

The 2014 Budget - Strengthening economic resilience, accelerating transformation and fulfilling promises

*TaXavvy
Special Edition
25 October 2013*



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Welcome to our
TaXavvy Special Edition which brings to
you the key proposals of
the 2014 Budget.

The Finance Bill 2013 is not available at the time of publishing this TaXavvy.

2014 Budget highlights

Main proposals

1

Announcement of the Goods and Services Tax (GST)

The government announced the introduction of GST effective from 1 April 2015.

2

Curbing property speculation and stabilising property prices

Measures announced include increase in real property gains tax rates effective from 1 January 2014.

3

Reduction in income tax rates for companies and co-operatives

With the proposed introduction of GST, income tax rates would be reduced for co-operatives and companies from YA 2015 and YA 2016 respectively.

4

Review of individual income tax

Individual income tax rates would be reduced and income tax bands widened with the introduction of GST and to ensure a more progressive tax structure.

1 Announcement of the Goods and Services Tax (GST)

The current sales and service tax will be abolished and replaced with the GST with effect from 1 April 2015.

GST rate

The GST rate is to be fixed at 6% .

Proposed model

The proposed GST model to be implemented in Malaysia is as follows:

- GST applies on value added activities from production stage to retail stage.
- GST applies on domestic and imported goods and services .
- GST paid on business inputs is known as input tax, while GST charged on supplies is known as output tax
- The recovery of input tax credit for businesses via an input tax mechanism.

Threshold of RM 500,000

Businesses making taxable supplies must register for GST where the annual sales turnover exceeds RM 500,000.

However, businesses below the threshold may voluntarily register for GST.

Main proposals

Supplies subject to GST

Most goods and services will be subject to GST with the following exceptions:-

a. Zero-rated supply

This refers to goods and services supplied by business which are charged at zero rate, but GST paid on their inputs can be claimed as credits. Goods and services which are to be treated as zero rated supplies include:-

Goods

- Basic food items
- Goods supplied to Labuan, Langkawi and Tioman
- Goods in connection with international shipping and air services
- Supply of treated water
- First 200 units of electricity to domestic household
- 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 person who belongs outside Malaysia
- Specified services provided in Malaysia to a person who belongs outside Malaysia
- Insurance relating to export of goods; services connected with the export of goods; insurance of risks outside Malaysia
- Telecommunication services provided outside Malaysia
- 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

b. Exempt supply

This refers to goods and services supplied by business which do not attract GST, but GST paid on their inputs cannot be claimed as credits. Goods and services which are to be treated as exempt supplies include:-

Goods

- Land and building used for residential, agricultural, burial and religious purposes

Services

- Financial services:-
 - The operation of any current, deposit or savings account
 - The provision of any loan, advance or credit or other similar facility
 - The transfer of derivatives / securities
 - Unit trust transactions
 - Life insurance
 - Islamic financial services will be given the same treatment as conventional financial services

It is to be noted that any fee, commission or similar charges associated with the above services will be treated as a taxable supply.

- 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

Main proposals

2 Curbing property speculation and stabilising property prices

c. Out of scope supply

This refers to goods and services which are outside the ambit of GST. Goods and services which are to be treated as out of scope supplies include:

- Prescribed services provided by the Federal Government and State Government.
- Supplies made by the local authorities and statutory bodies with regulatory and enforcement functions.

Tax incentive package for GST implementation

To support the smooth implementation of GST, it is proposed that the following incentives be given:-

- Reduction of income tax rates (refer to items 3 & 4 for details).
- Expenses for the purchase of Information and Communication Technology (ICT) equipment and software be given accelerated capital allowance (ACA).
(Effective for years of assessment (YAs) 2014 to 2016)
- Expenses for GST related training of employees in accounting and ICT be given further deduction.
(Effective for YA 2014 and 2015)
- Training grant of RM100 million for GST training of employees.
(2013 and 2014)
- Financial assistance of RM150 million for the purchase of accounting software by Small & Medium Enterprises (SMEs)

Increase in Real Property Gains Tax (RPGT) rates

The current RPGT rates are as follows:-

Disposal of real property / RPC* shares	Companies, individuals (citizens, non-citizens and permanent residents)
Within 2 years	15
In the 3 rd to the 5 th year	10
In the 6 th year onwards	0

The following revisions to the RPGT rates have been proposed effective from 1 January 2014:-

Disposal of real property / RPC* shares	RPGT rates		
	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 year onwards	5%	0%	5%

* Real property company

Other proposals

- The minimum price of properties that can be purchased by foreigners will be increased from RM500,000 to RM1,000,000.
- Increase transparency in property sales price (detailed sales price including all benefits and buyers are to be displayed).
- The Developer Interest Bearing Scheme (DIBS) is abolished.

Main proposals

3 Reduction in income tax rates for companies and co-operatives

Companies

Corporate income tax rate is to be reduced by 1% as follows:-

Category	Current tax rate (%)	Proposed tax rate (%)
Company (excluding small and medium size company*) and the following entities – <ul style="list-style-type: none"> • trust body • executor of an estate of an individual who was domiciled outside Malaysia at the time of his death • receiver appointed by the court • limited liability partnership 	25	24
Small and medium size company*		
• Chargeable income up to RM500,000	20	19
• Remaining chargeable income	25	24

* Company with paid-up capital of up to RM2.5 million

(Effective from YA 2016)

Co-operatives

Co-operative income tax rates are to be reduced by 1% to 2% for chargeable income exceeding RM150,000.

