Highlights of Budget 2018
(Part I)
28 October 2017
Malaysia’s Prime Minister and Finance Minister, YAB Dato’ Sri Mohd Najib bin Tun Abdul Razak, delivered his Budget 2018 Speech at the Dewan Rakyat on 27 October 2017. This will be the last Budget before the 14th General Election that must be held before 24 August 2018. The theme of the speech was “Prospering an Inclusive Economy, Balancing between Worldly and Hereafter for the Well-being of the Rakyat, towards the TN50 aspiration” and focused on eight thrusts:

1. Invigorating Investment, Trade and Industries
2. Moving towards TN50 Aspiration
3. Empowering Education, Skills and Training, and Talent Development
4. Driving Inclusive Development
5. Prioritising the Well-being of the Rakyat and Providing Opportunities to Generate Income
6. Fortifying the Fourth Industrial Revolution and Digital Economy
7. Enhancing Efficiency and Delivery of Government-Linked Companies and Public Service
8. Balancing between the Worldly and Hereafter

In line with the theme, Budget 2018 introduced tax incentives to encourage measures towards Transformasi Nasional 2050 (TN50) or National Transformation 2050. The Government has also extended the application period for selected incentives that were due to expire. TN50 is a 30-year plan (2020-2050) that aims to emphasize economic development through advancements in technology, business processes and innovations, using technology drivers such as robotics and artificial intelligence. TN50 was first announced in Budget 2017 and aims to prepare the rakyat for the changing future and for Malaysia to become one of the world’s top 20 countries by 2050. We have covered the incentives that are relevant to most corporate taxpayers in the main body of this Tax Alert (set out in the “Corporate Tax Incentives” section) and the remaining tax incentives mentioned in Budget 2018 are discussed in the Appendix. It is noteworthy that the Government did not propose an extension to the Special Reinvestment Allowance (RA), as many had hoped. The Special RA is currently available up to the year of assessment (YA) 2018.

Other interesting developments include a matching grant of RM245 million under the Domestic Investment Strategic Fund, to upgrade smart manufacturing facilities. The Digital Free Trade Zone (DFTZ), first announced in Budget 2017, featured once again in Budget 2018. The first phase of the DFTZ will enable 1,500 SMEs to participate in the economy, attract RM700 million worth of investment and create 2,500 job opportunities.
The Prime Minister also announced measures that focus on the rakyat. Among these measures is a one-time cash payment of RM1,500 in 2018 for civil servants and RM750 for government retirees, to help these groups deal with the rising cost of living. To increase the disposal income of the middle income group and to spur consumption, the Prime Minister proposed that personal income tax rates be cut by 2 percentage points for those earning between RM20,001 - RM70,000, from YA 2018. Details of the reduced personal tax rates and its impact are set out in the “Personal Income Tax Changes” section.

The Government intends to continue with its fiscal discipline and to narrow the budget deficit to 2.8% of Gross Domestic Product (GDP) in 2018, from 3% of GDP in 2017. The Government expects to do this and finance its higher expenditure with increased Government revenue from sources such as corporate, petroleum and personal tax, as a result of projected stronger economic growth in 2018, as well as GST. Note that at the time of publication of this Alert, the Finance Bill has yet to be publicly released and as such, the proposals mentioned herein are solely from the Budget Speech. Based on the Budget Speech, the Government has not introduced any new taxes, nor has it extended the ambit of existing taxes. It is notable however that the Budget Speech highlighted the Government’s commitment to the implementation of the Organisation for Economic Cooperation and Development (OECD)’s Base Erosion and Profit Shifting (BEPS) initiative, as well as the exchange of information between jurisdictions. The BEPS initiative was formulated by the OECD to address aggressive cross-border tax planning. In line with proposals made under the BEPS initiative, it is proposed that thin capitalization rules be replaced with “earnings stripping rules” which, in the Malaysian context, will limit the tax deductibility of interest expenses charged by related companies. This is discussed further in the “Important proposal impacting corporate taxpayers” section. It is expected that other legislative changes will be announced in due course, in line with the implementation of the BEPS proposals.

