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BUDGET 2015 –
THE PEOPLE'S ECONOMY

Selected Summary of Tax Budget 2015

CHANGES AFFECTING INDIVIDUALS

SUBJECT	BUDGET PROPOSAL
Personal Income Tax Rate *(Resident individual)* *With effect from YA2015*	Under proposed budget, income tax rates for the various bands of chargeable income is to be reduced by 1-3%, with the maximum tax rate of 25% being applicable to chargeable income above RM 400,000. For a detailed comparison of current tax rate(s) with the proposed rate(s), please refer to Figure 1.
Personal Income Tax Rate *(Non-resident individual)* *With effect from YA2015*	Chargeable income derived by a non-resident individual is proposed to be taxed at the flat rate of 25% (previously 26%).
Employee's Monthly Tax Deduction (MTD) *With effect from YA2015*	Under current legislation, employees with employment income as their sole source of income, having met other requirements, will have their amount of MTD as final tax paid and thus are not required to furnish annual tax return. It is proposed that the exemption of filing annual return be extended to employees receiving benefits-in-kind and living accommodation arrangement from employer, and the requirement that the employment must serve under the same employer for a duration of 12 months be lifted.
Penalty *Effective on the coming into operation of the Finance (No.2) Act 2014*	Maximum penalty for knowingly leaves or attempts to leave Malaysia without paying all tax specified in certificate issued by the Director General is proposed to be increased from RM 2,000 to RM 20,000 upon conviction.
PERSONAL RELIEF	
Medical Expenses for Serious Disease *With effect from YA2015*	It is proposed that the relief be raised from RM 5,000 to RM 6,000. Eligible expenses are those incurred for medical treatment of serious diseases such as cancer, kidney failure, heart disease, Parkinson's disease, leukemia and acquired immunodeficiency syndrome (AIDS) etc.
Disabled Child *With effect from YA2015*	The relief for ***each*** disabled child is proposed to be increased from RM 5,000 to RM 6,000.
Purchase of Basic Supporting Equipment For Disabled *With effect from YA2015*	This relief is given to a taxpayer who has incurred expenses on the purchase of any necessary basic supporting equipment (eg. wheelchairs, hearing aids, artificial limbs and haemodialysis machines) for his/her own use, or for his/her spouse, child and parents. The amount of the relief is proposed to be raised to RM 6,000 (previously RM 5,000).

CHANGES AFFECTING COMPANIES AND UNINCORPORATED BUSINESSESS

SUBJECT	BUDGET PROPOSAL
Corporate Income Tax Rate *With effect from YA2016*	Under existing legislation, chargeable income of a company is taxed at a flat rate of 25% (SMEs with paid-up capital ≤ RM 2.5 million however are given a tax incentive, that is a tax rate of 20% on chargeable income of up to RM 500,000 and the remaining are taxed at 25%). The budget proposed that the corporate tax rate be reduced by 1%, to 24%. Tax rate applicable to the chargeable income of SMEs of up to RM 500,000 is also to be reduced to 19% accordingly.
Conversion Into LLP *Effective on the coming into operation of the Finance (No.2) Act 2014*	This proposed legislation aims to clarify and simplify tax treatment of a newly converted LLP for the year of assessment in which the conversion occurred. The LLP shall be assessed and chargeable to tax for the year of assessment in which the conversion occurred in the same manner as it would have been had it not been converted into LLP. This essentially means that every partner of a partnership shall continue to be personally assessable and chargeable to tax on his chargeable income in the year of conversion. For an illustration of the tax treatment and the type of return(s) required to be submitted in the year of conversion, please refer to Figure 2.
SME's Exemption of Filing Tax Estimate (CP204) *Effective on the coming into operation of the Finance (No.2) Act 2014*	This proposal further clarifies that in addition to the previous definition, a SME must be a tax resident and incorporated in Malaysia in order to qualify for the exemption of filing CP204 for a period of two years commencing from the year of assessment in which it commences operations.
Monthly Tax Instalment *With effect from 1 Jan 2015*	Due date for payment of monthly tax instalments by company is extended from the 10^{th} to the 15^{th} each month.
Penalty *Effective on the coming into operation of the Finance (No.2) Act 2014*	Maximum penalty for various offences such as failure to furnish return or give notice of chargeability, leaving or attempting to leave the country without paying tax, amongst others, is proposed to be increased from RM 2,000 to RM 20,000 upon conviction.
CONTROLLED TRANSACTIONS AND TRANSACTIONS BETWEEN RELATIVES	
Interest Income Obtainable On Demand *With effect from YA2015*	Interest income on loan provision to related party is taxed when it is deemed obtainable on demand, that is when it is due to be paid by the related party. It is now proposed that this legislation be extended to cover loan provision made between relatives as well.

