Title	Key Features of The Budget 2014 – MALAYSIA A Taxation Perspective
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The Prime Minister cum Finance Minister of Malaysia, YAB Dato' Sri Najib Tun Razak tabled The Budget 2014 at Malaysia's Dewan Rakyat on Friday 25 October 2013. The Budget 2014 has a theme "Strengthening Economic Resilience, Accelerating Transformation And Fulfilling Promises" by focussing on the following five key thrusts:

- Invigorating economic activity;
- Strengthening fiscal management;
- Inculcating excellence in human capital;
- Intensifying urban and rural development; and
- Ensuring the well-being of the Rakyat.

ECONOMIC PERFORMANCE

- In the first half of 2013, the Malaysian economy expanded 4.2% mainly supported by robust private investment and consumption. For the full year of 2013, the economy is estimated to expand strongly between 4.5% and 5%. Domestic demand is expected to remain the main economic growth driver with private and government consumption growing at a projected rate of 7.4% and 7.3% respectively.
- In the first half of 2013, net inflows of foreign direct investment (FDI) amounted to RM18.2 billion. The Government's efforts have led to an increase in private investment such that the share of private investment to GDP has grown from 12.4% in 2010 to 16.7% currently in 2013 and to a projected 17.9% in 2014.
- In 2014, based on the prospects of an improved global economy, the Malaysian economy is forecast to expand between 5% and 5.5%. This is spearheaded by private investment and domestic consumption, which are anticipated to rise by 12.7% and 6.2% respectively. The construction sector is expected to increase 9.6% followed by the services sector at 5.7%.
- The strong domestic economic environment also boosted the encouraging performance of the stock market. This was reflected in the increase of the FTSE Bursa Malaysia KLCI to reach a record high of 1,818 points on 24 October 2013 with market capitalization of RM1.66 trillion. Per capita income for 2014 is expected to reach RM34,126. The international reserves position remains strong at RM444.9 billion on 14 October 2013, sufficient to finance 9.7 months of retained imports and is 3.9 times the short-term external debt.
- In 2014, the Federal Government revenue collection is estimated at RM224.1 billion, an increase of RM4 billion from 2013. The 2014 Budget will allocate a total of RM264.2 billion comprising RM217.7 billion for Operating Expenditure and the balance RM46.5 billion for Development Expenditure.
- In terms of budget deficit as a percentage of GDP, the Government forecast is for the deficit to reduce from 4% of GDP in 2013 to 3.5% in 2014. This represents a continuing decline from 6.6% in 2009, 5.6% in 2010, 4.8% in 2011, 4.5% in 2012 and 4% in 2013.

Gross Domestic Product (GDP) by Sector
2012 – 2014 (at constant 2005 prices)

	Change (%)			Share of GDP (%)			Contribution to GDP Growth (percentage point)		
	2012	2013	2014	2012	2013	2014	2012	2013	2014
Agriculture	1.0	2.7	3.0	7.3	7.2	7.0	0.1	0.2	0.2
Mining	1.4	2.2	3.1	8.4	8.2	8.1	0.1	0.2	0.3
Manufacturing	4.8	3.2	3.8	24.9	24.5	24.2	1.2	0.8	0.9
Construction	18.1	10.6	9.6	3.5	3.7	3.9	0.6	0.4	0.4
Services	6.4	5.5	5.7	54.6	55.0	55.4	3.5	3.0	3.1
Add: Import Duties	15.6	9.5	4.0	1.3	1.4	1.4	0.2	0.1	0.1
GDP	**5.6**	**4.5 - 5.0**	**5.0 - 5.5**	**100.0**	**100.0**	**100.0**	**5.6**	**4.5 - 5.0**	**5.0 - 5.5**

2013 = Estimates
2014 = Forecast

Note : Total may not add up due to rounding.
Source : Economic Report 2013/2014, Malaysia

Gross Domestic Product (GDP) by Aggregate Demand
2012 – 2014 (at constant 2005 prices)

