

Malaysian Budget 2012

The 2012 Budget will emphasize efforts to ease the rising cost of living whilst continue to transform the nation into a developed and high-income economy.

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With the theme “National Transformation Policy: Welfare for the Rakyat, Well-Being of the Nation”, the 2012 Budget will focus on five key main areas:

- First: Accelerating investment;
- Second: Generating human capital excellence, creativity and innovation;
- Third: Rural transformation programme;
- Forth: Strengthening the civil service; and
- Fifth: Easing inflation and enhancing the well-being of the rakyat.

INDIVIDUAL TAX

1. Tax treatment for private retirement scheme

Currently, tax treatment on benefits received from retirement are as follows:

A. Tax Exemption

- i. Exemption on pension income received by taxpayers upon attaining mandatory retirement age;
- ii. Exemption on withdrawal of contribution from Employee Provident Fund (EPF) by taxpayers upon attaining mandatory retirement age;
- iii. Tax exemption on gratuity received upon attaining mandatory retirement age; and



- iv. Exemption on income received by EPF fund and approved fund under Section 150 Income Tax Act 1967.

B. Tax Relief

- i. Relief up to RM6,000 on contributions to EPF, contributions to Private Retirement Scheme (PRS) and life insurance premium; and
- ii. Relief up to RM1,000 on annuity premium as a component of tax relief on EPF contributions and life insurance premium.

C. Tax Deduction

- i. Deduction on contributions to EPF made by employers for their employees and such contributions to approved fund under Section 150 Income Tax Act 1967 up to 19% of employees' remuneration.

To promote sufficient savings upon attaining retirement age and to spur the development of the capital market, it is proposed that:

- i. Tax relief up to RM3,000 be given on contributions by individuals to PRS approved by the Securities Commission and annuity premium;
- ii. Tax relief of RM1,000 on annuity premium (as a component of the tax relief of RM6,000 on EPF contributions and life insurance premium) is rationalised;
- iii. Tax exemption on income received by the PRS fund;
- iv. Deduction on contributions by employers for employees to PRS. The deduction is given up to 19% of employees' remuneration and includes contributions to EPF and approved scheme under Section 150 Income Tax Act 1967; and
- v. Withdrawals of contributions from PRS by employees prior to maturity period or prior to attaining mandatory retirement age is subject to tax.

Effective date: YA 2012

2. Compensation for late refund of income tax by Inland Revenue Board (IRB)

Currently, taxpayers who are late in paying the outstanding tax are subject to penalties at the following rates:

Date when penalties are imposed	Penalty rates
One day after the due date for income tax return to be filed.	10%
60 days after the penalty of 10% is charged.	5%

However, if IRB is late in refunding tax overpaid, the taxpayer is not given compensation.

To ensure taxpayers are accorded equitable treatment and to enhance efficiency in tax administration, it is proposed that taxpayers be given compensation of 2% on the amount of tax refunded late by IRB.

The compensation of 2% is to be paid on a daily basis commencing 1 day:

- i. After 90 days from the due date for e-Filing; and
- ii. After 120 days from the due date for manual tax filing.

Taxpayers eligible for the compensation are those who file income tax returns before the expiry of the stipulated due date as follows:

- i. Salaried individuals: not later than 30 April;
- ii. Individuals with business income: not later than 30 June; and
- iii. Companies: not later than 7 months from the expiry of the accounting period.

Effective date: YA 2013

CORPORATE TAX

1. Extension of tax incentive period for Real Estate Investment Trusts (REITs)

To further promote the development of REITs as well as invigorate the capital and property market, it is proposed that the following tax incentives be extended for another 5 years.

- i. Foreign institutional investors, particularly pension funds and collective investment funds receiving dividends from REITs listed

on Bursa Malaysia, are subject to final withholding tax at 10% from 1 January 2009 until 31 December 2011; and

- ii. Non-corporate investors including resident and non-resident individuals and other local entities receiving dividends from REITs listed on Bursa Malaysia, are subject to final withholding tax at 10% from 1 January 2009 until 31 December 2011.

Effective date: From 1 January 2012 until 31 December 2016

2. Tax incentive for the issuance of Islamic securities based on *Wakalah* principle

Currently, deduction is given on expenses on the issuance of Islamic securities under the principles of *Mudharabah*, *Musyarakah*, *Ijarah*, *Istisna'*, *Murabahah* and *Bai Bithamin Ajil* based on *Tawarruq* and approved by the Securities Commission or the Labuan Financial Services Authority.

The incentive is given from the years of assessment 2003 until 2015.

