Budget 2016
Malaysia
Budget 2016

Theme
Prospering the rakyat

Budget 2016 is the first Budget to be announced during the implementation period of Malaysia’s 11th Malaysia Plan (2016-2020).

Amid a challenging environment, Budget 2016 proposes five strategies in its attempt to balance Malaysia’s economic demands and her people’s welfare needs.

Fiscal consolidation is on-track as the Government targets to reduce its budget deficit to 3.1% of GDP.

5 Main strategies

1 Strengthening economic resilience
2 Ensuring inclusiveness
3 Empowering human capital
4 Enhancing productivity, innovation and green technology
5 Safeguarding the well-being of the rakyat

Notes:
* Numbers may not add up due to rounding.
► e = Estimate
► f = Forecast

Sources:
► World Bank data – Malaysia
► Bank Negara Malaysia (BNM) annual reports
► Budget speeches from 2010 to 2016
► Ministry of Finance’s (MoF) economic reports

Did you know?

1 Budget allocation

2 Government revenue

3 Budget deficit

4 Government debt/GDP ratio

5 Operating and development expenditure

Take 5: Budget 2016 Malaysia
Economic directions

Despite the moderation in global economic growth, volatility in the financial markets and declining commodity prices, the Malaysian economy is resilient and is expected to pursue a modest growth trajectory of 4.0% to 5.0% in 2016.

Malaysia's real GDP is expected to register growth of 4% to 5% in 2016, driven by growth in private investment at 6.7% and consumption at 6.4%.

Malaysia's CPI, although contained at 2.0% to 3.0%, may face inflationary pressures with the impact of the lower ringgit on the costs of imported business inputs and consumer goods.

Total trade continues at RM1.47 trillion. While exports and imports have been increasing steadily, the trade balance remains in surplus, albeit lower, with tepid global demand. China, Singapore and ASEAN continue to be Malaysia's key trading partners. Improving growth in advanced economies may bolster growth in Malaysia's export-oriented industries.

As of 15 October 2015, the total net international reserves amounted to 8.8 months of retained imports and was 1.2 times the short-term external debt.

The services and manufacturing sectors continue to be the major contributors to Malaysia’s economic growth.

In 2016, all sectors are expected to record positive growth. Growth in the construction sector is propelled by the infrastructure and affordable housing segment.

Sources:
- Budget 2016 speech, Malaysia’s Ministry of Finance
- Asian Development Outlook (ADO) 2015 Update
- BNM’s press statements as at 15 October 2015
- BNM’s annual reports
- MoF’s economic reports

Take 5: Budget 2016 Malaysia
## Selected sector initiatives

### Aerospace
- GST relief on imported goods for companies involved in maintenance, repair and overhaul (MRO) activities via the Approved Trader Scheme

### Agriculture and produce
- Zero-rated (0%) GST for soybean-based and organic-based milk, dhal, lotus root and water chestnut, mustard seeds, jaggery powder and dried mee kolok
- Special Reinvestment Allowance (RA) - 60% RA on qualifying capital expenditure which is allowed for off-set against 70% of statutory income, for the years of assessment 2016 to 2018. Available to companies that have already exhausted their 15-year RA incentive
- Extension of application period for 100% income tax exemptions for new and expanded food production projects, extension of incentive coverage to additional food production areas. Deductions also available for cost of investments in subsidiaries carrying on food production projects
- Allocations of:
  - RM450m for fruit and vegetable cultivation, research grants for herbal products, fish cage farming
  - RM190m to FAMA for Price Reduction Programme and establish 150 new Agrobazaar Rakyat 1Malaysia (ABR1M)
  - RM180m to upgrade drainage and irrigation in Integrated Agricultural Development areas
  - RM90m for Youth Agropreneur Development Programme
  - RM70m subsidy for hill paddy fertiliser to increase food supply and income of hill paddy farmers in Sabah and Sarawak

### Competitive cities
- Malaysian Vision Valley from Nilai to Port Dickson (estimated RM5b covering 108,000 hectares)
- KLIA Aeropolis (RM7b covering 1,300 acres)
- Rubber City, Kedah (RM320m)
- Samalaju Industrial Park, Sarawak (RM142m)
- Palm Oil Jetty, Sandakan Sabah (RM20m)

### Construction
- Extension of certain stamp duty exemptions for “rescuing contractors” of abandoned housing projects
- Promote the use of Industrialised Building System (IBS) by providing RM500m soft loans to developers and contractors in category G5 and below (IBS Promotion Fund)

