

Our Ref: Circular -5-2015-Budget 2016

To all our valuable clients & Associates

## 2016 Budget Highlights – Part I

Budget 2016 has been announced by our Prime Minister, Datuk Seri Najib Tun Razak. With the theme of Prospering the Rakyat, the Budget 2016 estimates a revenue of RM225.7 billion, an increased of RM3.2 billion compared with Budget 2015.

Following are some of the key announcements made in the Budget 2016 and covered the areas:-

- (A) Personal
- (B) Corporate
- (C) Tax incentives
- (D) Goods and Services Tax (GST)

### (A) Personal/Individual

#### 1. Review of Income Tax Rates for Individuals

<b>RESIDENT INDIVIDUAL</b>		
Chargeable Income (RM)	Current Tax Rate YA 2015 (%)	Proposed Tax Rate YA 2016 (%)
1 - 5,000	0	0
5,001 - 20,000	1	1
20,001 - 35,000	5	5
35,001 - 50,000	10	10
50,001 - 70,000	16	16
70,001 - 100,000	21	21
100,001 - 250,000	24	24
250,001 - 400,000	24.5	24.5
400,001 – 600,000	25	25
<b>600,001 – 1,000,000</b>	<b>25</b>	<b>26</b>
<b>1,000,001 and above</b>	<b>25</b>	<b>28</b>

<b>NON-RESIDENT INDIVIDUAL</b>		
Chargeable Income (RM)	Current Tax Rate YA 2015 (%)	Proposed Tax Rate YA 2016 (%)
1 and onwards	25	28

#### Proposal effective:

The above proposal is effective from year of assessment (YA) 2016.

## 2. Review on Personal Tax Relief

	<b>EXISTING</b> personal tax relief	<b>Current 2015 (RM)</b>	<b>Proposed 2016 (RM)</b>	<b>Proposal Effective YA</b>
1.	<b>Tax relief for spouse (husband/wife) that has no sources of income and/or pays alimony to his former wife</b>	<b>3,000</b>	<b>4,000</b>	<b>2016</b>
2.	<b>Tax relief for children below 18 years of age</b>	<b>1,000</b>	<b>2,000</b>	<b>2016</b>
3.	<b>Tax relief for children studying at tertiary level</b>  (i) Local – for Diploma level and above (ii) Overseas – for Degree level and above  <b>Remark :</b> For a disabled child, this relief is in addition to the disabled child relief of RM6,000. Hence, an unmarried disable child over 18 years old and Studying at tertiary level are eligible to claim relief up to a maximum of RM14,000 per year.	<b>6,000</b>	<b>8,000</b>	<b>2016</b>
4.	<b>Tax relief on fees for self improvement at the tertiary education</b>  Currently, a tax resident individual who pursues any course of study up to tertiary level in selected fields of study, or Master or Doctorate level in any field, at any institution or professional body in Malaysia recognised by the Government or approved by MOF .  (i) Certificate/Diploma/Degree – Law, Accounting, Islamic Financing, Technical, Vocational, Industrial, Scientific, Technological skills or qualifications.  (ii) Master Degree/Doctorate – All fields	<b>5,000</b>	<b>7,000</b>	<b>2016</b>

	<b>NEW</b> personal tax relief	<b>Current 2015 (RM)</b>	<b>Proposed 2016 (RM)</b>	<b>Proposal Effective YA</b>
<b>1.</b>	<p><b>Tax relief on employees' contribution to Social Protection Scheme</b></p> <p>Such contributions are compulsory for Malaysian citizen employees whose monthly gross salary are not more than RM 3,000. However, voluntary contribution can be made whose monthly gross salary are more than RM 3,000. The eligibility for mandatory contribution will be increased from a monthly salary of RM 3,000 to RM 4,000.</p> <p>To encourage contribution to Socso voluntarily, employees are eligible to claim relief up to a maximum of RM250 per year.</p>	-	250	2016
<b>2.</b>	<p><b>Tax Relief for Parental Care</b></p> <p>To assist taxpayers in reducing parental care cost, it is proposed that a new relief of RM1,500 for a mother and RM1,500 for a father be given. This relief can be shared with other siblings provided that the total relief claimed shall not <i>exceed RM1,500 for a mother and RM1,500 for a father.</i></p> <p>However, the new relief is subject to the following conditions:</p> <ol style="list-style-type: none"> <li>1) such taxpayer does not claim expenses on medical treatment and care of parents;</li> <li>2) parents are the legitimate natural parents and foster parents in accordance to the respective law subject to a maximum of 2 persons;</li> <li>3) parents aged 60 years and above;</li> <li>4) parents reside in Malaysia in the current YA; and</li> <li>5) parents have an annual income not exceeding RM24,000 per annum for each parent.</li> </ol> <p><b>Remark :</b> The relief only applicable to parent and foster parent but exclude parent in law.</p>	-	3,000	2016 to 2020

### 3. Extension of exemption on gratuity

#### **Budget 2016**

New Paragraph 25D is introduced to extend the exemption on gratuity under Schedule 6 to include any sum received by way of gratuity on retirement from an employment under any written law or termination of a contract of employment, REGARDLESS of the individual's age and period of service.