CHANGES AFFECTING COMPANIES AND UNINCORPORATED BUSINESSESS

SUBJECT	BUDGET PROPOSAL
CONTROLLED TRANSACTIONS AND TRANSACTIONS BETWEEN RELATIVES (CONT'D)	
Rental, Employment And Other Income Obtainable On Demand *With effect from YA2015*	Other than interest income mentioned above which is deemed obtainable on demand when it is due, other income such as rental and employment income receivable from related party or relatives is deemed obtainable on demand in the basis period ***immediately following*** the basis period in which it first becomes receivable. For example, rental income to be received from your brother for the year 2015 first becomes receivable in year 2015, but is deemed obtainable on demand in year 2016 and is taxed in year 2016. Please note that income receivable from related party and relatives is no longer taxed on the receipt basis but when it is deemed obtainable on demand. Please see Figure 3. for extra illustration on employment income receivable on demand.
INVESTMENT INCENTIVES	
Small Value Assets *With effect from YA 2015*	Presently, expenditures incurred on asset valued not more than RM 1,000 are allowed 100% capital allowance on the asset and the total special allowance is capped at RM 10,000. It is proposed that the value of each asset for qualifying the special allowance be raised to RM 1,300 and total allowance be increased to RM 13,000 accordingly.
Reinvestment Allowance *With effect from YA 2015*	Two main issues concerning reinvestment allowance are dealt with in Budget 2015: ***Withdrawal of RA claim due to asset disposal*** Under present law, RA is to be withdrawn if the relating asset is disposed off within 5 years from the date of acquisition. As a concessionary treatment, such withdrawal is allowed in the year of disposal by the Director General. It is proposed that the withdrawal be deemed as a statutory income in the year of disposal such that it is in line with current concessionary treatment. ***Clarification of the term "statutory income of business"*** Presently the law allows RA to be claimed against up to 70% of the statutory income of the business of qualifying person. It is now to be clarified that statutory income from business refers only to statutory income derived from the qualifying project only. This means that companies with sources of income other than the qualifying project are now required to keep separate accounting records for the purpose of claiming RA.

