

Tax Alert

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**SJ Grant Thornton
Malaysia**

Stimulus Package

The following tax incentives have been introduced in the Stimulus Package announced on 10 March 2009 to ease the tax burden of the Rakyat and corporate sector :

(1) Incentive for employing local retrenched workers

To encourage companies to employ retrenched workers, it is proposed that employers who employ these workers be given double deduction on remuneration expenses incurred subject to:

- workers employed must be Malaysian citizens and residents retrenched from 1 July 2008;
- the termination of employment has been registered with the Director General of Labour, the Ministry of Human Resources. Retrenched workers include those terminated under Voluntary Separation Scheme or Mutual Separation Scheme;
- employment is on full time basis;
- remuneration expenses eligible for double deduction do not exceed RM10,000 per month for each worker and limited to a maximum period of 12 months. Remuneration includes wages, salary and allowances; and
- the deduction is available for any worker appointed between 10 March 2009 and 31 December 2010.

Effective date : Year of Assessment 2009

(2) Tax deduction on housing loan interest

Currently, investment sentiment in the housing sector is weak, given that both developers and buyers appear to be adopting a cautious attitude to build and to own houses. To stimulate the housing sector and to increase the disposable income of individual tax payer, it is proposed that tax deduction up to RM10,000 per year be given on housing loan interest for house purchased from developer or third party subject to the following conditions :



- the tax payer is a Malaysian citizen and a resident;
- limited to one residential house including flat, apartment or condominium; and
- sale and purchase agreement is executed between 10 March 2009 and 31 December 2010.

The tax deduction is given for 3 consecutive years from the first year the housing loan interest is paid.

Effective date : Year of Assessment 2009

(3) Tax exemption on compensation received for loss of employment

The Government is concerned of the plight of retrenched workers. To reduce their burden and increase the disposable income of retrenched workers, the Government proposes that the amount of compensation exempted from tax be increased from RM6,000 to RM10,000 for every completed year of service.



Workers eligible for the exemption include those retrenched under Voluntary Separation Scheme or Mutual Separation Scheme.

This proposal is effective from 1 July 2008.

(4) Incentives for Banks to Defer Repayments of Housing Loans

The Government is cognisant of the problems faced by retrenched workers in repaying their housing loans. To assist them, banking institutions have agreed these retrenched workers defer the repayment of their housing loans for one year. To support the initiative of the banking institutions to extend this repayment period, the Government has agreed that the deferred interest income be taxed only when such interest income is received by the banking and financial institutions, subject to the following conditions:

- the deferment or moratorium on the repayment of housing loan is for a period of up to 12 months, approved by the banking and financial institutions between 10 March 2009 and 9 March 2010;
- the individual who undertakes the housing loan is a Malaysian citizen and retrenched from 1 July 2008; and
- the banking and financial institutions are institutions licensed under the Banking and Financial Institutions Act 1989, Islamic Banking Act 1983, Development Financial Institutions Act 2002 and any other institutions approved by the Minister of Finance.

Effective date : Year of Assessment 2009

(5) Promoting investment on plant and machinery

To encourage businesses to invest, the Government proposes that expenses incurred on plant and machinery be given Accelerated Capital Allowance, which can be claimed within 2 years. This treatment is applicable to investments on plant and machinery incurred between 10 March 2009 and 31 December 2010.

Effective date : Year of Assessment 2009

(6) Incentive for renovation and refurbishment of business premises

Currently, expenses incurred on renovation and refurbishment of business premises are not allowed as a tax deduction and do not qualify for capital allowance. To assist businesses to remain competitive and to reduce cost of doing business, it is proposed that expenses incurred on renovation and refurbishment of business premises between 10 March 2009 and 31 December 2010 be given Accelerated Capital Allowance that can be claimed within 2 years. The amount of expenses qualified is limited to RM100,000 for 2 years of assessment per tax payer.

The qualifying expenses are:

- general electrical installation;
- lighting;
- gas system;
- water system;
- kitchen fittings;
- sanitary fittings;
- door, gate, window, grill and roller shutter;
- fixed partitions;
- flooring;
- wall covering;
- false ceiling and cornices;
- ornamental features or decorations excluding fine art;
- canopy or awning;
- fitting room or changing room;
- children play area; and
- recreational room for employee.

Effective date : Year of Assessment 2009

(7) Carry back of current year losses

Currently, there is no provision to allow current year business losses to be carried back to preceding years to reduce tax liability.

To improve business cash flow and assist companies that are incurring losses as a result of the global economic crisis, the Government proposes that the company's current year losses of up to RM100,000 be allowed to be carried back to the immediate preceding year. The tax treatment is applicable to all businesses including sole proprietors and partnerships.

Effective date : Years of Assessment 2009 and 2010

For any tax-related enquiries, kindly contact

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