To promote the growth of the Islamic capital market in tandem with the objective of strengthening Malaysia's position as the leading global *sukuk* market, it is proposed that expenses on the issuance of Islamic securities based on *Wakalah* principle approved by the Securities Commission or the Labuan Financial Services Authority be given deduction for the purpose of income tax computation.

Effective date: YA 2012 until YA 2015

3. Extension of exemption period on income from the trading of non-ringgit *sukuk*

Currently, tax exemption on activities related to the issuance and trading of non-ringgit *sukuk* is given on the following incomes:

- i. Fees received by qualified institutions in undertaking activities related to the arranging, underwriting and distribution of non-ringgit *sukuk* originating from Malaysia; and

- ii. Profits of qualified institutions received from the trading of non-ringgit *sukuk* originating from Malaysia.

These incentives are subject to the condition that such *sukuk* are approved by the Securities Commission or the Labuan Financial Services Authority.

These incentives are effective from years of assessment 2009 until 2011.

To promote Malaysia as an international issuance and trading base for non-ringgit *sukuk*, it is proposed that the existing tax incentives be extended for another 3 years.

Effective date: YA 2012 until YA 2014

4. Tax incentive for new 4 and 5 star hotels in Peninsular Malaysia

Currently, for new investments in 4 and 5 star hotels, tax incentives are given only in Sabah and Sarawak, whereas no tax incentives are given in Peninsular Malaysia.

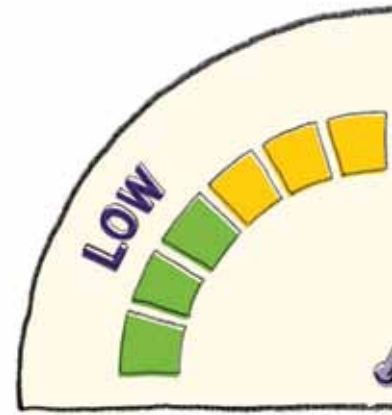
To encourage development of new 4 and 5 star hotels and to provide better accommodation facilities to attract high-spending tourists, it is proposed that investors undertaking new investments in 4 and 5 star hotels in Peninsular Malaysia be given the following:

- i. Pioneer Status with income tax exemption of 70% of statutory income for 5 years; or
- ii. Investment Tax Allowance of 60% on the qualifying capital expenditure incurred within a period of 5 years and to be set-off against 70% of the statutory income for each year of assessment.

Effective date: For applications received by Malaysia Investment Development Authority (MIDA) from 8 October 2011 until 31 December 2013



Did **Budget 2012** present the nation with bold and innovative



5. Tax incentives for providers of industrial design services in Malaysia

To promote creativity and innovation that results in higher value add, it is proposed that providers of industrial design services be given Pioneer Status with income tax exemption of 70% on statutory income for 5 years. The incentive is given to industrial service providers that fulfil the following criteria:

- i. New service providers who employ at least 50% Malaysian designers; and
- ii. Existing industrial design service providers undertaking expansion and non-industrial design service providers which would be carrying out industrial design activities:
 - a. Upgrading the design facilities by increasing the capital investment of at least 50%; and
 - b. Employ an additional 50% qualified Malaysian designers.

This incentive is subject to the following conditions:

- i. The industrial design service providers and Malaysian designers must be registered with the Malaysia Design Council;
- ii. The industrial design service providers must be incorporated under the Companies Act 1965 or registered under the Business Registration Act 1956 and shall provide industrial design services to non-related companies; and
- iii. The industrial design services provided are meant for the purpose of mass production.

Effective date: For applications received by MIDA from 8 October 2011 until 31 December 2016

6. Rationalisation of tax incentive for shipping companies

Currently, income of shipping companies is fully exempted from tax under Section 54A of the Income Tax Act 1967.

It is proposed that the income tax exemption for shipping companies be reduced from 100% to 70% of statutory income.

Effective date: From YA 2012

7. Tax incentive for structured internship programme

To increase companies' participation in structured internship programme, it is proposed that double deduction be given on expenses incurred by companies that implement this programme. The qualifying criteria for this programme among others are as follows:

- i. The internship programme is for full time undergraduate students from the Public/Private Higher Educational Institutions; and
- ii. Internship programme is for a minimum period of 10 weeks with a monthly allowance of not less than RM500.

Effective date: YA 2012 until YA 2016

8. Incentive for awarding scholarships

To encourage private companies to carry out

approaches and solutions to achieve sustainable growth?



social responsibility and encourage students to further their study to higher level, it is proposed that scholarships awarded by private companies to Malaysian students pursuing study at diploma and bachelor's degree in local institutions of higher learning registered with the Ministry of Higher Education be given double deduction. Scholarships awarded are for full time students that have no sources of income and the total monthly income of parents or guardian does not exceed RM5,000.

