Executive Summary

- Implementation of GST at the rate of 6% from 1 April 2015. GST will replace Sales Tax and Service Tax.
- Reduction of individual tax rates of 1% to 3% across various income bands. The maximum individual tax rate is reduced from 26% to 25%, with the 25% rate applying to income in excess of RM400,000.
- Relief of RM2,000 is given to tax residents earning up to RM8,000 per month with an aggregate income of up to RM96,000 a year.
- Individuals who have been subjected to monthly tax deductions are not required to file tax returns if such monthly tax deductions constitute their final tax.
- Income tax rate for companies, limited liability partnerships, trust bodies, executors of an estate of an individual domiciled outside Malaysia at the time of his death and a receiver appointed by the Court is reduced from 25% to 24%.
- Companies with paid up share capital of up to RM2.5 million are taxed at a reduced rate of 19% on the first RM500,000 of chargeable income. The excess is taxed at a reduced rate of 24%.
- Income tax rates for cooperatives are reduced by 1% to 2% on chargeable income above RM150,000.
- 100% accelerated capital allowance on information technology and communication (ICT) equipment is extended to YA 2016.
- The application deadline for income tax incentive for new investments in 4 and 5 star hotels in Peninsular Malaysia, Sabah and Sarawak is extended to 31 December 2016.
- Double deduction is given to small and medium enterprises, cooperatives, associations and organizations on the difference between the original salary and the minimum wages paid in calendar year 2014.
- Companies with Flexible Working Arrangement (FWA) status will be given a double deduction on expenses incurred in the training of employees and payment of consultancy fees to design an appropriate FWA.
- Anchor companies that have signed a memorandum of understanding with the Ministry of International Trade and Industry (MITI) in implementing Vendor Development Programme are to be given a double deduction on approved expenses.
- Company secretarial fees of up to RM5,000 and tax filing fees of up to RM10,000 are now deductible.
- Expenses incurred on the training of employees in the area of accounting and ICT for GST purposes are entitled to a double deduction.
- Imposition of Real Property Gains Tax of 0% to 30% for Malaysian citizens and permanent residents and 5% to 30% for companies and non-Malaysian citizens.
Overview and Commentary


The 2014 Budget with the theme “Strengthening Economic Resilience, Accelerating Transformation and Fulfilling Promises” reflects the Government’s commitment to ensure that the economy continues to expand at a strong pace and to reduce the fiscal deficit, with the overall objective of prospering the nation and promoting the well-being of the rakyat.

For the 2014 Budget, an amount of RM217.7 billion has been allocated for operating expenditure whilst for development expenditure, the amount allocated is RM46.5 billion. On the revenue side, the Federal Government is expected to generate an amount of RM224.1 billion. Taking into account the estimated revenue and expenditure, the Federal Government deficit in 2014 is expected to improve to 3.5% of GDP compared with 4% in 2013.

The five main focus areas of the Budget are:

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

The following are some of the more notable proposed changes in the 2014 Budget:

- **Implementation of Goods and Services Tax (“GST”)**

  GST, a consumption tax based on the value-added concept, is proposed to be effective from 1 April 2015 with a standard rate of 6%. GST will replace the existing sales tax and service tax.

  However, so as to not burden the lower income groups, supplies of some goods and services will be designated zero-rated or exempt, where GST will not be charged.

  The proposed threshold for registration under the GST is an annual sales value of RM500,000 or more.

- **Real Property Gains Tax (“RPGT”)**

  To curb speculative activities, the RPGT rates have been revised such that chargeable assets disposed of within a period of 3 years from acquisition will be subjected to RPGT at a rate of 30% for companies and individuals.

  Disposals in the 4th and 5th year, will be subjected to RPGT at rates of 20% and 15% respectively for companies and individuals. Disposals of assets held for more than 5 years are only exempted from RPGT in respect of individuals who are Malaysian citizens or permanent residents, whilst companies are taxed at 5%. Non-citizens will be subjected to RPGT at a flat rate of 30% for disposals within 5 years and 5% thereafter.