### Green technology
- RM45m for an Electricity Mobility Action Plan including energy audit process

### Financial services
- Tax deduction on issuance costs of Sustainable and Responsible Investments (SRI) sukuk
- Reduced 10% withholding tax on REIT distributions for foreign institutional investors and certain others (including individuals) extended up to 31 December 2019
- Extension of 20% stamp duty exemption on shariah-compliant loan instruments for house purchases, up to 31 December 2017
- Income tax exemption for the provision of shariah-compliant fund management services extended for four years, up to the year of assessment 2020
- BNM to provide Ringgit-Renminbi credit swap facility for local banks
- Allocate RM200m to Amanah Ikhtiar Malaysia (AIM) for its micro-financing facility to B40 households
- Additional RM90m for microcredit to Chinese hawkers and petty traders including RM50m for Koperasi Jayadiri Malaysia Berhad (KOJADI)
## Selected sector initiatives

### Information and communication technology (ICT)
- GST rebates for prepaid mobile phone users (effective from 1 Jan to 31 Dec 2016) to be credited directly to prepaid account
- Allocations of:
  - RM1.2b to increase internet speed from 5Mbps to 20Mbps; National Fibre Backbone Infrastructure; High-speed Broadband; and undersea cable system
  - RM250m for national broadcasting digitalisation project

### Manufacturing
- Special Reinvestment Allowance (RA) - 60% RA on qualifying capital expenditure which is allowed for off-set against 70% of statutory income, for the years of assessment 2016 to 2018. Available to companies that have already exhausted their 15-year RA incentive

### Oil and gas
- GST relief on reimportation of upstream oil and gas equipment which are temporarily exported for the purpose of rental and leasing*
- RM18b for Refinery and Petrochemical Integrated Development Project (RAPID) in Pengerang Johor

### Pharmaceutical / Healthcare
- Zero-rated (0%) GST treatment expanded and now proposed to cover 8,630 brands of medicines and medical equipment for 30 illnesses, including cancer, diabetes, hypertension and heart disease
- Five new hospitals will be built in Pasir Gudang, Kemaman, Pendang, Maran and Cyberjaya
- Allocations of:
  - RM4.6b to supply medicines, consumables, vaccines and reagents to all government hospitals and clinics
  - RM260m to build and upgrade rural clinics, health clinics, dental clinics
  - RM72m to provide medical assistance including haemodialysis
  - RM52m to operate the existing 328 1Malaysia clinics and establishing 33 new ones

### Rural area
- RM1.4b to build and upgrade 700km rural roads nationwide
- RM878m for Rural Electrification Project
- RM200m to upgrade roads in FELDA settlements
- RM70m for Rural Business Challenge (RBC) and Sustainable Rural programmes
- RM67m for MARA bus transport project
- RM60m for Social Amenities Programme for drainage projects to mitigate floods

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*Note: May apply to other sectors as well*
## Selected sector initiatives (continued)

### Small and medium enterprises (SMEs)
- Automatic claim for double deduction of up to RM50,000 for Research and Development (R&D) projects
- Relaxed conditions for SMEs to claim the allowance-for-increased exports incentive

- Allocations of:
  - RM1b for shariah-compliant SME Financing Scheme (until 31 Dec 2017)
  - RM900m to increase equity ownership and strengthen Bumiputera entrepreneurship and businesses
  - RM600m for Bumiputera and Indian entrepreneurs (to be provided by Tabung Ekonomi Kumpulan Usaha Niaga, TEKUN)
  - RM200m soft loans at 4% interest rate (SME Technology Transformation Fund under SME Bank)
  - RM200m under Funding Scheme for Technology and Innovation Acceleration by Malaysia Debt Ventures Berhad
  - RM107m for SME Blueprint to fund SMEs business development
  - RM100m to Malaysian Innovation Agency (AIM)
  - RM60m for Entrepreneurs Acceleration Scheme and SME Capacity and Capability Enhancement Scheme
  - RM35m to Malaysian Global Innovation & Creativity Centre (MaGIC)
  - RM30m for youth entrepreneurship programme (Global Entrepreneurship Community, BAHTERA, GREAT, 1MET and others)
  - RM18m to expand Small Retailer Transformation Programme (TUKAR) and Automotive Workshop Modernisation (ATOM) projects
  - RM10m for Corporate Entrepreneurs Responsibility Fund