The Government’s proposals are discussed further below. A follow-up tax alert will be issued once the Finance Bill is released.
Important proposal impacting corporate taxpayers: Earnings stripping rules proposed

Highlight

• Earnings stripping rules to replace thin capitalization rules

Earnings stripping rules to replace thin capitalization rules

The OECD’s BEPS initiative was formulated to address aggressive cross-border tax planning activities. The Budget 2018 Speech highlighted Malaysia’s commitment to the implementation of the BEPS proposals, as well as the automatic exchange of information between jurisdictions.

The Budget also proposed a specific BEPS-related change. Thin capitalization provisions were introduced into the Income Tax Act (ITA) with effect from 1 January 2009. These provisions were designed to limit interest deductions of thinly capitalized companies. However, the implementation of thin capitalization rules was subsequently deferred until after 31 December 2017. It is now proposed that thin capitalization be replaced by “earnings stripping rules” (ESR). ESR were proposed by the OECD as a broad measure to control excessive tax deductions on interest expenses.

From the Budget Speech, it appears that Malaysia’s version of the ESR will focus on related-company loans. Under the ESR, interest deduction on loans between related companies within the same group will be limited to an as-yet-unspecified ratio, ranging from 10% to 30% of the company’s profit before tax compared to either:

• Earnings Before Interest and Taxes (EBIT); or
• Earnings Before Interest, Tax, Depreciation and Amortisation (EBITDA)

The effective date of the introduction of ESR is from 1 January 2019. It is expected that additional changes to the ITA will need to be made to implement ESR, and such changes will likely be supplemented by guidelines or a Public Ruling.
Tax and stamp duty incentives for selected industries (new and extended)

**Highlights**

- Capital allowance for ICT equipment and software (including on development of customized software)
- Tax incentives for transformation to Industry 4.0
- Review of tax incentives for automation
- Tax incentives for hiring the disabled expanded from YA 2018
- Application period for Principal Hub tax incentive extended to 31 December 2020
- Tax exemption for angel investors extended to 31 December 2020
- Income tax exemption on the Green SRI sukuk grant
- Income tax exemption on management fee income for SRI funds
- Review of tax incentives for venture capital
- Double deduction for expenses incurred in obtaining certification for quality system and standard expanded
- Stamp duty exemptions to revive abandoned housing projects extended to 31 December 2020
- Stamp duty exemptions for trading of Exchange Traded Funds (ETF) and Structured Warrants (SW)

**Appendix 1** (see page 13)

- Application period for tax incentives for new 4 and 5-star hotels extended to 31 December 2020
- Tax exemption on statutory income for tour operating businesses extended to YA 2020
- Application period for tax incentive for medical tourism extended to 31 December 2020
- Review of tax incentives for export of private healthcare services
Capital allowance for ICT equipment and software (including on development of customized software)

Currently, expenditure incurred on the purchase of information and communication technology (ICT) equipment and software packages is eligible for accelerated capital allowance (ACA) until YA 2016. To continue to encourage companies to adopt the latest technology and remain competitive in the digital era, it is proposed that expenditure incurred on the purchase of ICT equipment and computer software packages be allowed a capital allowance claim at the rate of a 20% initial allowance (IA) and 20% annual allowance (AA). This proposal is effective from YA 2017. It is noted that this is less attractive than the previous ACA on ICT equipment and software, which effectively allowed a full capital allowance claim in the year of acquisition (assuming the relevant asset was put into use).

In addition, it is proposed that expenditure incurred on consultation fees, licensing and incidental fees for the development of customized software qualify for capital allowance claims, also at the rate of IA: 20% and AA: 20%. This proposal is effective from YA 2018.

Tax incentives for transformation to Industry 4.0

The Government is aware that businesses need to prepare for the structural changes that will take place due to the shift to the digital economy. To embrace the transformation to Industry 4.0 (the 4th Industrial Revolution), companies need to adopt advanced technology, big data analytics, autonomous robots, simulation, etc. As there are currently no specific tax incentives for this transformation, the Government has proposed that ACA and an “automation equipment allowance” be provided on the first RM10 million qualifying capital expenditure incurred in YA 2018 to YA 2020. This incentive would apply to applications received by the Malaysian Investment Development Authority (MIDA) from 1 January 2018 to 31 December 2020. It is expected that further details will be released in due course, with respect to this incentive.
Review of tax incentives for automation