  The above is effective for disposals of real property occurring from 1 January 2014.
• **Review of Corporate Income Tax**

To ensure the nation’s competitiveness in the global economy where tax rates are on a declining trend, the corporate income tax rate is proposed to be reduced from 25% to 24%. Further, the corporate income tax rate for the first RM500,000 of chargeable income for companies with a paid up share capital of up to RM2.5 million will be reduced from 20% to 19%. These proposals are effective from YA 2016.

• **Review of Individual Income Tax**

In order to increase the income of the rakyat and in line with the implementation of GST, it is proposed that the individual income tax rates and bands be adjusted.

The chargeable income subject to the maximum rate will be adjusted to income exceeding RM400,000 from the current RM100,000. The current maximum tax rate of 26% will also be reduced to 25%. These proposals are effective from YA 2015.

In addition, it is proposed that employees with employment income who have been subjected to monthly tax deductions (“MTD”) are no longer required to submit tax returns where the income tax payable is equivalent to the MTD amount. This is effective from YA 2014.

The other key changes are outlined in the following pages.
To encourage companies to acquire the latest information technology and communication (ICT) equipment, it is proposed that companies continue to be given accelerated capital allowances on the cost of acquisition of ICT equipment. These accelerated capital allowances continue to be at the rate of 100% in the year expenditure is incurred.

The proposal is effective from YA 2014 to YA 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.

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%.

The proposal is effective from YA 2016.

In line with the GST implementation and to promote the growth of co-operatives, it is proposed that income tax rates for co-operatives be reduced by 1% to 2% for chargeable income exceeding RM150,000 as set out below:

<table>
<thead>
<tr>
<th>Chargeable Income Brackets</th>
<th>Current</th>
<th>Proposed</th>
<th>Tax Savings (Cumulative)</th>
</tr>
</thead>
<tbody>
<tr>
<td>RM</td>
<td>Tax Rate %</td>
<td>Tax Payable RM</td>
<td>Tax Rate %</td>
</tr>
<tr>
<td>1 – 30,000</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>30,001 – 60,000</td>
<td>5</td>
<td>1,500</td>
<td>5</td>
</tr>
<tr>
<td>60,001 – 100,000</td>
<td>10</td>
<td>4,000</td>
<td>15</td>
</tr>
<tr>
<td>100,001 – 150,000</td>
<td>15</td>
<td>7,500</td>
<td>15</td>
</tr>
<tr>
<td>150,001 – 250,000</td>
<td>20</td>
<td>20,000</td>
<td><strong>18</strong></td>
</tr>
<tr>
<td>250,001 – 500,000</td>
<td>22</td>
<td>55,000</td>
<td><strong>21</strong></td>
</tr>
<tr>
<td>500,001 – 750,000</td>
<td>24</td>
<td>60,000</td>
<td><strong>23</strong></td>
</tr>
<tr>
<td>750,000</td>
<td>25</td>
<td></td>
<td><strong>24</strong></td>
</tr>
</tbody>
</table>
The proposal is effective from YA 2015.

<table>
<thead>
<tr>
<th>TAX INCENTIVES</th>
</tr>
</thead>
</table>
| **Tax Incentive For Implementation of Minimum Wages** | To relieve the burden of small and medium enterprises, co-operatives, associations and organizations due to the implementation of the minimum wages policy, it is proposed that the difference between the original salary and the minimum wage be given a further deduction.  
The minimum wages for the employees are as follows:-  
i. RM900 per month in Peninsular Malaysia; and  
ii. RM800 per month in Sabah, Sarawak and Labuan.  
The proposal is effective for a period of one year from 1 January 2014 to 31 December 2014. |

| **Tax Incentive For 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 promote more anchor companies to develop local vendors, it is proposed that the qualifying operating expenses incurred by anchor companies in implementing VDP’s be given a double deduction. The qualifying operating expenses include:-  
i. cost of product development, research & development, 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 (“MOU”) with MITI;  
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 YAs.  
This proposal is effective for anchor companies that sign the MOU with MITI from 1 January 2014 to 31 December 2016. |
### SUBJECT