### Tourism and hospitality
- 100% income tax exemption on statutory income for tour operators that meet certain conditions extended for a further 3 years, up to the year of assessment 2018
- Online visa applications for tourists from China, Canada, India, Myanmar, Nepal, Sri Lanka, the US
- Implement E-visa by mid-2016
- Allocations of:
  - RM50m as tourism capital venture fund (to be provided by Khazanah Nasional)

### Training and education
- GST relief on teaching materials and equipment for skills and vocational training
- Tax relief on tuition fees increased to RM7,000 from RM5,000 a year
- Majlis Amanah Rakyat allocates RM3.7b for the expenditure of 72,000 Bumiputera students to continue studies at tertiary level
- Allocations of:
  - RM280m for technical and vocational training in National Youth Skills Training Institutes (IKBN) and National Youth Advance Skills Training Institutes (IKTBN)
  - RM260m to improve the National Service Training Programme (PLKN) and RM50m to enhance youth participation in economic and entrepreneurial activities
  - RM250m to train 15,000 participants under the 1Malaysia Training Scheme (SL1M)
  - RM160m to implement programmes based on community development, solidarity, social welfare, health and safety for NGOs
  - RM150m to the Bumiputera Agenda Unit (Teraju) to implement various programmes
  - RM150m to the Bumiputera Education Steering Foundation to implement Peneraju Tunas, Peneraju Professional and Peneraju Skil dan Iltizam programmes
  - RM100m to Socio-Economic Development of Indian Community Programme and RM22m to build two sport complexes in Bagan Datoh and Kuantan
  - RM100m to private skills training institutions and NGOs to enhance skills of the B40 group
  - RM77m to improve the management of foreign workers via programme such as Train and Replace in selected fields
  - RM38.5m for Dual Language Programme and Highly Immersive Programme
  - 30% of Human Resources Development Fund (HDRF) to implement training programmes in Sabah and Sarawak as well as an Outplacement Centre to retain retrenched workers
### Transportation and logistics

- **Allocations of:**
  - RM900m to implement the Jalan Tun Razak Traffic Dispersal Project
  - RM42m to construct Mukah Airport, Sarawak

- **Proposed:**
  - Coastal highway from Masjid Tanah - Klebang; Klebang - Jambatan Syed Abdul Aziz in Melaka
  - Extension of runway in Batu Berendam Airport, Melaka
  - Upgrading of airports in Kuantan and Kota Bharu

- **Updates on MRT projects (51km, cost RM32b)**
  - Sungai Buloh - Semantan MRT ready by December 2016
  - Semantan - Kajang MRT (expected completion by mid-2017)

- **Updates on LRT projects (cost RM10b)**
  - Ampang LRT (18.1km) ready by March 2016
  - Kelana Jaya - Putra Heights LRT (17.4km) ready by June 2016

- **Other train networks to commence in 2016**
  - MRTII: Sungai Buloh - Serdang - Putrajaya (52km, estimated cost RM28b)
  - LRT3: Bandar Utama - Damansara - Johan Setia - Klang (36km, estimated cost RM10b)

- **In negotiations**
  - KL-Singapore High Speed Rail

- **Public bus services**
  - RM1.5b for Bus Rapid Transit (BRT), locations unspecified
  - RM1b for BRT in Kota Kinabalu

### Various sectors

- **With effect from the year of assessment 2016, Industrial Building Allowance (IBA) will no longer be available to the lessor of the following buildings:**
  - Licensed private hospitals, maternity homes, nursing homes, buildings used for research, warehouses, buildings used for approved services projects, hotels, airports, motor racing circuits, buildings used as living accommodation of employees of persons carrying on manufacturing, hotel or tourism businesses or approved services projects; and approved schools or educational institutions
  - IBA claims on such buildings would only be available to taxpayers that own the building and use the building as an industrial building in their own business

- **Double deduction on various bond and sukuk issuance costs**

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Source: Budget 2016 speech, Malaysia’s Ministry of Finance
Malaysia's transformation journey

**10th Malaysia Plan 2011-2015**

**Theme:**
People first, performance now

**5 thrusts:**
- Moving the economy up the value chain
- Raising the capacity for knowledge and innovation and nurture ‘First Class Mentality’
- Addressing persistent socio-economic inequalities constructively and productively
- Improving the standard and sustainability of quality of life
- Strengthening institutional and implementation capacity