Currently, a manufacturing company is eligible for automation capital allowance on expenses incurred for the purchase of automation equipment, as follows:

<table>
<thead>
<tr>
<th></th>
<th>Category 1</th>
<th>Category 2</th>
</tr>
</thead>
<tbody>
<tr>
<td>Type of industry</td>
<td>Qualifying project relating to rubber, plastic, wood, furniture and textile</td>
<td>Other than Category 1</td>
</tr>
<tr>
<td>Effective YA</td>
<td>YA 2015 - YA 2017</td>
<td>YA 2015 - YA 2020</td>
</tr>
<tr>
<td>Application to MIDA</td>
<td>1 January 2015 - 31 December 2017</td>
<td>1 January 2015 - 31 December 2020</td>
</tr>
<tr>
<td>Incentive available - ACA</td>
<td>IA: 20% and AA: 80% of the first RM4 million qualifying capital expenditure incurred</td>
<td>IA: 20% and AA: 80% of the first RM2 million qualifying capital expenditure incurred</td>
</tr>
<tr>
<td>Incentive available - income tax exemption</td>
<td>A qualifying company will be exempted from payment of income tax in respect of the statutory income derived from a qualifying project for the respective effective YAs. The amount exempted will be equivalent to 100% of the ACA given, to be set off against 70% of the statutory income for YA.</td>
<td></td>
</tr>
</tbody>
</table>

To further encourage automation in the manufacturing sector, particularly in enhancing productivity and efficiency in the labour-intensive industries, it is proposed that the incentive period for Category 1 be streamlined with Category 2. Therefore, it is proposed that the period for the incentive in Category 1 be extended for another 3 years. This applies to applications received by MIDA from 1 January 2018 to 31 December 2020.

Tax incentives for hiring the disabled expanded from YA 2018

Currently, employers who employ disabled persons certified by the Department of Social Welfare (JKM) are eligible to claim a further deduction on salaries paid to such persons. However, employers who employ workers affected by accidents/critical illnesses and workers who are not certified by JKM are not entitled to any tax incentives. With effect from YA 2018, to support those affected by accidents/critical illnesses and are able to secure suitable employment, it is proposed that a further deduction be given to their employers. The Medical Board of the Social Security Organization (SOCSO) would however need to certify that these employees are able to work within their capabilities.
Personal income tax changes

Highlights

- Income tax rates for three chargeable income bands reduced by 2 percentage points from YA 2018
- 50% tax exemption on rental income not exceeding RM2,000 per month, per home, received by a Malaysian resident individual from residential homes (YA 2018 to YA 2020)
- New tax incentive for women returning to work after a career break
- Tax relief of up to RM6,000 on net savings in SSPN extended to YA 2020

Income tax rates for three chargeable income bands reduced by 2 percentage points from YA 2018

In recognition of the rising costs of living and to assist the middle income group increase their disposable income, the tax rate on 3 chargeable income bands between RM20,001 to RM70,000 will be reduced by 2 percentage points, with effect from YA 2018. The income tax savings as a result of this measure are as follows:

<table>
<thead>
<tr>
<th>Chargeable income bands RM</th>
<th>Current tax rates (%)</th>
<th>Tax payable RM</th>
<th>Proposed tax rates (%)</th>
<th>Tax payable RM</th>
<th>Tax savings RM</th>
<th>Tax savings (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>0 - 5,000</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>5,001 - 20,000</td>
<td>1</td>
<td>*0</td>
<td>1</td>
<td>*0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>20,001 - 35,000</td>
<td>5</td>
<td>*500</td>
<td>3</td>
<td>*200</td>
<td>300</td>
<td>60</td>
</tr>
<tr>
<td>35,001 - 50,000</td>
<td>10</td>
<td>2,400</td>
<td>8</td>
<td>1,800</td>
<td>600</td>
<td>25</td>
</tr>
<tr>
<td>50,001 - 70,000</td>
<td>16</td>
<td>5,600</td>
<td>14</td>
<td>4,600</td>
<td>1,000</td>
<td>17.86</td>
</tr>
<tr>
<td>70,001 - 100,000</td>
<td>21</td>
<td>11,900</td>
<td>21</td>
<td>10,900</td>
<td>1,000</td>
<td>8.40</td>
</tr>
<tr>
<td>100,001 - 250,000</td>
<td>24</td>
<td>47,900</td>
<td>24</td>
<td>46,900</td>
<td>1,000</td>
<td>2.09</td>
</tr>
<tr>
<td>250,001 - 400,000</td>
<td>24.5</td>
<td>84,650</td>
<td>24.5</td>
<td>83,650</td>
<td>1,000</td>
<td>1.18</td>
</tr>
<tr>
<td>400,001 - 600,000</td>
<td>25</td>
<td>134,650</td>
<td>25</td>
<td>133,650</td>
<td>1,000</td>
<td>0.74</td>
</tr>
<tr>
<td>600,001 - 1,000,000</td>
<td>26</td>
<td>238,650</td>
<td>26</td>
<td>237,650</td>
<td>1,000</td>
<td>0.42</td>
</tr>
<tr>
<td>1,000,001 and above</td>
<td>28</td>
<td>28</td>
<td>28</td>
<td>28</td>
<td>0</td>
<td>0</td>
</tr>
</tbody>
</table>
*After taking into account the tax rebate of RM400 for chargeable income up to RM35,000