Effective date: YA 2012 until YA 2016

9. Incentive for companies to participate in career fairs abroad

Currently, expenses incurred by companies in participating in career fairs abroad are given single tax deduction.

It is proposed that expenses incurred by companies in participating in career fairs abroad that are endorsed by Talent Corporation Malaysia Berhad (TalentCorp) be given double deduction.

Effective date: YA 2012 until YA 2016

10. Tax deduction on franchise fee

To further develop a local product brand to become strong in the domestic market and accepted in overseas market, it is proposed that deduction be given on franchise fee applicable for local franchise brands.

Effective date: YA 2012

11. Incentives for private schools

To further encourage the involvement of private sector in educational services, it is proposed that tax incentive be given to private schools and international schools registered and fulfilled the requirement stipulated by Ministry of Education as follows:

i. Profit Oriented Private Schools

Income tax exemption of 70% for a period of 5 years; or Income tax exemption equivalent to Investment Tax Allowance (ITA) of 100% on the qualifying capital expenditure incurred within a period of 5 years. The allowance to be set-off against 70% of the statutory income for each YA.

Effective date: For application received by MIDA from 8 October 2011 until 31 December 2015

ii. Profit Oriented International Schools

Income tax exemption of 70% for a period of 5 years.

Effective date: For application received by MIDA from 8 October 2011 until 31 December 2015

iii. Profit Oriented Private Schools and International Schools

Import duty and sales tax exemption for educational equipment; and

Double deduction for overseas promotional expenses.

Effective date: For application received by MIDA from 8 October 2011; and from YA 2012

12. Time bar for tax audit

Currently, time bar for tax audit is 6 years from the date tax assessment is made.

It is proposed that the time bar for audit be reduced to 5 years from the date tax assessment is made. The proposal is not applicable for cases of false declaration, wilful late payment and negligence. This will not alter the requirement to keep records for 7 years in accordance with Section 82 and 82A Income Tax Act 1967.

Effective date: YA 2013

13. Enhancing administration system and tax compliance

Currently, individual taxpayers using the e-Filing system are still required to key-in information such as total income, scheduler tax deductions (PCB), contributions to EPF, insurance and zakat.

To further enhance the e-Filing system in line with current technological advances, it is proposed that:

- i. Individual taxpayers are allowed to furnish tax returns through e-Filing via mobile devices; and
- ii. Information on total income, PCB deductions, EPF contributions, insurance and zakat are pre-filled by IRB for salaried taxpayers using the e-Filing system. Such information must be submitted by their employers to IRB.

Effective date: YA 2012

STAMP DUTY, INDIRECT TAX & OTHERS

1. Stamp duty exemption on loan agreement under *Skim Perumahan Rakyat 1Malaysia (PR1MA)*



Currently, stamp duty on loan agreements for the purchase of residential properties is 0.5% on the loan value.

Full stamp duty exemption is given on all instruments for the purchase of low cost residential properties up to RM42,000 in

Peninsular Malaysia and up to RM47,000 in Sabah, Sarawak and Labuan.

Stamp duty exemption of 50% is currently given on loan agreements for the purchase of the first residential property up to RM350,000 on condition that the sale and purchase agreement is executed from 1 January 2011 until 31 December 2012.

It is proposed that full stamp duty exemption be given on loan agreements for the purchase of residential properties under the PR1MA Scheme priced up to RM300,000.

Effective date: For sale and purchase agreements executed from 1 January 2012 until 31 December 2016

2. Review of Real Property Gains Tax (RPGT)

Under the current RPGT Act 1976, RPGT rates are progressive between 0% and 30% depending on the holding period of real properties. Somehow, RPGT was exempted from 1 April 2007 until 31 December 2009.

By virtue of Real Property Gains Tax (Exemption) Order 2009, RPGT at 5% is imposed on gains from the disposal of residential and commercial properties within 5 years.

The low RPGT rate of 5% is rather ineffective in curbing speculative activities in the property market. It is now proposed that RPGT rates on the gains from the disposal of residential and commercial properties be reviewed as follows:

Holding Period	Proposed RPGT Rates		
	Companies	Individual (Citizen & PR)	Individual (Non-Citizen)
Up to 2 years	10%	10%	10%
Exceeding 2 until 5 years	5%	5%	5%
Exceeding 5 years	0%	0%	0%

The proposed RPGT rates will not burden genuine property owners as they are given exemption and the payment of RPGT is based on net gains as follows:

- i. RPGT exemption on gains from the disposal

of one unit of residential property once in a lifetime by an individual who is a citizen or a permanent resident of Malaysia;

- ii. RPGT exemption on gains from disposal of property between parents and children, husband and wife, grandparents and grandchildren;
- iii. RPGT is charged only on net gains after deducting all related costs such as purchase price, renovation costs and incidental costs e.g. legal fees and stamp duty; and
- iv. Exemption up to RM10,000 or 10% of the net gains, whichever is higher, is given to an individual.