	Change (%)			Share of GDP (%)			Contribution to GDP Growth (percentage point)		
	2012	2013	2014	2012	2013	2014	2012	2013	2014
GDP	**5.6**	**4.5 - 5.0**	**5.0 - 5.5**	**100.0**	**100.0**	**100.0**	**5.6**	**4.5 - 5.0**	**5.0 - 5.5**
Domestic Demand 3	**10.6**	**8.7**	**5.9**	**90.6**	**94.0**	**94.9**	**9.2**	**7.8**	**5.6**
Private Expenditure	**10.7**	**9.5**	**7.8**	**66.1**	**69.1**	**71.0**	**6.8**	**6.3**	**5.4**
Consumption	7.7	7.4	6.2	50.6	51.9	52.5	3.8	3.7	3.2
Investment	21.9	16.2	12.7	15.5	17.3	18.5	3.0	2.5	2.2
Public Expenditure	**10.3**	**6.5**	**0.6**	**24.5**	**24.9**	**23.9**	**2.4**	**1.6**	**0.1**
Consumption	5.1	7.3	3.3	13.2	13.5	13.3	0.7	1.0	0.5
Investment	17.1	5.5	-2.7	11.3	11.4	10.5	1.7	0.6	-0.3
External Sector	**-31.7**	**-30.9**	**-6.5**	**8.5**	**5.6**	**5.0**	**-4.2**	**-2.6**	**-0.4**
Exports	-0.1	1.2	1.6	95.0	91.9	89.0	-0.1	1.2	1.5
Imports	4.7	4.4	2.2	86.5	86.3	84.0	4.1	3.8	1.9
GDP (RM billion, current value)	**941.2**	**987.7**	**1,056.7**						
Changes (%)	**6.4**	**4.9**	**7.0**						

2013 = Estimates
2014 = Forecast
Domestic Demand = Excluding change in stocks
Exports & Imports = Goods and non-factor services

Note : Total may not add up due to rounding.
Source : Economic Report 2013/2014, Malaysia

BUDGET 2014 TAXATION PROPOSALS

A ANNOUNCEMENT OF THE GOODS AND SERVICES TAX (GST)

It has been proposed that the existing sales tax and service tax be abolished and be replaced with a broad-based consumption tax known as the GST with effect from 1 April 2015. The GST standard rate is 6%.

GST is a multi-stage consumption tax which is levied on all taxable supplies of goods and services made in the course or furtherance of any business by a taxable person in Malaysia. GST will be charged on goods and services at all levels starting from production, manufacture, wholesale and retail. It is also levied on the importation of goods and services into Malaysia. A taxable supply of goods and services means a supply of goods or services other than an exempt supply. A taxable supply is either a standard-rated or a zero-rated supply.

Broadly, GST works on a value added principle whereby input tax is offset against output tax and the difference is either paid to or refunded by the Royal Malaysian Customs.

Input tax is the GST incurred by a taxable person on business purchases for the purpose of making taxable supplies. The business purchases would include:

i. goods or services purchased locally; and
ii. goods or services imported.

Output tax is the GST charged on any taxable supply of goods or services made by a taxable person in the course or furtherance of his business in Malaysia.

For businesses that have registered for GST, the input tax incurred is fully recoverable from the Government through the input tax credit mechanism.

Depending on the nature of the goods and services supplied, the rate of GST can be either zero-rated, exempt or standard rate. Zero-rated supplies are defined as goods and services that are sold by businesses that are charged GST at a zero rate and the businesses are able to claim on the GST paid on their inputs as credits. On the other hand, exempted supplies are defined as goods and services sold by businesses that are exempted from GST and such businesses are not able to claim on the GST paid on their inputs as credits.

Every business with an annual sales value of RM500,000 and above is required to be registered under the GST legislation. For businesses that are below the annual threshold of RM500,000 may register on a voluntary basis.

Types Of Supply	Input Tax	Output Tax	Examples of goods and services
Standard-rated	6%	Claimable	
Zero-rated This refers to goods and services which are charged at zero rate. Any input tax incurred in making the zero-rated supply can be claimed as a credit.	0%	Claimable	*Goods* ▪ Basic food items ▪ Goods supplied to Labuan, Langkawi and Tioman ▪ Goods in connection with international shipping and air supplies ▪ Supply of treated water ▪ First 200 units of electricity to domestic households ▪ Supply of raw materials and components for approved toll manufacturing scheme *Services* ▪ Services and certain goods in connection to ships and aircraft (excluding private use) ▪ International transportation of passenger and goods ▪ Leasing of goods outside Malaysia ▪ Services rendered in connection to goods or land outside Malaysia ▪ Services rendered to a non-Malaysian person ▪ Specified services provided in Malaysia to non-Malaysian person ▪ Insurance relating to export of goods, services connected with the export of goods and insurance of foreign risks ▪ Telecommunication services provided outside services supplied relating to location of computer servers in Malaysia belonging to a person outside Malaysia ▪ Advertising services made available outside Malaysia ▪ International mail ▪ Qualifying services for inbound / outbound tour ▪ Lease of air or sea containers