The sums of gratuity exempted shall not exceed an amount ascertained by multiplying the sum of RM1,000 by the number of completed years of service of the individual.

#### **Proposal effective:**

The above proposal is effective from year of assessment (YA) 2016.

### 4. Increase of minimum wage

The national minimum wage per month will be increased as follows:

<b>Location</b>	<b>Current (RM)</b>	<b>Proposed (RM)</b>
Peninsular Malaysia	900	1,000
Sabah, Sarawak & Labuan	800	920

#### **Remark:**

The new minimum wage will be implemented in all sectors except for domestic services or domestic maids.

#### **Proposal effective:**

The above proposal is effective from 1 July 2016.

**(B) Corporate/Company****1. New non-allowable item**

There are few new paragraphs being introduced under Section 39 of ITA 1967.

	<b>Paragraph</b>	<b>Description</b>
a.	39(1)(o)	No deduction for input tax if the person who is liable to be registered under the Goods and Services Tax Act 2014 (the GST Act) fails to do so or if he is entitled to credit that amount as input tax. (Proposal Effective : Year of assessment 2015)
b.	39(1)(p)	No deduction for output tax which is borne by a person who is registered or liable to be registered under the GST Act. (Proposal Effective : Year of assessment 2015)
c.	39(1)(q)	No deduction for any remuneration paid for services performed by a public entertainer if withholding tax under Section 109A of MITA has not been paid to the Director General. (Proposal Effective : 1 January 2016)

**2. Offence and fine**

	<b>Offence</b>	<b>Consequences</b>
a.	New subsection 112(1A) : Failure to furnish returns under Section 77(1) or Section 77A(1) for <b>two years of assessment or more</b> , i.e. Form C, B, BE	Fine of RM1,000 to RM20,000 or imprisonment for a term not exceeding six months or both and a special penalty treble the amount of tax charged on the chargeable income for those years of assessment.
b.	Without reasonable excuse <b>fails to furnish correct particulars</b> required by the Director General under Section 77(4)(b) or Section 77A(3)(b)	Fine of not less than RM200 and not more than RM20,000 or to imprisonment for a term not exceeding six months or to both.

**Proposal effective:**

Upon coming into operation of the Finance Act 2015 for both offences.

**3. Mandatory to e-file Form E, CP 204 & CP 204A**

With effective YA 2016, all company must furnish its **Form E**, estimate (**Form CP 204**) or revised tax estimate (**Form CP 204A**) **by way of an electronic medium or electronic transmission** in accordance with Section 152A of the ITA.

**(C) Tax Incentives****1) Extension of tax incentives for tour operating companies**

Presently, tour operating companies are given 100% tax exemption on statutory income derived for YA 2013 to 2015 from the following business :

Business	Number of tourists per year
Operation of tour packages within Malaysia	≥ 1,500 local tourists
Operation of tour packages to Malaysia	≥ 750 inbound tourists

In this Budget 2016, such incentives will be extended for another 3 years of assessment from 2016 to 2018.

**2) Automatic double deduction for R&D project**

Presently, the companies who carry out R&D project and claim a double deduction, the companies must obtain prior approval from IRB in order to qualify for the deduction.

With effective from YA 2016 to 2018, a company with paid-up capital not exceeding RM2.5 million will be given ***automatic*** double deduction for R&D project expenditures up to RM50,000 for each year of assessment. However, the company is still required to submit R&D project application to the IRB.

**3) Allowance for Increased Exports Incentive to SMEs**

SMEs manufacturing companies are eligible to claim income tax exemption of 10% or 15% of the value of the increased exports, provided SMEs are comply with the value-added condition.		
Income tax exemption of 10% of the value of the increased exports	Value-added condition	
	Existing rule	30% value-added
	Proposed rule	20% value-added
Income tax exemption of 15% of the value of the increased exports	Existing rule	50% value-added
	Proposed rule	40% value-added

The above income tax exemption is restricted to 70% of the statutory income.

The proposal is effective from YA 2016 to YA 2018.

**(D) Goods and Services Tax (GST)****1) New items to be categorized as zero rated****➤ In Budget 2016, additional food items proposed to be zero rated under GST:**

- Soybean and organic-based milk for infants of 0-36 months
- Chickpeas, green and white bean, pigeon peas
- Lotus root, water chestnut
- Mustard seeds
- Brown sugar
- Sarawak kolok mee (dry)

**➤ With the tabled of Budget 2016, 4,415 new brands of products to be added to the existing list of zero rated. In other words, the list of zero rated medicines would be increased from 4,215 to 8,630:**

- 4,320 brands of controlled medicine which fall / are included under Poisons Groups A, B, C and D under Poisons Act 1952
- 92 brands of over-the-counter- medicines
- 3 brands of medical devices

The above proposal was take effective from 1 Janaury 2016.

**2) Exemption for supply of domestic air travel**

Domestic air travel within Sabah, Sarawak and Labuan by economy class passengers under Rural Air Services to be exempt from GST.

These was take effective from 1 January 2016.