**Extension of Tax Incentives for New 4 and 5 Star Hotels**

At present, the following tax incentives are given to hotel operators undertaking new investments in 4 and 5 star hotels:

i. **Peninsular Malaysia**
   - Pioneer Status with income tax exemption of 70% of statutory income for 5 years; or
   - Investment Tax Allowance of 60% on qualifying capital expenditure incurred within a period of 5 years. The Investment Tax Allowance may be set off against 70% of statutory income.

ii. **Sabah and Sarawak**
   - Pioneer Status with income tax exemption of 100% of statutory income for 5 years; or
   - Investment Tax Allowance of 100% on qualifying capital expenditure incurred within a period of 5 years. The Investment Tax Allowance may be set off against 100% of statutory income.

The above incentives are available for applications received by MIDA until 31 December 2013.

To promote Malaysia further as a preferred tourist destination as well as to increase the facilities for meeting, incentive, convention and exhibition activities, it is proposed that the incentives be extended for another 3 years.

The proposal is effective for applications received by MIDA from 1 January 2014 to 31 December 2016.

### Tax Incentive for Flexible Work Arrangements (FWAs)

As a measure to encourage companies to adopt and implement FWAs, it is proposed that expenses incurred in the training of employees, supervisors and managers as well as consultancy fees to design an appropriate FWA, be given double deductions for 3 YAs. This is subject to the companies obtaining FWA status from Talent Corporation Malaysia Berhad (TalentCorp).

The expenses allowed as double deductions include costs for training in:

i. optimising a work-life balance;

ii. technology orientation;

iii. managing a flexible workforce; and

iv. helping managers embrace flexible work alternatives.

The proposal is effective for companies which apply for FWA status from TalentCorp from 1 January 2014 to 31 December 2016.
**SUBJECT**

**Tax Incentive Package in Line with GST Implementation**

To support the smooth implementation of GST, enhance tax compliance and reduce the cost of doing business, it is proposed that the following incentives be given:

i. secretarial fees and tax filing fees be given tax deductions of up to RM5,000 and RM10,000 respectively for a YA; and

ii. expenses relating to training of employees in accounting and information and communication technology be given double deduction.

With respect to item (i), the proposal is effective from YA 2015.

With respect to item (ii), the proposal is effective for YA 2014 and YA 2015.

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**INDIRECT TAX**

**GST**

It is proposed that GST is to be implemented with effect from 1 April 2015 to replace the current sales tax and service tax.

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. It is also levied on the importation of goods and services into Malaysia.

Broadly, GST works on a value added principle whereby input tax (i.e. GST incurred on business purchases) is offset against output tax (i.e. GST charged on taxable supplies made) and the difference is either paid to or refunded by the Royal Malaysian Customs.

The proposed standard rate of GST is 6%. However, certain goods or services are to be zero-rated or exempted.

Businesses with an annual sales value of RM500,000 and above are required to register for GST purposes. Businesses below the threshold may register on a voluntary basis.

Please see Appendix 1 for some notable GST terms.

The proposal is effective from 1 April 2015.
### Monthly Tax Deduction (MTD) as Final Tax

Currently, employers are responsible to remit MTD payments to the IRB every month as provided under the Income Tax (Deduction from Remuneration) Rules 1994. Employers make MTD payments through salary deductions after deducting standard reliefs and additional reliefs as requested by the employees. The same employees are required to submit tax returns to the IRB on or before 30 April in the following year. The submission of tax returns burdens the employees as the MTD remitted by the employer may be equivalent to the income tax payable by the employees.

To facilitate employees whose total income tax is equivalent to the total amount of MTD, it is proposed that such taxpayers no longer need to submit tax returns. Hence the amount of MTD remitted represents the final tax paid. This proposal is only applicable to:

1. Employees who receive employment income prescribed under section 13 of the Income Tax Act 1967;
2. Employees whose MTD are under the Income Tax (Deduction from Remuneration) Rules 1994; and
3. Employees serving under the same employer for a period of 12 months in a calendar year.

The proposal is effective from YA 2014.

