



# 2019 Budget Snapshots

A Resurgent Malaysia,  
A Dynamic Economy,  
A Prosperous Society.

KPMG in Malaysia

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2 November 2018



# Overview and Commentary

**Friday, 2 November 2018** marks the tabling of the Budget 2019 by Finance Minister, YB Tuan Lim Guan Eng, the inaugural federal budget by the new Pakatan Harapan government.

Bearing the theme "*A Resurgent Malaysia, A Dynamic Economy, A Prosperous Society*", the Budget 2019 focuses on institutional reforms, the wellbeing of Malaysians and the promotion of an entrepreneurial economy.

Malaysia is expecting a GDP growth of 4.9% in 2019 despite uncertainties in the global economy. Whilst the fiscal deficit in 2018 is expected to reach 3.7%, the Government has emphasized its commitment to implement consolidation steps to reduce the fiscal deficit to 3.4% of GDP in 2019, 3% by 2020 and 2.8% in 2021. This is intended to be followed by the tabling of the Fiscal Responsibility Act in 2021.

In line with the Government's objective to increase revenue and undertake tax reforms, the Government has proposed for a review of the existing taxation system.

A Tax Reform Committee has already been established in September 2018 to identify and provide suggestions for a more progressive and effective tax system. Ongoing efforts are also in place to review existing tax incentives to redirect them to selected strategic investments / businesses which can accelerate the growth of the overall economy.

Other notable tax changes announced in the Budget 2019 include service tax on imported services and digital products and services, increases in real property gains tax, stamp duty, casino tax and gaming tax as well as the imposition of excise duty on sugar sweetened beverages.

What probably came as a surprise to many was the 7-year time limitation period for businesses to carry forward tax attributes for future utilization vis-à-vis the existing infinite period accorded under the existing tax legislation. As this could have a significant impact on businesses and investments into Malaysia, further evaluation and consultation on this proposal is encouraged.

Also, the launch of the Special Voluntary Disclosure Program to encourage taxpayers to voluntarily declare any unreported income and increased enforcement by the Customs Department are bold steps in the right direction to encourage compliance.

Overall, the Budget 2019 provides a clear message that the Government is serious about reforming the economy and combating leakages to reposition the nation to propel forward despite challenging times.

The following pages set out a quick snapshot of the key changes that have been announced in this year's Budget.

Should you have any queries relating to this snapshot or any other tax matters, please contact your KPMG consultants or send us an email at [info@kpmg.com.my](mailto:info@kpmg.com.my)

Happy reading!



**Tai Lai Kok**

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# 2019 Budget Highlights

1

Lower penalty rate of 10% and 15% for voluntary disclosure of unreported income under the Special Voluntary Disclosure Program. Post-voluntary disclosure period, penalties ranging from 80% to 300% will be imposed

2

The ability to carry forward unutilised tax attributes (i.e. business losses, capital allowances, reinvestment allowances, investment allowances, pioneer losses and investment tax allowances) will be limited to 7 years of assessment ("YA")

3

Review of the group relief provision

- Surrendering company is allowed to surrender losses only after the 12<sup>th</sup> month from the commencement of operations and limited to 3 YAs
- Claimant company with unutilised investment tax allowance or unabsorbed pioneer losses will not be eligible for group relief

4

Real property gains tax ("RPGT") on chargeable gains for disposal in the 6<sup>th</sup> year and subsequent years to be increased from:

- 5% to 10% (for company)
- 0% to 5% (for citizen and permanent resident individual)
- 5% to 10% (for non-citizen and non-permanent resident individual)

5

Stamp duty rate to be increased from 3% to 4% for transfer of real property in excess of RM1million

Service tax will be imposed on imported services by businesses (B2B) from 1 January 2019

Recipients of imported services are responsible to account, declare and pay service tax

6

Service tax will be imposed on online services imported by consumers (B2C) from 1 January 2020

Foreign suppliers to register and charge service tax for importation of online services by consumers (B2C)

7

Exemptions for specific B2B service tax and credit system for sales tax deduction on acquisitions from importers by small manufacturers will be granted from 1 January 2019

8

Review of Labuan tax treatment

- Abolishment of RM20,000 fixed rate of tax
- Transactions in Ringgit Malaysia and with Malaysian residents to be allowed
- Compliance with substance requirements
- Intellectual property income to be taxed under Income Tax Act 1967
- Limited tax deduction of up to 3% allowable expenditure for resident transacting with Labuan entity

9

Imposition of excise duty on sugar sweetened beverages at RM0.40 per litre based on the sugar content

10



11

Tax rate for Small and Medium Enterprises (SME) to be reduced by 1% to 17% for the first RM500,000 of chargeable income from YA 2019

12

Tax exemption for interest earned on wholesale money market funds to be abolished from 1 January 2019

13

Tax incentives for Industry4WRD

- Tax deduction on readiness assessment expenses of up to RM27,000 paid to the Malaysian Productivity Corporation
- Double deduction on qualifying expenses incurred in implementing the Industry4WRD Vendor Development Program. The claim is limited to RM1 million per year and for 3 YAs
- Single and double deductions on human capital development expenses incurred in line with Industry 4.0 requirement

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Tax incentive for employers

- Double deduction on remuneration for employees who are senior citizens or ex-convicts (limited to RM4,000)
- Tax deduction for payments of PTPTN loans on behalf of employees

15

Review of personal tax reliefs

- Income tax relief on EPF contributions up to RM4,000
- Income tax relief on takaful contributions and life insurance premiums up to RM3,000
- Income tax relief on National Education Savings Scheme (SSPN) to be increased to RM8,000

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