EXECUTIVE SUMMARY

The 2014 Budget was tabled in Parliament on 25 October 2013 by our honourable Prime Minister and Minister of Finance YAB Datuk Seri Najib Tun Razak with the theme “Strengthening Economic Resilience, Accelerating Transformation and Fulfilling Promises”. The Budget 2014 focused on five key areas:

1. Invigorating economic activity
2. Strengthening fiscal management
3. Inculcating excellence in human capital
4. Intensifying urban and rural development
5. Ensuring the well-being of the people

With RM264.2 billion allocated for the 2014 Budget (which is 5% higher than the allocation for 2013) the budget deficit is forecasted to be reduced to 3.5% of GDP as compared to 4% in 2013.

The widely speculated implementation of Goods and Services Tax (“GST”) to replace the existing sales and service tax was announced in the 2014 Budget. In line with the Economic Transformation Programme (“ETP”), GST is a key Strategic Reform Initiative under the Economic Transformation Programme as a means to correct the existing weaknesses in the current tax system and thereby increase the tax collection base and strengthen the fiscal position of the nation.

Effective 1 April 2015 GST will be implemented at a standard rate of 6% with the exception of certain zero rated and exempted items. The proposed date of 1 April 2015 would provide businesses with 17 months to ensure the necessary ICT equipment and software are ready to implement GST. This means all businesses would have to take immediate steps to assess the impact of GST and mobilise resources to prepare for implementation.

To reduce the burden of GST a reduction of income tax by 1% is proposed for companies (effective year of assessment 2016), and by 1% to 3% for individuals (effective year of assessment 2015). This may also reflect a future trend for Malaysia to gradually shift from income tax to consumption tax.

As part of the Government’s measure to enhance Malaysia’s competitive edge, various incentives have been introduced and extended to key sectors such as tourism, green technology, bio-technology and property. The Rakyat’s concern over the sharp rise of property prices are also addressed through the increase in the Real Property Gains Tax (“RPGT”) and abolition of Developer Interest Bearing Scheme (“DIBS”) as a measure to curb speculative activities.

As the theme of the Budget 2014 suggests, “Strengthening Economic Resilience” is the focus this year. The introduction of GST is a necessary measure taken by the Government which has been deferred for a long time. Overall, the Budget 2014 demonstrates the Government’s commitment to undertake bold measures to address the fiscal challenges as well as the needs of the Rakyat which are necessary to continue the momentum needed to accelerate the transformation of Malaysia towards a high income nation.
Outlined below are some of the key tax changes.

<table>
<thead>
<tr>
<th>INDIRECT TAX</th>
<th>COMMENTS</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Goods &amp; Services Tax</strong> (GST)</td>
<td>The current sales and service tax shall be abolished and replaced with a broad based consumption tax based on the value-added concept known as GST. GST shall be charged and levied on any supply of goods and services made in Malaysia and any importation of goods into Malaysia. The GST standard rate is 6% except for goods and services which are out of scope or fall under the zero-rated supply and exempt supply. The threshold for GST registration is annual sales value of RM500,000. Basic food items like meat, fish, vegetables, rice, oil, flour and sugar are zero-rated. Supply of the first 200 units of electricity to a domestic household, certain financial services and telecommunication services are also zero-rated. Land used for residential/agriculture, buildings for residential purposes, some financial services (e.g. loan, life insurance), education, healthcare, childcare and transport services are exempt supply. Businesses providing exempt supply will not be entitled to claim the input GST incurred. <em>(Effective on 1 April 2015)</em></td>
</tr>
<tr>
<td><strong>Corporation Tax</strong></td>
<td>The announcement of GST is to address the Government’s growing revenue requirements and is in line with the Economic Transformation Programme. The proposed GST rate at 6% reflects the Government’s urgent commitment to address the fiscal position faced by the nation. The implementation date on 1 April 2015 would provide businesses with 17 months to ensure their systems are GST compliant. The detailed GST Bill and Regulations have not yet been formally released.</td>
</tr>
</tbody>
</table>

### CORPORATE TAX

| Review of Corporate Income Tax | Tax rate for a company be reduced by 1% to 24%. This rate also applies to the following entities:  
  i.  a trust body;  
  ii. an executor of an estate of an individual who was domiciled outside Malaysia at the time of his death;  
  iii. a received appointed by the court; and  
  iv. a limited liability partnership.  
For a company with paid-up capital of up to RM2.5 million, the rates be reduced by 1% as follows:  
  i. 19% on chargeable income up to RM500,000; and  
  ii. 24% on the remaining chargeable income. *(Effective YA 2016)* | The objective of this proposal is to support the smooth implementation of GST. The reduced rate will further enhance the competitiveness of the nation. |
The chargeable income tax bands and income tax rates to be amended and reduced as follows:

<table>
<thead>
<tr>
<th>Chargeable Income (RM)</th>
<th>Proposed Tax Rates</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 - 30,000</td>
<td>0%</td>
</tr>
<tr>
<td>30,001 - 60,000</td>
<td>5%</td>
</tr>
<tr>
<td>60,001 - 100,000</td>
<td>10%</td>
</tr>
<tr>
<td>100,001 - 150,000</td>
<td>15%</td>
</tr>
<tr>
<td>150,001 - 250,000</td>
<td>18%</td>
</tr>
<tr>
<td>250,001 - 500,000</td>
<td>21%</td>
</tr>
<tr>
<td>500,001 - 750,000</td>
<td>23%</td>
</tr>
<tr>
<td>Exceeding 750,000</td>
<td>24%</td>
</tr>
</tbody>
</table>

*(Effective YA 2015)*

The objective of this proposal is to support the smooth implementation of GST. The reduction of income tax rate will give tax savings of RM7,000 for co-operative with chargeable income exceeding RM750,000.

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A. Secretarial fee and tax filing fee

Currently, secretarial fee and tax filing fee are not tax deductible as they are not incurred directly in the production of business income.

It is now proposed that tax deductions be given to secretarial and tax filing fee as follows:

i. Secretarial fee - up to RM5,000

ii. Tax filing fee - up to RM10,000

*(Effective YA 2015)*

B. Expenses for the purchase of ICT equipment and software

Please refer to the Extension of Accelerated Capital Allowance on Information Technology and Communication Equipment above for further details.

*(Effective YA 2014 to 2016)*

C. Expenses for GST-related training in accounting and ICT

Further deduction is given for expenses on GST-related training of employees in accounting and ICT. Please refer to [SME Incentive] below.

*(Effective YA 2014 and 2015)*

The objective of this proposal is to support the smooth implementation of GST, enhance tax compliance and reduce cost of doing business. Although, it is a welcome move by the Government in allowing the tax deductions on secretarial fee and tax filing fee, we feel that a higher limit should be given as provision of these services have increased over the years.
## PERSONAL TAX

### Reduction in Income Tax Rates for Resident Individuals

The income tax rates of resident individuals are to be reduced by 1% to 3% as follows:

<table>
<thead>
<tr>
<th>Chargeable Income (RM)</th>
<th>Current Tax Rate (%)</th>
<th>Proposed Tax Rate (%)</th>
<th>Reduction (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1-5,000</td>
<td>0</td>
<td>0</td>
<td>-</td>
</tr>
<tr>
<td>5,001-20,000</td>
<td>2</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td>20,001-35,000</td>
<td>6</td>
<td>5</td>
<td>1</td>
</tr>
<tr>
<td>35,001-50,000</td>
<td>11</td>
<td>10</td>
<td>1</td>
</tr>
<tr>
<td>50,001-70,000</td>
<td>19</td>
<td>16</td>
<td>3</td>
</tr>
<tr>
<td>70,001-100,000</td>
<td>24</td>
<td>21</td>
<td>3</td>
</tr>
<tr>
<td>100,001-250,000</td>
<td>26</td>
<td>24</td>
<td>2</td>
</tr>
<tr>
<td>250,001-400,000</td>
<td>26</td>
<td>24.5</td>
<td>1.5</td>
</tr>
<tr>
<td>Exceeding 400,000</td>
<td>26</td>
<td>25</td>
<td>1</td>
</tr>
</tbody>
</table>

*(Effective YA 2015)*

In anticipation of the implementation of GST, this proposal aims to reduce the cost of living and increase the disposable income of resident individuals.

### Reduction in Income Tax Rate for Non-Resident Individuals

Income tax rate for non-resident individuals to be reduced by 1%, from 26% to 25%.

*(Effective YA 2015)*

The reduction is in line with the proposed reduction in the maximum income tax rates for resident individuals.

### Monthly Tax Deduction (MTD) as Final Tax

Employees whose total income tax equals to the amount of MTD, such taxpayers no longer need to submit tax returns. This proposal is only applicable to:

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

*(Effective YA 2014)*

Apart from lifting the administrative burden of taxpayers from filing their tax returns to the IRB, this exemption would also mean that the taxpayers who fall under this category would not be exposed to penalties for late submission of tax returns which are currently ranging at the rate of 20% to 35%.