CHANGES AFFECTING COMPANIES AND UNINCORPORATED BUSINESSESS

SUBJECT	BUDGET PROPOSAL
INVESTMENT INCENTIVES (CONT'D)	
Claim of Industrial Building Allowance *With effect from YA 2015*	Current legislation requires the election to claim allowance for buildings provided to employees as living accommodation to be made in writing within 3 months of the beginning of the year of assessment in which the expenditures incurred. It is now proposed that the claim be made in the tax return for the relevant year of assessment during which the expenditure was incurred.
Automation in Manufacturing *With effect from YA 2015*	To encourage automation in the manufacturing industries, an incentive in the form of capital allowance (CA) is proposed as follow: ***High labour intensive industries:*** Capital allowance of 200% on the first RM 4million qualifying expenditure incurred from YA 2015 to YA 2017 ***Other industries:*** Capital allowance of 200% on the first RM 2million qualifying expenditure incurred from YA 2015 to YA 2020 Examples of high labour intensive industries include rubber products, plastics, wood, furniture and textiles.
Industrial Area Management Operator *Effective date yet to be determined.*	To promote and support industrial estates' development, tax incentive in the form below is now proposed to be given to the private sector for their initiatives in providing management services for public facilities or infrastructure in industrial areas: ▪ 100% income tax exemption for a period of 5 years for managing, maintaining and upgrading industrial estates in *LESS developed* areas. ▪ 70% income tax exemption for a period of 5 years for managing, maintaining and upgrading industrial estates in other areas. At this stage however, it is unclear as to the mechanisms, conditions and effective date of the abovementioned incentives.
EXPENSES DEDUCTION AND ALLOWANCE RELATING TO GST IMPLEMENTATION	
Training Expenses *Effective for YA 2014 and 2015.*	It has been reiterated in the Budget Speech that expenses incurred for training of employees in accounting and information and communication technology (ICT) relating to GST will be given double tax deduction.
Tax Filing Fees *With effect from YA 2015*	As announced in last year's budget proposal, fees incurred up to RM 10,000 for the filing of income tax returns and GST forms will qualify for tax deduction, but not filling fees of other tax returns.
Secretarial Fees *With effect from YA 2015*	Secretarial fees amounting up to RM 5,000 per annum will also be allowed for tax deduction.

CHANGES AFFECTING COMPANIES AND UNINCORPORATED BUSINESSESS

SUBJECT	BUDGET PROPOSAL
EXPENSES DEDUCTION AND ALLOWANCE RELATING TO GST IMPLEMENTATION (CONT'D)	
Information Technology And Communication Equipment *Effective from YA 2014 to YA 2016*	To encourage investment in the latest ICT equipment and the smooth implementation of GST, it is proposed that the accelerated capital allowance on the purchase of specified ICT equipments be extended for another 3 years. Please note that other ICT equipments not relating to GST implementation may also be allowed the accelerated capital allowance. For the list of qualified items, please refers to Figure 4.

PURCHASE / DISPOSAL OF REAL PROPERTY

<table>
<tr><th>SUBJECT</th><th>BUDGET PROPOSAL</th></tr>
<tr><td colspan="2">PURCHASE OF FIRST RESIDENTIAL PROPERTY</td></tr>
<tr><td>Stamp Duty Exemption

For sale and purchase agreements executed from 1 Jan 2015 to 31 Dec 2016</td><td>At present, a 50% exemption of stamp duty is given on instruments of transfer and loan agreement executed by a Malaysian citizen for the purchase of only one unit of residential property with value not more than RM 400,000, providing the following conditions are also satisfied:

✓ The sale and purchase agreement is executed from 1 January 2013 to 31 December 2014.
✓ The purchaser does not own any other residential property at the date of execution of the agreement.

It is now proposed that the exemption be extended to 31 December 2016 and the ceiling price be increased to RM 500,000.</td></tr>
<tr><td colspan="2">SALE / TRANSFER OF REAL PROPERTY – REAL PROPERTY GAINS TAX (RPGT)</td></tr>
<tr><td>Retained Amount By <u>Acquirer</u>

With effect from 1 Jan 2015</td><td><u>Purchaser</u> of a real property is required by law to withhold and remit an amount of receipt to the IRB within 60 days of the date of the agreement.

The amount to be withheld and remitted is the <u>LOWER</u> of the following:
▪ Whole amount of money receipt, OR
▪ 3% (proposed rate) of the total value of the consideration (current : 2%)

A penalty equal to 10% of the retention sum will be imposed on the purchaser in case of non-compliance, and the increase in retention sum could potentially imply a higher penalty.</td></tr>
<tr><td>Disposal of asset by way of gift

With effect from 1 Jan 2015</td><td>The proposed legislation is expected to provide clarification on the following:

1. Where the transfer is between husband and wife, parent and child, grandparent and grandchild, the donor shall be deemed to have received “no gain, no loss”.
2. Where the transfer is to other party, the disposal is deemed to be at market value of the asset.

