/ub16.pdf> .

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MYR 1 = EUR 0.213
MYR 1 = USD 0.2286
MYR 1 = GBP 0.152
EUR 1 = AUD 0.324

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