### Personal Tax Relief for Middle Income Taxpayers

A special relief of RM2,000 be given to resident taxpayers earning up to RM8,000 a month (aggregate income up to RM96,000 a year) in 2013.

*(For YA 2013)*

This proposal aims to alleviate the tax liabilities burden of the middle income group who is earning a monthly income of between RM4,000 and RM8,000. This measure provides tax savings of up to RM480 depending on the amount of tax payable after taking deductions into consideration.
### REAL PROPERTY GAINS TAX (RPGT)

#### Review of RPGT Rates

The current RPGT rates are as follows:

<table>
<thead>
<tr>
<th>Disposal</th>
<th>Companies</th>
<th>Individual (Citizen &amp; PR)</th>
<th>Individual (Non-Citizen)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Within 2 years</td>
<td>15%</td>
<td>15%</td>
<td>15%</td>
</tr>
<tr>
<td>In the 3rd to 5th years</td>
<td>10%</td>
<td>10%</td>
<td>10%</td>
</tr>
<tr>
<td>In the 6th and subsequent years</td>
<td>0%</td>
<td>0%</td>
<td>0%</td>
</tr>
</tbody>
</table>

The RPGT rates are to be proposed as follows:

<table>
<thead>
<tr>
<th>Disposal</th>
<th>Companies</th>
<th>Individual (Citizen &amp; PR)</th>
<th>Individual (Non-Citizen)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Within 3 years</td>
<td>30%</td>
<td>30%</td>
<td>30%</td>
</tr>
<tr>
<td>In the 4th year</td>
<td>20%</td>
<td>20%</td>
<td>30%</td>
</tr>
<tr>
<td>In the 5th year</td>
<td>15%</td>
<td>15%</td>
<td>30%</td>
</tr>
<tr>
<td>In the 6th and subsequent years</td>
<td>5%</td>
<td>0%</td>
<td>5%</td>
</tr>
</tbody>
</table>

(Effective for disposal of chargeable assets from 1 January 2014)

#### Increase in threshold on acquisition of property by foreigners

The minimum price of property that can be purchased by foreigners to be increased from RM500,000 to RM1,000,00.

Foreigners under the Economic Planning Unit (EPU) Guideline on the Acquisition of Properties refer to any interest, associated group of interests or parties acting in concert which comprises:

(a) Individual who is not a Malaysian citizen; and/or
(b) Individual who is Permanent Resident; and/or
(c) Foreign company or institution; and/or
(d) Local company or local institution whereby the parties as stated in item (a) and/or (b) and/or (c) hold more than 50% of the voting rights in that local company or local institution.

This measure is to control speculative activities which exert inflationary pressure on property prices.

#### INCENTIVES

#### Incentive for implementation of minimum wage

The current minimum wage for employees is set at RM900 per month in Peninsular Malaysia and RM800 per month in Sabah, Sarawak and Labuan.

It is proposed that the difference between the original salary and the minimum wage paid by SMEs, cooperatives, associations and organisations to its employees is given further deduction for the period of one (1) year from 1 January 2014 to 31 December 2014.

This incentive is to encourage compliance towards the minimum wage policy introduced in 1 January 2013 and to reduce the financial burden of employers.

Clarification is required on whether a single or double tax deduction will be given.
| Extension of Accelerated Capital Allowance on ICT equipment and software | Expenses incurred on the purchase and installation of qualifying ICT equipment and software for business purposes is given Accelerated Capital Allowance (ACA) which is under the provision of Income Tax Act 1967 (Accelerated Capital Allowance) (Information and Communication Technology Equipment) Rules 2008 [P.U.(A) 358/2008].

This allowance can be fully claimed in the same year of assessment the equipment was purchased with an initial allowance of 20% and an annual allowance of 80%.

It is proposed that the ACA is extended for another 3 years effective from year of assessment 2014 until year of assessment 2016. | The extension of ACA encourages companies to replace and upgrade its ICT equipment in line with the fast-paced technology. |
|---|---|---|
| Investment Tax Allowance for Purchase of Green Technology Equipment and Income Tax Exemption on the use of Green Technology Services and System | To promote the development of Green technology, the following tax incentives are proposed:

1) Investment Tax Allowance for purchase of Green Technology Equipment; and

2) Income Tax Exemption on the use of Green Technology Services and System. | Currently, incentives are given to companies engaging in the green technology initiatives including renewable energy and energy conservation. The detailed scope and criteria for this incentive has yet to be announced. |
| Extension of Tax Incentives for New 4- & 5-Star Hotels | Hotel Operators undertaking new investment in 4-star hotels are given the following incentives for all applications received by MIDA for another 3 years from 1 January 2014 to 31 December 2016.