Please see Figure 5. for illustration of the determination of transfer price.</td></tr>
<tr><td>Disposal of Deceased’s Asset

With effect from 1 Jan 2015</td><td>This proposal provides clarification on the market value of the deceased person’s asset upon being disposed off by his executor or by the trustees of a trust created under his will in order to ascertain the deemed acquisition price for estate duty purpose.

Under the proposed legislation, market value of asset purchased <u>before</u> 1 January 1970 is its value as at 1 January 1970.

* This doesn’t apply on a transfer to the legatee by an executor as this is not disposal.</td></tr>
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PURCHASE / DISPOSAL OF REAL PROPERTY

SUBJECT	BUDGET PROPOSAL
RPGT ASSESSMENT	
Self-Assessment *With effect from 1 Jan 2016*	Currently RPGT is assessed formally by IRB. In tandem with Government's aspiration to modernize the tax system, it is proposed that the responsibility of computing RPGT liability be shifted from IRB to taxpayer by implementing the self-assessment system.

SUPPORTING FIGURES AND EXPLANATORY MATERIALS

Figure 1. Proposed tax rates and corresponding tax savings for resident individual.

Chargeable Income (RM)	Existing rates (%)	Proposed rates (%)	Reduction (%)
1 - 5,000	0	0	-
5,001 - 20,000	2	1	1
20,001 – 35,000	6	5	1
35,001 – 50,000	11	10	1
50,001 – 70,000	19	16	3
70,001 – 100,000	24	21	3
100,001 – 250,000	26	24	2
250,001 – 400,000	26	24.5	1.5
Above 400,000	26	25	1

Figure 2. Tax treatment and return to be submitted by LLP in the year of conversion and subsequent years.

Type of conversion	Tax treatment before conversion	Tax treatment in year of conversion	Tax treatment in subsequent years	Return to be submitted in year of conversion	Return to be submitted in subsequent years
Partnership → LLP	Partners being assessed individually	Partners being assessed individually	Taxed at the LLP level	Individual partner – Form B; Partnership – Form P	Form PT
Company → LLP	Tax assessed at the entity level	Tax assessed at the entity level	Taxed at the LLP level	Form C	Form PT

Figure 3. Example of employment income obtainable on demand.

Mr. X is the major shareholder and director of Company ABC, the account of which is closed on 30 April every year. Based on the resolution by the BOD meeting on 16 January 2015, a director fee amounting to RM 30,000 has been approved by the company for Mr. X's service rendered for the period ended 30 April 2015.

Mr. X has not received the director fee until 30 June 2017.

Since the director fee first becomes receivable by Mr. X in year 2015 and Company ABC is controlled by Mr. X, the unpaid director fee as at 31 December 2015 is deemed obtainable on demand by Mr. X in year 2016, the fee shall be assessed as part of the director's employment income is year 2016 (not in the year of receipt, i.e. YA 2017).

Company ABC should also include the amount in the director's <u>EA statement</u> for the year ended <u>31 December 2016</u> and must <u>deduct PCB</u> from the director fee. Amount deducted shall be remitted to IRB not later than <u>15 January 2017</u> (instead of 10 January 2017).

SUPPORTING FIGURES AND EXPLANATORY MATERIALS

Figure 4. List of items qualified for accelerated capital allowance.

List of items qualified for accelerated capital allowance	
Access control system	Computers and components
Banking system	Central processing unit
Barcode equipment	Storage
Bursters / decollators	Screen
Cables and connectors	Printers
Computer assisted design (CAD)	Scanner / reader
Computer assisted manufacturing (CAM)	Accessories
Computer assisted engineering (CAE)	Communications and network
Card readers	Software system / software package

Figure 5. Disposal of asset by way of gift.

Donor	Asset Holding Period	Recipient's Acquisition Price
Malaysian Citizen / A Permanent Resident	0 – 5 years	Donor's acquisition price + Permitted expenses incurred by donor (No gain no loss for donor)
	> 5 years	Market price of property on the day of gift (Gain/ loss is recognized)
Not Malaysian Citizen and Not Permanent Resident	0 – 5 years	Donor's acquisition price + Permitted expenses incurred by the donor
	> 5 years	