GMS Flash Alert

2016-132 | November 17, 2016

Malaysia – New "Lifestyle" Tax Relief Measures in 2017 Budget

Malaysia's prime minister presented the 2017 Budget proposals on 21 October 2016, offering up some new relief measures in the form of new "lifestyle" tax deductions to taxpayers.[1]

WHY THIS MATTERS

These measures will have little impact on assignees into Malaysia subject to Malaysian tax or outbound assignees who remain subject to Malaysian tax and the cost of international assignments from the employer's perspective. However, in cases where taxpayers claim the reliefs noted in this newsletter, they may find their tax burdens lightened to some degree.

Lifestyle Relief

Currently, in order to inculcate good reading habits, nurture healthy lifestyles, and enhance usage of computers and the Internet, a tax resident individual is entitled to claim the following reliefs:

i. Tax relief of up to MYR 1,000 for the purchase of reading materials (excluding newspapers and banned reading materials);

ii. Tax relief of up to MYR 300 for the purchase of sports equipment for sports activities as defined under the Sports Development Act 1997; and

iii. Tax relief of up to MYR 3,000 for the purchase of a computer to be claimable once over a three-year period.

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To provide flexibility for taxpayers to claim the above tax reliefs, the government has proposed that the reliefs be combined into a new relief known as the "lifestyle relief" with a limit of up to MYR 2,500. Further, the scope of the lifestyle relief is expanded to include:

i. Purchases of printed daily newspapers;

ii. Purchases of a smartphone or tablet;

iii. Internet subscriptions (tax relief of up to MYR 500 for a broadband Internet subscription was granted from YA 2010 until YA 2012); and

iv. Gymnasium membership fees.

The above measures are due to take effect from 1 January 2017.

KPMG NOTE

Taxpayers are reminded to retain documentary evidence to support the claim of tax reliefs in the event of a tax audit. If a taxpayer is audited, the absence of documentary evidence could attract penalties of up to 100 percent of the tax under-charged (i.e., the additional tax that will arise from the disallowance of the claim).

Other Tax Measures Aimed at Mothers with Newborns, Child Care, and Kindergarten

- The government is proposing to introduce a new relief of up to MYR 1,000 per year for the purchase of specified equipment for maternity needs following the birth of a baby. This relief shall be given once over a two-year period.

- A new tax relief of up to MYR 1,000 is to be given to individuals who enroll their children aged up to six years old in child-care centres or kindergartens registered with the Department of Social Welfare or the Ministry of Education.

The above measures are due to take effect from 1 January 2017.

Employment Income Includes Output Tax under Goods and Services Tax (GST) Borne by Employer

The government has proposed that any amount of output tax paid that is liable to be paid by an employee under the Goods and Services Tax Act 2014 ("GST Act") but borne by the employer, shall be part of the total amount of gross income of the employee in respect of gains or profits from an employment.

The above measure is retroactive to 1 January 2015.

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KPMG NOTE

The retroactive effect of this measure in the Finance Bill 2016 could cause difficulties for many taxpayers and employers as they may have excluded the portion of GST output tax in 2015. It is not clear at the moment as to how this will work in practice for year of assessment 2015 since the 2015 Malaysian tax returns had already been filed before this proposed change was made known.

Restriction on Spouse Relief

A taxpayer is entitled to a relief of MYR 4,000 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 year of assessment. Currently, even though the spouse is working overseas and does not derive any Malaysian source income, the taxpayer would still be able to enjoy the spouse relief.

The government is proposing that a taxpayer shall no longer enjoy the above relief if the husband or wife (other than husband or wife who is a disabled person) has income derived from sources outside Malaysia for that same year of assessment and the income exceeds the amount of the deduction of MYR 4,000. With this amendment, assignees to Malaysia would no longer be eligible for the spouse relief of MYR 4,000 if their spouses have income in excess of MYR 4,000 in the home country.

The above measures are due to take effect from 1 January 2017.

New Definition of "Public Entertainer"

Presently, any person who is liable to make payments to a nonresident public entertainer for services performed or rendered in Malaysia is required to withhold 15 percent from the payment and remit that withholding tax to the Inland Revenue Board within one month of paying or crediting the nonresident public entertainer.

Currently "public entertainer" is defined to mean a stage, radio, or television artiste, a musician, sports-person or an individual exercising any profession, vocation, or employment of a similar nature.

The government is proposing that the term "Public Entertainer" be redefined as follows:

i. compere (emcee), model, circus performer, lecturer, speaker, sports-person, an artiste, or individual exercising any profession, vocation, or employment of a similar nature; or

ii. an individual who uses his/her intellectual, artistic, musical, personal, or physical skill or character in 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.

If the nonresident public entertainer falls under the above definition, the person liable to make payment to/for such nonresident public entertainer is required to deduct the 15-percent withholding tax from the fee payment.

The above measures are due to take effect from the first day of operation of the Finance Act 2016.

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FOOTNOTE:

1 The Budget speech and related budget documents can be found on the "Bajet Tahunan 2017" webpage on the website for Malaysia's Ministry of Finance.

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RELATED RESOURCE

For a complete report on the budget from the KPMG International member firm in Malaysia, see:

"2017 Budget Snapshot"

"2017 Budget Highlights"

MYR 1 = EUR 0.213
MYR 1 = USD 0.2276
MYR 1 = GBP 0.183
MYR 1 = AUD 0.305

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