Types Of Supply	Input Tax	Output Tax	Examples of goods and services
Exempted A supply of goods or services which is exempt from tax. An exempt supply will not attract output tax. Any input tax incurred in making the exempt supply is not claimable as a credit.	No GST charged	Not claimable	*Goods* ▪ Land and building used for residential, agricultural, burial and religious purposes *Services* ▪ Education services ▪ Childcare services ▪ Healthcare services ▪ Rental of residential properties and accommodation (more than 28 days) ▪ Public transport ▪ Toll ▪ Funeral, burial and cremation services ▪ Qualifying supplies by societies and associations *Financial services* ▪ The operation of any current, deposit or savings account ▪ The provision of any loan or credit facility ▪ The transfer of derivatives or securities ▪ Unit trust transactions ▪ Life insurance ▪ Islamic financial services Any fee, commission or similar charges associated with the above financial services will be treated as a taxable supply.
Out of scope supply ie outside the ambit of GST	No GST charged	Not applicable	▪ Supplies made by the Federal and State governments are not within the scope of GST unless they are prescribed by the Minister of Finance; and ▪ Supplies made by the local authorities and statutory bodies in relation to regulatory and enforcement functions are not within the scope of GST.

B REAL PROPERTY GAINS TAX (RPGT)

The present RPGT rates are as follows:
i. 15% tax where the property has been held for up to 2 years;
ii. 10% tax where the property has been held for more than 2 years and up to 5 years; and
iii. 0% tax where the property has been held for more than 5 years.

From 1 January 2014 onwards, gains arising from the disposal of real properties and shares in real property companies will attract the following revised effective RPGT rates:

Disposal of real properties and shares in real property companies	Companies	Individuals (Citizens & Permanent Residents)	Individuals (Non-Citizens)
Within 3 years	30%	30%	30%
In the 4 th year	20%	20%	30%
In the 5 th year	15%	15%	30%
In the 6 th and subsequent years	5%	0%	5%

To ensure stable house prices and control excessive speculative activities, the Government will also implement the following steps:
i. The minimum price of properties that can be purchased by foreigners will be increased from RM500,000 to RM1,000,000.
ii. Increase transparency in property sales price, where property developers will have to display detailed sales price including all benefits and incentives offered to buyers such as exemption of legal fees, stamp duty, sales agreements, cash rebates and free gifts.
iii. Prohibit developers from implementing projects that have features of Developer Interest Bearing Scheme (DIBS), to prevent developers from incorporating interest rates on loans in house prices during the construction period. Therefore, financial institutions are prohibited from providing final funding for projects involved in the DIBS scheme.

C CORPORATE TAX

Tax Incentive Package For GST Implementation

In an effort to ensure smooth implementation of GST by businesses and to reduce the cost of doing business in Malaysia, the Government has proposed the following measures:

i. Reduction of corporate and individual income tax rates as explained in the following pages.
ii. For the years of assessment 2014, 2015 and 2016, the purchase of information and communication technology (ICT) equipment and software are given accelerated capital allowance (ACA) of 100%.
iii. For the years of assessment 2014 and 2015, the expenses for GST related training of employees in accounting and ICT are given a double deduction.
iv. With effect from year of assessment 2015, secretarial fees and tax filing fees are deductible up to RM5,000 and RM10,000 respectively.
v. Accelerated capital allowance i.e. initial allowance of 20% and annual allowance of 80% given on ICT equipment be extended for another 3 years to YA 2016.