This proposed change will result in tax savings ranging between RM300 to RM1,000. It is also estimated that more than 261,000 individuals will no longer be subjected to income tax as a result of this proposal.

### 50% tax exemption on rental income not exceeding RM2,000 per month, per home, received by a Malaysian resident individual from residential homes (YA 2018 to YA 2020)

Presently, rental income received by a resident individual is subject to income tax under Section 4(d) of the Income Tax Act 1967 (ITA) at the progressive rates applicable to the resident individual. It is now proposed that 50% of the rental income received by a Malaysian resident individual be tax-exempt, provided the following conditions are satisfied:

a) The rental received must not exceed RM2,000 per month for each residential home;
b) The residential home must be rented under a legal tenancy agreement between the owner and the tenant; and
c) The tax exemption is given for a maximum period of 3 consecutive YAs

The exemption is available from YA 2018 to YA 2020.

### New tax incentive for women returning to work after a career break

A series of measures were proposed by the Government in recognition of the importance of women in the workforce. These proposals include increasing maternity leave, measures to increase the number of childcare centres in the offices of GLCs and the private sector, and a new tax incentive to encourage women to return to the workforce.

In this regard, it is proposed that a new tax exemption on employment income be given to women who return to the workforce after being on a career break of at least 2 years as at 27 October 2017. This tax exemption is available between YA 2018 and 2020 and will apply for period of 12 consecutive months. Applications must be submitted to Talent Corporation Malaysia Berhad between 1 January 2018 and 31 December 2019. There does not appear to be any limit to the amount of income which can be exempted from tax. Further details are expected to be released in due course.
Tax relief of up to RM6,000 on net savings in SSPN extended to YA 2020

Currently, resident individuals are given a tax relief of up to RM6,000 for net savings in the National Education Savings Scheme or Skim Simpanan Pendidikan Nasional (SSPN). This relief can be claimed annually, effective from YA 2012 until YA 2017. Reflecting the Government’s concern about the increasing cost of higher education and to continue to encourage parents to save for the purpose of financing the tertiary education of their children, it is proposed that the tax relief of up to RM6,000 per YA for net savings in the SSPN be extended for another 3 years, such that the relief can now be claimed until YA 2020. Note that SSPN has now been rebranded as Skim Simpanan Pendidikan 1Malaysia (SSP1M).
Goods and Services Tax (GST)

Highlights

- Proposals for the expansion of zero-rated, exempt and out-of-scope supplies
- Expansion of GST relief
- Streamlining GST and Customs administration
- Stimulating economic activities

Proposals for the expansion of zero-rated, exempt and out-of-scope supplies

- All services provided by Local Authorities (PBT) will no longer be subject to GST, with effect from either 1 April 2018 or 1 October 2018, as opted by the relevant Local Authority.

- The zero-rating on newspapers and all types of books which are reading materials is expanded to include magazines, journals, periodicals and comics, effective 1 January 2018.

- To streamline the GST treatment of management and maintenance services supplied by a joint management body and management corporation, the GST exemption is expanded to similar services supplied by housing developers, effective 1 January 2018.
Expansion of GST relief

GST relief is provided for the following:

- Handling services provided by sea port operators in Malaysia to cruise ship operators, effective from 1 January 2018 until 31 December 2020.