### Relief for Middle Income Taxpayers

Currently, tax resident individuals are subject to tax on their chargeable income after deducting allowable expenses (i.e. contributions to approved institutions and tax reliefs) and rebates (i.e. RM400 for a taxpayer with chargeable income of up to RM35,000 and RM400 for the spouse and zakat paid by Muslim taxpayers).

To increase the disposable income of the middle income group, it is proposed that a special relief of RM2,000 be given to tax resident individuals earning up to RM8,000 a month (aggregate income up to RM96,000 a year).

The proposal is effective for YA 2013.
To increase the disposable income of individuals and in line with GST implementation, it is proposed that the income tax rates for resident individuals be reduced by 1% to 3%.

The comparison between the current and proposed individual income tax rates are as set out below:

<table>
<thead>
<tr>
<th>Chargeable Income (RM)</th>
<th>Current</th>
<th>Proposed</th>
<th>Tax Savings</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Tax Rate (%)</td>
<td>Tax Without Rebate (RM)</td>
<td>Tax Liability (RM)</td>
</tr>
<tr>
<td>1 - 5,000</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>5,001- 20,000</td>
<td>2</td>
<td>300</td>
<td>1</td>
</tr>
<tr>
<td>20,001 – 35,000</td>
<td>6</td>
<td>900</td>
<td>5</td>
</tr>
<tr>
<td>35,001 – 50,000</td>
<td>11</td>
<td>1,650</td>
<td>10</td>
</tr>
<tr>
<td>50,001 – 70,000</td>
<td>19</td>
<td>3,800</td>
<td>16</td>
</tr>
<tr>
<td>70,001 – 100,000</td>
<td>24</td>
<td>7,200</td>
<td>21</td>
</tr>
<tr>
<td>100,001 – 250,000</td>
<td>26</td>
<td>39,000</td>
<td>24</td>
</tr>
<tr>
<td>250,001 – 400,000</td>
<td>26</td>
<td>91,850</td>
<td>24.5</td>
</tr>
<tr>
<td>Exceeding 400,000</td>
<td>26</td>
<td>1,850</td>
<td>25</td>
</tr>
</tbody>
</table>

*after personal tax rebate of RM400 for chargeable income up to RM35,000.

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

The proposal is effective from YA 2015.
To curb speculative activities in the real property market, it is proposed that the RPGT rates on gains arising from the disposal of real properties and shares in real property companies be revised as follows:

<table>
<thead>
<tr>
<th>Disposal</th>
<th>Proposed RPGT Rates</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Companies</td>
</tr>
<tr>
<td>Within 3 years</td>
<td>30%</td>
</tr>
<tr>
<td>In the 4th year</td>
<td>20%</td>
</tr>
<tr>
<td>In the 5th year</td>
<td>15%</td>
</tr>
<tr>
<td>In the 6th and subsequent years</td>
<td>5%</td>
</tr>
</tbody>
</table>

The proposal is effective for the disposal of real properties (including shares in real property companies) from 1 January 2014.
## Appendix 1 – Notable GST Terms

<table>
<thead>
<tr>
<th>Terms</th>
<th>What It Means</th>
</tr>
</thead>
<tbody>
<tr>
<td>Business</td>
<td>Business includes any trade, commerce, profession, vocation or any other similar activity, whether or not it is for a pecuniary profit but excludes employment under a contract of service or hobbies.</td>
</tr>
<tr>
<td>Taxable Supply</td>
<td>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.</td>
</tr>
<tr>
<td>Zero-rated Supply</td>
<td>A supply of goods or services which is rated at 0%. Any input tax incurred in making the zero-rated supply can be claimed as a credit. Examples of zero-rated supplies include basic food items such as rice, sugar, salt, flour and cooking oil.</td>
</tr>
<tr>
<td>Exempt Supply</td>
<td>A supply of goods or services which is exempt from tax. An exempt supply will not attract output tax and any input tax incurred in making the exempt supply is not claimable as a credit. Examples of exempt supplies include financial services, childcare services, education services and healthcare services.</td>
</tr>
<tr>
<td>Input Tax</td>
<td>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.</td>
</tr>
<tr>
<td>Output tax</td>
<td>This refers to 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.</td>
</tr>
</tbody>
</table>
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