**Economy**
- Promoting corridors as an engine of growth
- Creating more jobs and maintaining full employment
- Improving legislation and institutions to transform the labour market
- Enhancing Bumiputra economic participation

**People**
- Elevating the livelihood of the B40 households
- Building a progressive and more inclusive society
- Improving access to quality healthcare services
- Ensuring access to quality and affordable housing
- Enhancing social cohesion and national unity
- Promoting a sports culture and developing talent to enhance well-being
- Mainstreaming and broadening access to quality TVET programmes
- Upskilling the workforce through lifelong learning
- Improving education delivery through better access and quality

**National Transformation Policy 2011-2020**

Focuses on the 12 economic areas that are critical to the nation's continued growth towards 2020

**Government Transformation Programme (GTP)**

Focuses on transforming areas of public service that are of greatest concern to the rakyat

**12 NKEAS**
- Oil, gas and energy
- Palm oil and rubber
- Financial services
- Tourism services
- Business services
- Electrical and electronics
- Wholesale and retail
- Education
- Healthcare
- Communications content and infrastructure
- Agriculture
- Greater Kuala Lumpur/Klang Valley
11th Malaysia Plan 2016-2020

Theme:
Anchoring growth on people

6 strategic thrusts:
► Enhancing inclusiveness towards an equitable society
► Improving well-being for all
► Accelerating human capital development for an advanced nation
► Pursuing green growth for sustainability and resilience
► Strengthening infrastructure to support economic expansion
► Re-engineering economic growth for greater prosperity

Game changers:
► Unlocking the potential of productivity
► Uplifting B40 households towards a middle-class society
► Embarking on green growth
► Translating innovation to wealth
► Investing in competitive cities

Economy
► Accelerating regional growth for better geographical balance
► Improving labour market efficiency to accelerate economic growth
► Transforming Technical and Vocational Education and Training (TVET) to meet industry demand
► Enhancing Bumiputera Economic Community (BEC) opportunities to increase wealth ownership

People
► Uplifting B40 households towards a middle-class society
► Empowering communities for a productive and prosperous society
► Achieving universal access to quality healthcare
► Providing adequate and quality affordable housing to middle-income households
► Enculturating the spirit of 1Malaysia to foster social cohesion and national unity
► Promoting sports for healthy living and unity
► Strengthening lifelong learning for skills enhancement
► Improving the quality of education for better student outcomes and institutional excellence

>> Beyond 2020 challenges include:
► Geopolitics
► Economic power shifts
► Climate change
► Impact of new technologies
► Urbanisation

12th Malaysia Plan 2021-2025

Economy
► Inclusive economic growth
► A future-proof economy
► Productive rural economy
► A fully involved private sector
► Global champions

People
► Unshakeable national identity
► Clear moral compass
► Family-centered support systems
► An inspiring role for seniors
► A culture of compassion
► Elevated state of well-being
► Universal healthcare and healthy living
► Caring for our children
► World-class cities for everyone
► Redefining rural living
► Artistic innovation and preservation
► Holistic and balanced talent
► Inspirational and entrepreneurial leaders
► Protecting the rakyat

Environment
► Passionate stewards of the environment
► A low carbon future
► Ubiquitous renewable energy
► Pride in and respect for our natural heritage
► The green building revolution
► “Build back” programme for natural disaster management

Sources:
► 10th Malaysia Plan
► 11th Malaysia Plan

Take 5: Budget 2016 Malaysia
### Personal tax matters

<table>
<thead>
<tr>
<th>Category</th>
<th>Details</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Individuals earning between RM600,000 and RM1 million</strong></td>
<td>- Tax rate increased from 25% to 26%</td>
</tr>
<tr>
<td><strong>Individuals earning over RM1 million</strong></td>
<td>- Tax rate increased from 25% to 28%</td>
</tr>
<tr>
<td><strong>Various increases in personal reliefs</strong></td>
<td>- Spouse relief increased to RM4,000</td>
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<tr>
<td></td>
<td>- Child relief increased to RM2,000</td>
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<tr>
<td></td>
<td>- Relief for children studying at tertiary level increased to RM8,000</td>
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<tr>
<td></td>
<td>- Self-relief for tertiary education increased to RM7,000</td>
</tr>
<tr>
<td><strong>Two new relief categories</strong></td>
<td>- Parental care - RM1,500 for each parent</td>
</tr>
<tr>
<td></td>
<td>- Contribution to SOCSO - up to RM250</td>
</tr>
</tbody>
</table>
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