Effective date: For disposal of properties commencing from 1 January 2012

3. Extension of tax incentives for hybrid and electric cars

Currently, franchise holders of hybrid and electric cars are given full exemption from import duty and excise duty on new completely built-up (CBU) hybrid and electric cars.

The above exemption is given for one year commencing from 1 January 2011 until 31 December 2011 and subject to certain criteria and conditions.

It is proposed that the above period of full exemption of import duty and excise duty for new CBU hybrid and electric cars be extended for another two years.

Effective date: Applications received by Ministry of Finance from 1 January 2012 until 31 December 2013

4. Tax incentives for Treasury Management Centre (TMC)

TMC is a centre that provides financial and fund management services to a group of related companies within or outside the country.

In line with Government's effort to develop Malaysia as a competitive financial centre in this region and to attract multinational corporations to choose Malaysia as the preferred location for

their TMC, it is proposed that TMC be given the following incentive packages:

- i. 70% tax exemption on the statutory income arising from qualifying treasury services rendered by the TMC to its related companies for 5 years;
- ii. Exemption from withholding tax on interest payments on borrowings by the TMC to overseas banks and related companies, provided the funds raised are used for the conduct of qualifying TMC activities;
- iii. Full exemption from stamp duty on all loan agreements and service agreements executed by TMC in Malaysia for qualifying TMC activities; and
- iv. Expatriates working in a TMC are taxed only on the portion of their chargeable income attributable to the number of days they are in Malaysia.

Effective date: For applications received by MIDA from 8 October 2011 until 31 December 2016

5. Assistance for individual owners of budget taxis and hire cars

Currently, the following assistance is given to owners of budget taxis and hire cars:

- i. 100% excise duty exemption on purchase of new locally manufactured cars used as budget taxis;
- ii. 100% excise duty exemption on purchase of new locally assembled cars used as hire cars; and
- iii. Road tax at RM20 per year.

Excise duty based on the current value of the car shall be paid when the car is sold or the ownership is transferred.

To assist individual owners of budget taxis and hire cars in reducing cost of operations and improve the taxi services, it is proposed that:

- a. 100% sales tax exemption on purchase of new locally manufactured cars used as budget taxis or hire cars;
- b. Exemption of excise duty and sales tax on sale or change of ownership of budget taxis and hire cars after seven years of registration;
- c. Road tax on budget taxis and hire cars to be abolished;



Is Malaysia ready to transform with the help of **Budget 2012?**

- d. Interest rate subsidy of 2% per annum for 2 years on full loans for financing the purchase of new locally manufactured cars used as budget taxis and hire cars; and
- e. Assistance of RM3,000 for replacement of budget taxis and hire cars aged more than seven years but less than 10 years. For budget taxis and hire cars aged 10 years and above, an assistance of RM1,000 will be given.

Effective date: Proposals (a) and (b) from 8 October 2011; proposal (c) from 1 January 2012; and proposals (d) and (e) from 1 January 2012 until 31 December 2013

6. Stamp duty exemption on loan agreements for micro finance and professional services fund

Currently, instrument of loan agreements up to RM250,000 executed by small and medium enterprises (SME) are subject to stamp duty at the rate of 0.05% on the loan value (or RM0.50 for every RM1,000).

The interpretation of SME under the Stamp Act 1949 is as follows:

Sector	Annual Turnover	Number of Employees
Manufacturing	Less than RM25 million	150 persons
Services	Less than RM5 million	50 persons

Instrument of loan agreements executed by parties other than SME are subject to stamp duty at the rate of 0.5% on the loan value (or RM5.00 for every RM1,000).

To reduce cost of doing business for micro enterprises and SME, it is proposed that 100% stamp duty exemption to be given on loan agreements up to RM50,000 under the Micro Financing Scheme. Such exemption is given on loans executed between micro enterprises and SME with any banking and financial institutions.

In addition, to assist professional groups establishing firms in rural areas, it is proposed that 100% stamp duty exemption be given on loan agreements up to RM50,000 undertaken from the Professional Services Fund. Such exemption is given on loans executed between any professionals with Bank Simpanan Nasional.

Effective date: For instruments executed from 1 January 2012

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