Peninsular Malaysia:

i. Pioneer Status - Exemption of 70%* of Statutory Income for a period of 5 years; or

ii. Investment Tax Allowance - Allowance of 60%* of qualifying capital expenditure incurred within a period of 5 years to be set off against 70%* of statutory income for each year of assessment.

*substitute with 100% for Sabah & Sarawak | The extension of this incentive augurs well for Visit Malaysia Year 2014 and efforts of the Government to spur the tourism industry and to attract tourists as well as to promote Malaysia as a preferred tourist destination. |
| Incentives for Small and Medium Enterprises (SMEs) | An allocation of RM120 million is proposed to increase innovation and productivity of SMEs. In addition, the Government plans to extend the following incentives until 31 December 2017 under the Green Lane Policy programme:

A. Subsidy on interest rate of 2% or a maximum of RM200,000 per year;

B. Stamp duty exemption for loan agreements under the soft loan incentive scheme;

C. Tax deduction on expenses incurred for obtaining 1-InnoCERT certification;

D. Government procurement incentives encompassing approved manufacturers status company; and

E. Priority incentive to participate in procurement exercise by Ministry of Finance Incorporated Companies. | The Government aims to continue to strengthen the competitive advantage of SMEs in the country. |
| Grant for Property Developers engaging in Perumahan Rakyat 1 Malaysia (PR1MA) projects | It is proposed that RM1 billion is allocated to the Housing Facilitation Fund under the Public Private Partnership Unit (UKAS).  
*(Effective YA 2014)* | The Government intends to encourage more developers to build more low and medium-cost houses through the PR1MA housing projects. |
|---|---|---|
| R&D Incentive for the development of Bio-economy | A) Tax deduction for companies that invest to acquire technology platform in bio-based industry;  
B) Exemption on import duty on R&D equipment for companies that invest in pilot plants for the purpose of pre-commercialisation in Malaysia; and  
C) Special incentive to companies to partially cover the operational cost for human capital development for Centre of Excellence for R&D.  
*(Effective for application received by Biotech Corp from 1 January 2014 to 31 December 2018)* | This incentive signifies the importance of R&D to accelerate the growth of Bio-economy. |
| Tax Incentive for Flexible Work Arrangements (FWA) | Expenses incurred in the training of employees, supervisors and managers as well as consultancy fee to design an appropriate FWA to be implemented by the employer will be given further deduction.  
The eligible expenses 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.  
*(Effective for a period of 3 years of assessment and subject to the obtaining of FWA status from Talent Corporation Malaysia Berhad. Applications must be received between 1 January 2014 and 31 December 2016.)* | This incentive is to encourage companies to adopt and implement FWA as a best practice in promoting work-life balance and flexible working environment. Clarification is required on whether a single or double tax deduction will be given. |
| Incentive for anchor companies to implement Vendor Development Programme (VDP) | Operating expenses incurred by anchor companies in implementing VDP will be given double deduction.  
The qualifying expenses include:  

i. Cost of product development, R&D, 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 qualifying criteria for double deduction are as follows:  

i. Anchor companies are required to sign a Memorandum of Understanding (MOU) with the Ministry of International Trade and Industry (MITI) under VDP;  

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 | This incentive is aimed at encouraging more anchor companies (government-linked companies and multinational companies) to develop local vendors (local companies and SMEs). |
iv. Deduction is given for 3 years of assessment.

(Effective for anchor companies that have signed MOU with MITI from 1 January 2014 to 31 December 2016)

<table>
<thead>
<tr>
<th>Financial Assistance for GST implementation</th>
<th>A) Training grant of RM100 million will be provided to businesses for GST training in 2013 and 2014.</th>
<th>This grant is intended to alleviate the financial burden of GST implementation by 1 April 2015.</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>B) Financial assistance amounting to RM150 million will be provided to SMEs for the purchase of accounting software for GST in 2014 and 2015.</td>
<td></td>
</tr>
</tbody>
</table>

*The comments above are based only on the 2014 Budget Speech on 25 October 2013 and are subject to changes and further clarification from the Finance Bill and GST Bill which are yet to be released.*

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