Chargeable income (RM)	Current tax rate (%)	Proposed tax 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

(Effective from YA 2015)

Main proposals

4 ***Review of individual income tax***

Income tax rates for resident individuals will be reduced by 1% to 3%. The chargeable income band exceeding RM100,000 will be structured into 3 bands with the maximum rate applying to chargeable income exceeding RM400,000 (currently RM100,000).

The new schedule of tax rates for a resident individual is as follows:-

For every ringgit of the first	5,000	0%
For every ringgit of the next	15,000	1%
For every ringgit of the next	15,000	5%
For every ringgit of the next	15,000	10%
For every ringgit of the next	20,000	16%
For every ringgit of the next	30,000	21%
For every ringgit of the next	150,000	24%
For every ringgit of the next	150,000	24.5%
For every ringgit exceeding	400,000	25%

Non-resident individuals income tax rate is reduced from 26% to 25%.

(Effective from YA 2015)

Tax incentives

The government proposed the following new incentives and extension of existing incentives:-

Flexible work arrangements (FWA)

To encourage companies to adopt and implement FWA for employees, expenses incurred by companies in training employees and consultancy fees for designing the FWA will be given further deduction for a period of 3 YAs.

The eligible expenses include costs for training in:-

- optimizing a work-life balance;
- technology orientation;
- managing a flexible workforce; and
- helping managers embrace flexible work alternatives.

To qualify for the incentive, the company is required to obtain FWA status from Talent Corporation Malaysia Berhad (Talent Corp).

(Effective for applications received by Talent Corp from 1 January 2014 to 31 December 2016)

Green technology incentives

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

- investment tax allowance for purchase of green technology equipment ; and
- income tax exemption on the use of green technology services and system.

Incentive for Minimum Wage Policy

The Government implemented the Minimum Wage Policy on 1 January 2013. Under this policy, the minimum monthly wages are RM900 in Peninsular Malaysia and RM800 in Sabah, Sarawak and Labuan.

To encourage compliance with this new policy, it is proposed that the difference between the original salary and the minimum wages paid by SMEs, cooperatives, associations and organisations be given further tax deduction.

(Effective from 1 January 2014 to 31 December 2014)

Anchor companies under Vendor Development Programme (VDP)

To encourage more anchor companies to develop local vendors, it is proposed that double deduction be given for a period of 3 YAs to anchor companies incurring qualifying operating expenditure certified by the Ministry of International Trade and Industry (MITI) in implementing VDP.

Qualifying operating expenditure

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

The qualifying operating expenditure is capped at RM300,000 per year.

(Effective for anchor companies that have signed the Memorandum of Understanding with MITI under the VDP from 1 January 2014 to 31 December 2016)

Research & Development (R&D) incentives for Bioeconomy development

To encourage R&D in Bioeconomy, the following incentives are proposed for viable projects assessed by Biotechnology Corporation (BiotechCorp):-

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

(Effective for applications made to BiotechCorp from 1 January 2014 to 31 December 2018)

Tax incentives

New 4 and 5 star hotels – extension of current tax incentives

The following tax incentives currently given to hotel operators undertaking new investments in 4 and 5 star hotels in Peninsular Malaysia and Sabah and Sarawak have been extended:-

	Pioneer Status	Investment Tax Allowance
Peninsular Malaysia	Exemption of 70% of statutory income (SI) for 5 years	Allowance of 60% on qualifying capital expenditure (QCE) for 5 years to be set-off against 70% of SI
Sabah and Sarawak	Exemption of 100% of SI for 5 years	Allowance of 100% on QCE for 5 years to be set-off against 100% of SI

(Effective for applications to be received by MIDA from 1 January 2014 to 31 December 2016.)

Extension of ACA on ICT equipment

To encourage companies to invest in the latest ICT equipment and software, the current ACA (initial allowance of 20% and annual allowance of 80%) is proposed to be extended to YA 2016.

Green Lane Policy programme – extension of current incentives

The following incentives under the Green Lane Policy for SMEs are proposed to be extended to 31 December 2017:-

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

Personal tax

Others

Monthly tax deduction as final tax

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 provided that:

- the employee only receives employment income;
- tax is deducted and remitted under the MTD system; and
- the employee has been serving under the same employer for a period of 12 months in a calendar year.

(Effective from YA 2014)

Relief for middle income taxpayers

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.

(YA 2013 only)

Deduction for secretarial and tax filing fees

To reduce the cost of doing business, it is proposed that deduction be given to the following expenses:-

- secretarial fees up to RM5,000
- tax filing fees up to RM10,000
(Effective from YA 2015)

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The PwC Seminar

Rising to the Challenge



Kuala Lumpur (1 day)

Date: 1 November 2013 (Friday)

Venue: Grand Hyatt Kuala Lumpur

Contact: Fazlina Jaafar at 03-2173 0860

Penang (1 day)

Date: 12 November 2013 (Tuesday)

Venue: Equatorial Hotel

Contact: Ann Yew or Ong Bee Ling at 04-238 9291 /
04-238 9170

Johor Bahru (1 day)

Date: 13 November 2013 (Wednesday)

Venue: Renaissance Johor Bahru Hotel

Contact: Ling Hie Jing or Renuka Ashok at 07-222 4448

Featuring

Kuala Lumpur

- Budget 2014 – Rising to the challenge
- Budget 2014 – Your burning questions answered
- The Goods & Services Tax - Are you ready for the wave?
- Let's talk tax - Getting down to business

Penang & Johor Bahru

- Budget 2014 – Rising to the challenge
- Financial reporting developments : A peek at the horizon
- The Goods & Services Tax - Are you ready for the wave?
- Taxpayers are not cannon fodder - The rise & rise of litigation



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25 October 2013

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