- Construction services for the construction of schools, where the construction is financed by approved donations, relief increased from 50% (where approved) to 100%. Full GST relief will also be given to construction services for the construction of places of worship. The relief shall cover applications submitted to the Ministry of Finance (MOF) from 27 October 2017 and, among other conditions, where the construction contracts were signed on or after 1 April 2017.

- Companies in the aviation, shipping and oil and gas industries for the importation of “big ticket items”, effective 1 January 2018. The list of big ticket items and conditions of approvals are to be stipulated by the MOF.

- Importation of oil and gas-related equipment under a lease agreement supplied by companies located in the Designated Area [Labuan, Langkawi and Tioman] to customers in Malaysia, effective 1 January 2018. The list of goods and conditions of approvals are to be stipulated by the MOF.

Streamlining GST and Customs administration

Effective 1 January 2019, the GST Appeal Tribunal and Customs Appeal Tribunal will be merged into a single Customs Appeal Tribunal, to enable taxpayers to submit their appeals on both customs and GST matters.

Stimulating economic activities

- The government has increased the de minimis or minimum value of imports from RM500 to RM800 to stimulate the electronic trade growth, which is in line with the government’s intention of establishing the DFTZ.

- It has been declared that Pulau Pangkor is now a duty-free island. However, the duty-free position does not extend to products such as alcoholic beverages, tobacco and motor vehicles.

- To boost the economy in the Northern area, a Special Border Economic Zone will be developed in Bukit Kayu Hitam. This development will include a Free Industrial Zone, to attract domestic and foreign investors.
**Other proposed incentives**

**Application period for existing tax incentives for investments in new 4 and 5-star hotels extended to 31 December 2020**

To ensure continued investment in hotels and to encourage tourism, the application period for the following existing tax incentives for investments in new 4 and 5-star hotels, which was due to expire on 31 December 2018, has been extended. The incentives will now be available in respect of applications submitted to MIDA up to 31 December 2020.

- **Peninsular Malaysia:** 70% income tax exemption on statutory income for a period of five years or 60% investment tax allowance on qualifying capital expenditure incurred within a period of five years that can be set-off against up to 70% of statutory income
- **Sabah and Sarawak:** 100% income tax exemption on statutory income for a period of five years or 100% investment tax allowance on qualifying capital expenditure incurred within a period of five years that can be set-off against up to 100% of statutory income

**Tax exemption on statutory income for tour operating businesses extended to YA 2020**

The Government has proposed to extend the following incentives which were previously granted from YA 2007 to YA 2018 for a further 2 YAs, to YA 2020:

- 100% tax exemption on statutory income derived from the business of operating tour packages within Malaysia, participated by not less than 1,500 local tourists per year; and
- 100% tax exemption on statutory income derived from the business of operating tour packages to Malaysia, participated by not less than 750 inbound tourists per year

**Application period for tax incentive for medical tourism extended to 31 December 2020**

Currently, a company that provides private healthcare facilities services to a healthcare traveller (as defined) is given a tax exemption on income equivalent to investment tax allowance of 100% of qualifying capital expenditure, for a period of 5 years. This incentive applies to applications received by MIDA from 1 January 2015 to 31 December 2017 and is given to new companies as well as existing ones engaged in expansion, modernization or refurbishment. Additional conditions to be met to qualify for this incentive are that at least 5% of the qualifying company’s total patients must be made up of
healthcare travellers per YA, and at least 5% of the company’s gross income is derived from the healthcare travellers for each YA.

It is proposed that this incentive be extended for another 3 years. The incentive would apply to applications submitted to MIDA by 31 December 2020. Eligible companies must be incorporated under the Companies Act 2016, licensed with the Ministry of Health Malaysia and registered with the Malaysian Health Tourism Council.

Furthermore, under the new proposal, at least 10% (instead of the previous 5%) of a qualifying company’s total patients must be made up of healthcare travellers per YA, and at least 10% (instead of the previous 5%) of the company’s gross income must be derived from the healthcare travellers for each YA, in order for the qualifying company to be eligible for this incentive.

