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Malaysia – New 2016 Budget Tax Proposals to Off-Set Economic Uncertainty

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Malaysia's 2016 revised Budget proposals offer additional relief for certain middle-income taxpayers.¹ These measures, presented by the prime minister on 28 January 2016, come in response to the current global economic situation impacted by the slump in oil prices and other uncertainties. The aim is to preserve the fiscal condition of Malaysians.

Below we describe briefly the 2016 revised Budget proposals that concern individuals and their employers. (For coverage of Malaysia's 2015 Budget measures, embodied in Finance Act 2015, see GMS [Flash Alert 2016-007](#), 19 January 2016.)

Why This Matters

The measures described below should contribute to lessening the tax burden on many taxpayers. This could have the impact of – in cases of affected taxpayers who are assignees subject to Malaysian taxation – lowering employers' international assignment costs for income year 2015.

Statutory Rate for Employees' Contribution to Employees Provident Fund ("EPF") Lowered by 3 Percent

To cope with the rising cost of living, the government has agreed to lower the statutory rate of the employees' contribution to the EPF from 11 percent to 8 percent beginning March 2016 and running through December 2017.

The statutory rate of contribution by employers will remain at 12 percent (for employees earning above MYR 5,000) and 13 percent (for employees earning MYR 5,000 and below). [MYR 1 = EUR 0.215 | GBP 0.170 | USD 0.237 | AUD 0.328]

Employees who wish to maintain the rate of 11 percent may fill out a form², which was released by the EPF Board on 2 February 2016, and submit it to their employers. Employers will then forward the completed forms to the nearest EPF branch.

KPMG Note

This measure is expected to increase personal spending and consumption, according to the government.

Please refer to P.U.(A) 21/2016 dated 29 January 2016³ for further details.

Relaxation of Penalty to Encourage Tax Compliance

To enhance efficiencies and revenues tied to tax collection, the government is taking the following measures:

- Double the resources devoted to compliance and auditing efforts where tax evaders are concerned.
- Offers to reduce penalties where a taxpayer makes a voluntary disclosure and to waive tax increases upon the settlement of tax arrears effective from 1 March 2016 to 15 December 2016.

KPMG Note

The objective of the relaxation of penalties is to encourage taxpayers to come forward to declare their past years' income and make settlement of tax arrears. Please refer to the media release⁴ and Operational Guidelines⁵ for further details.

Relief for Middle-Income Taxpayers

To help increase the disposable incomes of taxpayers in the so-called middle-income group, a special relief of MYR 2,000 is being offered to resident taxpayers with monthly income of MYR 8,000 or below for Year of Assessment ("YA") 2015.⁶

KPMG Note

The above relief was last introduced for YA 2013. The government has reintroduced the special relief of MYR 2,000 for YA 2015.

This special tax relief of MYR 2,000 could generate tax savings of up to MYR 420 for a taxpayer with a non-working spouse and two children below the age of 18. Given that this tax relief could not be provided for in the monthly tax deduction ("MTD") that was paid by employers to the Malaysian Revenue Board ("MIRB") in 2015, those taxpayers falling under the middle-income group category should be expecting tax refunds once they file their 2015 tax returns (on or before 30 April 2016, the statutory deadline).

To expedite tax refunds, it is encouraged that affected taxpayers e-file their 2015 tax returns to the MIRB.

Footnotes:

1 YAB Dato' Sri Mohd Najib Tun Haji Abdul Razak is Malaysia's prime minister as well as the finance minister. His revised Budget speech, "2016 Budget Recalibration," (in English) can be found at: http://www.treasury.gov.my/index.php?option=com_content&view=article&id=6437:budget-speech-2016&catid=256&Itemid=2472&lang=en .

2 Form KWSP 17A (Khas2016) can be found (in Malay) at: http://www.kwsp.gov.my/portal/documents/10180/153456/KWSP17A__Khas_2016__04022016_update.pdf .

3 P.U.(A) 21/2016 dated 29 January 2016 can be found (in English) at: http://www.federalgazette.agc.gov.my/eng_main/main_warta_harian.php?y=2016&jenis_pu=pua&Go=Go .

4-Media Release dated 10 February 2016 can be found (in Malay) at: http://www.hasil.gov.my/bt_goidex.php?bt_kump=6&bt_skum=1&bt_posi=2&bt_unit=1&bt_sequ=265 .

5 Operational Guidelines dated 10 February 2016 can be found (in Malay) at: http://www.hasil.gov.my/bt_goidex.php?bt_kump=5&bt_skum=5&bt_posi=3&bt_unit=7000&bt_sequ=1 .

6 For P.U.(A) 40/2016 (Income Tax (Exemption) Order 2016 - Income Tax Act 1967) published on 17 February 2016, see: http://www.federalgazette.agc.gov.my/eng_main/main_warta_harian.php?y=2016&jenis_pu=pua&Go=Go .

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