Reduction Of Corporate Income Tax Rates

With effect from year of assessment 2016, the corporate tax rate is proposed to be reduced by 1% to 24%.
The new rates will apply to the following entities:

i. a company;
ii. a trust body;
iii. an executor of an estate of a deceased individual who was domiciled outside Malaysia at the time of his death;
iv. a receiver appointed by the court; and
v. a limited liability partnership.

Small and medium (SME) companies

With effect from year of assessment 2016, for small and medium companies (i.e. resident companies with a paid-up ordinary share capital of up to RM2.5 million), the tax rate for chargeable income of up to RM500,000 is proposed to be reduced by 1% to 19%. The remaining chargeable income is proposed to be subjected to tax at a rate of 24%.

Chargeable income (RM)	Present Rate %	Proposed Rate %
Chargeable income of first RM500,000	20	19
Chargeable income in excess of RM500,000	25	24

The above preferential tax rates will not be available to a SME if more than:

i. 50% of the paid up capital in respect of ordinary shares of the SME is directly or indirectly owned by a related company;
ii. 50% of the paid up capital in respect of ordinary shares of the related company is directly or indirectly owned by the SME; or
iii. 50% of the paid up capital in respect of ordinary shares of the SME and the related company is directly or indirectly owned by another company.

A “related company” in this context means a company which has a paid up capital in respect of ordinary shares of more than RM2.5 million at the beginning of the basis period for a year of assessment.

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Co-operatives
With effect from year of assessment 2015, co-operative income tax rates are to be reduced by 1% to 2% for chargeable income exceeding RM150,000.

Chargeable income (RM)	Present Rate %	Proposed Rate %
1–30,000	0	0
30,001–60,000	5	5
60,001–100,000	10	10
100,001–150,000	15	15
150,001–250,000	20	18
250,001–500,000	22	21
500,001–750,000	24	23
Exceeding 750,000	25	24

D PERSONAL TAX

In line with the introduction of GST, the Government has proposed the following measures to assist and support individual taxpayers during the GST transitional period.

Reduction In Individual Tax Rates

With effect from year of assessment 2015, the reduction in resident individual income tax rates between 1% to 3% and expansion of chargeable income band exceeding RM100,000 are shown below:

Chargeable income brackets (RM)	Present Rate %	Proposed Rate %
1-5,000	0	0
5,001-20,000	2	1
20,001-35,000	6	5
35,001-50,000	11	10
50,001-70,000	19	16
70,001-100,000	24	21
100,001-250,000	26	24
250,001-400,000	26	24.5
Exceeding 400,000	26	25

The income tax rate for non-resident individuals is reduced by 1% from 26% to 25%.

Tax Relief For Middle Income Taxpayers

For only the year of assessment 2013, a special relief of RM2,000 will be given to resident tax payers earning up to RM8,000 a month (aggregate income up to RM96,000 a year), to increase their disposable income.

Monthly Tax Deduction As Final Tax

With effect from year of assessment 2014, employees whose total income tax is equivalent to the amount of tax deducted under the Monthly Tax Deduction (MTD) system, will no longer need to submit a tax return as the MTD would serve as the final tax paid by the individual taxpayers. The conditions are:

i. the employee only receives employment income as prescribed under the Malaysian Income Tax Act 1967 ;
ii. tax is deducted and remitted under the MTD system; and
iii. the employee has been serving under the same employer for a period of 12 months in a calendar year.

E TAX INCENTIVES

Extension Of Tax Incentives For New 4 & 5 Star Hotels

At present, hotel operators undertaking new investments in 4 & 5 stars hotels are eligible to apply for the pioneer status or investment tax allowance incentive from Malaysian Investment Development Authority (MIDA) until 31 December 2013. The tax incentives granted are as follows:

Location	Pioneer Status	Investment Tax Allowance
Peninsular Malaysia	Exemption of 70% of statutory income for a period of 5 years.	An allowance of 60% on the qualifying capital expenditure incurred within a period of 5 years. The allowance can be set-off against 70% of the statutory income for each year of assessment.
Sabah and Sarawak	Exemption of 100% of statutory income for a period of 5 years.	An allowance of 100% on the qualifying capital expenditure incurred within a period of 5 years. The allowance can be set-off against 100% of the statutory income for each year of assessment.

To promote Malaysia further as a preferred tourist destination as well as to increase the facilities for meetings, convention and exhibition activities, it is proposed that the incentives be extended for another 3 years. The incentive is effective for applications to be received by MIDA from 1 January 2014 to 31 December 2016.

