KPMG

GMS Flash Alert

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Malaysia - Tax Measures Affecting Individuals in Budget 2018

Malaysia’s prime minister presented the 2018 Budget proposals on 27 October 2017, and announced a slight reduction in individual income tax rates and partial exemption of rental income.[1] There is also a revised treatment of real property gain tax which would affect non-citizens and non-permanent residents.

WHY THIS MATTERS

The reduction in individual income tax rates will result in a tax saving of MYR 1,000 for international assignees who are tax residents in Malaysia, although the cost of the international assignment may not differ much from the employer’s perspective. The partial exemption will benefit those individuals whose rental income is below MYR 2,000 per month.

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 may need to be considered.

Each individual’s tax status should be determined in light of his or her particular situation.

Reduction in Tax Rates

It is proposed that with effect from Year of Assessment 2018, the income tax rates for resident individuals will be reduced by 2 percent for the chargeable income bands between MYR 20,001 to MYR 70,000.

The comparison between the current and proposed individual income tax rates together with income tax savings for resident individuals resulting from the reduction of tax rates are shown in the table on the next page.

Chargeable Income (MYR)	Current Tax Rates (%)	Tax Payable (MYR)	Proposed Tax Rates (%)	Tax Payable (MYR)	Tax Savings (MYR)	Tax Savings (%)
0 – 5,000	0	0	0	0	-	-
5,001 – 20,000	1	*0	1	*0	-	-
20,001 – 35,000	**5**	***500**	**3**	***200**	**300**	**60**
35,001 – 50,000	**10**	**2,400**	**8**	**1,800**	**600**	**25**
50,001 – 70,000	**16**	**5.600**	**14**	**4,600**	**1,000**	**17.86**
70,001 – 100,000	21	11,900	21	10,900	1,000	8.40
100,001 – 250,000	24	47,900	24	46,900	1,000	2.09
250,001 – 400,000	24.5	84,650	24.5	83,650	1,000	1.18
400,001 – 600,000	25	134,650	25	133,650	1,000	0.74
600,001 – 1,000,000	26	238,650	26	237,650	1,000	0.42
1,000,000 and above	28		28			

[MYR 1 = EUR 0.207 | MYR 1 = USD 0.246 | MYR 1 = GBP 0.184 | MYR 1 = AUD 0.321 | MYR 1 = CNY 1.62]

**after personal tax rebate of MYR 400 for chargeable income up to MYR 35,000.*

Nonresident individuals' income tax rate is maintained at 28 percent.

KPMG NOTE

Assignees in Malaysia would experience a tax saving if they qualify as tax residents in Malaysia. As such, these assignees should therefore give consideration to their assignment duration/stay in Malaysia so that they might attain/remain tax resident status in Malaysia.

Tax Exemption on Rental Income Received by Malaysian Resident Individuals

To encourage Malaysian resident individuals to rent out residential homes at reasonable charges, it is proposed that a 50-percent income tax exemption be given on rental income received by Malaysian resident individuals, for a maximum period of three consecutive years of assessment (i.e., from Years of Assessment 2018 until 2020) subject to the following conditions:

1. rental income received not exceeding MYR 2,000 per month for each residential home; and

2. there must be a legal tenancy agreement executed between the owner and tenant.

KPMG NOTE

The individuals must be able to produce documents, such as a legal tenancy agreement executed between the owner and tenant, which is duly stamped, and original receipts for the permitted expenses claimed against the rental income in the event of a tax audit by the Inland Revenue Board ("IRB").

Extension of Relief on Net Savings in the National Education Savings Scheme (SSPN)

To encourage savings for the purpose of financing tertiary education of children, it is proposed that the existing resident individual income tax relief of up to MYR 6,000 for net savings in the SSPN be extended for another three years, i.e., from Years of Assessment 2018 until 2020. The relief is only applicable to Malaysian tax resident individuals.

KPMG NOTE

The SSPN is a savings scheme (or instrument) specifically designed by the National Higher Education Fund Corporation (PTPTN) to enable parents or guardians to save for the purpose of the higher education of their children. The allowable deduction is limited to the net amount deposited in that year. Further, an individual must be able to produce the SSPN statement to substantiate the net amount deposited in the year concerned.

Tax Incentive for Women Returning to Work after a Career Break

To encourage women who have been on a career break to return to the workforce, it is proposed that women who return to the workforce after a career break of at least two years as at 27 October 2017, be given a tax exemption on their employment income up to maximum of 12 consecutive months. This exemption is available for women who return to the workforce between Years of Assessment 2018 to 2020.

KPMG NOTE

Eligible individuals must submit an application to Talent Corporation Malaysia Berhad ("TalentCorp") from 1 January 2018 to 31 December 2018. The above will have no impact on inbound assignees to Malaysia as they are not likely be eligible for this tax incentive.

Real Property Gains Tax ("RPGT")

We set out in the table below the changes affecting RPGT as proposed in Budget 2018.

Increase in retention sum made by the purchaser	**<u>Existing</u>** Currently, the purchaser of a Malaysian real property is required to retain part of the purchase consideration and pay it to the IRB upon disposal of the chargeable asset. The retention sum is the lower of the whole amount of the money received or 3% of the total value of the purchase consideration. **<u>Proposal</u>** The retention sum on the disposal of a chargeable asset will be increased to the lower of the whole amount of the money received or 7% of the total value of the purchase consideration, if the disposer is neither a Malaysian citizen nor a permanent resident of Malaysia, effective from 1 January 2018.
Transactions in which disposal price is deemed equal to acquisition price	**<u>Existing</u>** The actual disposal price is deemed to be equal to its acquisition price (i.e. "no gain, no loss") for transfer of assets between spouses regardless of citizenship. **<u>Proposal</u>** It is proposed that such transactions shall only be regarded as a "no gain and no loss" position if the disposer is a citizen. With this proposal, if the disposer is not a citizen, the actual disposal price will be used in the computation of the chargeable gain/allowable loss. The above proposal is effective from 1 January 2018.

KPMG NOTE

With the above changes, non-citizens and non-permanent residents will no longer be given the same treatment as that provided to Malaysian citizens and permanent residents, with effect from 1 January 2018.

FOOTNOTE:

1 The Budget speech and related budget documents can be found on the "Bajet 2018" Web page on the Web site for Malaysia's Ministry of Finance: http://www.treasury.gov.my/index.php/bajet/bajet-tahunan.html .

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