Incentive For Minimum Wage Policy

For a period of one year from 1 January 2014 to 31 December 2014, small and medium enterprises, co-operatives, associations and organizations are encouraged to comply with the Minimum Wage Policy implemented on 1 January 2013. The minimum wages for the employees are RM900 per month in Peninsular Malaysia and RM800 per month in Sabah, Sarawak and Labuan. It is proposed that the difference between the original salary and the minimum wage be given a further deduction.

Incentive For Flexible Work Arrangements (FWA)

Presently, no tax incentive is given for FWA implemented by employers. In order to retain talent in the labour market by encouraging work-life balance, the Government has proposed that further deduction be given to companies with FWA status on expenses incurred for the training of employees, supervisors and managers as well as consultancy fees incurred to design an appropriate FWA to be implemented.

The eligible expenses include costs for training in:
i. optimizing a work-life balance;
ii. technology orientation;
iii. managing a flexible workforce; and
iv. helping managers embrace flexible work alternatives.

The incentive is given for a period of 3 years of assessment and is subject to the companies obtaining FWA status from Talent Corporation Malaysia Berhad. Applications must be made from 1 January 2014 to 31 December 2016.

Extension Of Incentives for Green Lane Policy Programme

The following incentives under the Green Lane Policy for SMEs are proposed to be extended to 31 December 2017 to strengthen and increase the innovation and productivity of SMEs:

i. Subsidy on interest rate of 2% or a maximum of RM200,000 per year;
ii. Stamp duty exemption for loan agreements under the soft loan incentive scheme;
iii. Deduction for expenses incurred for obtaining 1-InnoCERT certification;
iv. Government procurement incentives encompassing approved manufacturers status company registration without site visit as well as bonus marks given in technical evaluation; and
v. Priority incentives to participate in procurement exercise by Minister of Finance Incorporated Companies.

Green Technology Incentives

Green technology is defined by the Ministry of Energy, Green Technology and Water as the development and application of products, equipment and systems used to conserve the natural environment and resources, which minimizes and reduces the negative impact of human activities. No tax incentive is presently given for companies that invest in green technology equipment or use green technology services.

To strengthen the development of green technology, the following incentives have been proposed:

i. Investment tax allowance for purchase of green technology equipment; and
ii. Income tax exemption on the use of green technology services and system.

Research & Development (R&D) Incentives For Bioeconomy Development

Presently, no incentive is given for the development of Bio-economy in Malaysia. To encourage R&D in Bioeconomy, the following incentives are proposed for viable projects assessed by Biotechnology Corporation (BiotechCorp):

i. Tax deduction for companies that invest to acquire technology platform in bio-based industry;
ii. Import duty exemption on R&D equipment for companies which invest in pilot plants for pre-commercialisation in Malaysia; and
iii. Special incentive for companies to partially cover the operational costs for human capital development for Centre of Excellence for R&D.

The above incentives are available for applications received by BiotechCorp from 1 January 2014 to 31 December 2018.

Anchor Companies Under Vendor Development Programme (VDP)

Currently, the anchor companies under VDP which incur high operating and development expenses are not given tax deductions. To encourage more anchor companies to develop local vendors, it is proposed that double deduction be given for incurring qualifying operating expenditure.

The qualifying operating expenditure include :

i. Cost of product development, R&D, innovation and quality improvement;
ii. Cost of obtaining ISO/Kaizen/5S certifications, evaluation programme and business process reengineering for the purpose of increasing vendor capabilities; and
iii. Cost of vendor skills training, capacity building, lean management system and financial management system.

The above incentive is subject to the following conditions:

i. Anchor companies are required to sign a Memorandum of Understanding with the Ministry of International Trade and Industry (MITI) under the VDP from 1 January 2014 to 31 December 2016;
ii. Qualifying operating expenses must be certified by MITI before the anchor companies can claim the deduction;
iii. Qualifying operating expenses are capped at RM300,000 per year; and
iv. Deduction is given for 3 years of assessment.

SOURCES :

- Office of The Prime Minister of Malaysia www.pmo.gov.my
- Malaysia Ministry of Finance www.treasury.gov.my

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