Healthcare travellers are defined as follows:

i) A non-Malaysian citizen who participates in the Malaysia My Second Home programme and his dependents;

ii) An expatriate who is a non-Malaysian citizen holding a Malaysian work permit, and his dependents; or

iii) A non-Malaysian citizen who visits Malaysia and receives private healthcare services in Malaysia

**Review of tax incentives for export of private healthcare services**

Currently, private healthcare companies are eligible to claim tax exemption on income derived from the export of healthcare services to foreign patients (as defined). The income tax exemption is equivalent to 50% of the value of increased exports of services and the exemption can be set-off against 70% of statutory income.

To promote growth in healthcare services in Malaysia and establish Malaysia as a healthcare hub for foreign patients, it is proposed that the level of tax exemption on income derived from the export of healthcare services to foreign clients either in Malaysia or from Malaysia be increased from 50% to 100% of the value of increased exports of services, to be set-off against 70% of statutory income. This is subject to the following additional conditions: at least 10% of the total number of patients receiving private healthcare services comprise of qualified healthcare travellers per YA and at least 10% of the company’s gross income is derived from qualified healthcare travellers for each YA. This incentive is effective from YA 2018 to 2020.
A Principal Hub is a locally incorporated company that uses Malaysia as a base for conducting its regional and global businesses and operations to manage, control and support its key functions. To increase the number of global operations centres for multinational companies in Malaysia, tax incentives for the Principal Hub were introduced in 2015 in the form of a 3-tier corporate tax rate as shown below. The applicable tax rate will be based on the extent of the activities and commitments of the Principal Hub.

<table>
<thead>
<tr>
<th>3-tier incentive</th>
<th>Tier 3</th>
<th>Tier 2</th>
<th>Tier 1</th>
</tr>
</thead>
<tbody>
<tr>
<td>Blocks (years)</td>
<td>5</td>
<td>5</td>
<td>5</td>
</tr>
<tr>
<td></td>
<td>+5</td>
<td>+5</td>
<td>+5</td>
</tr>
<tr>
<td>Tax rate</td>
<td>10%</td>
<td>5%</td>
<td>0%</td>
</tr>
</tbody>
</table>

Some of the conditions which need to be met in order to qualify for the Principal Hub incentive include:

- Local incorporation under the Companies Act
- Paid-up capital of more than RM2.5 million
- Minimum annual sales of RM 300 million (this is an additional requirement for goods-based applicant companies)
- Serves and controls “network companies” (as defined) in at least 3 countries outside Malaysia
- Carries out at least three qualifying services, of which one must be from the “strategic services” cluster

The incentive is for applications received by MIDA from 1 May 2015 to 30 April 2018. To further strengthen Malaysia’s competitive position as a global operations centre for multinational companies, particularly in strategic services activities, it is proposed that the Principal Hub incentive be extended to applications received by MIDA by 31 December 2020.

The revised available incentives and corresponding conditions are stipulated in updated guidelines dated 7 July 2017, issued by MIDA.

Currently, an angel investor (who must be an individual) must submit an application to the MOF on or after 1 January 2013, but not later than 31 December 2017, to qualify for a tax exemption equivalent to the amount of investment made in investee companies. The investment must not be more than 30% of the total paid-up share capital of the investee company and the investee company must be carrying on activities as approved by the MOF. To attract prospective angel investors to contribute to economic activities through capital injection in investee companies, it is proposed that the application period be extended for another 3 years. Hence, applications can now be made until 31 December 2020.
**Income tax exemption on the Green SRI sukuk grant**

The Securities Commission of Malaysia (SC), through a statutory fund, the Capital Market Development Fund (CMDF), provides a Green Sustainable and Responsible Investments (Green SRI) sukuk grant amounting up to RM6 million. The purpose of this grant is to finance external review expenditure incurred by a Green SRI sukuk issuer up to a maximum amount of RM300,000. Each issuer of Green SRI sukuk needs to apply to the SC for this grant. To encourage the issuance of Green SRI sukuk in Malaysia, it is proposed that income tax exemption be given to each recipient of the Green SRI sukuk grant to finance the external review expenditure, in line with the requirements of the SC. The incentive is effective for applications received by the SC from 1 January 2018 to 31 December 2020.

**Income tax exemption on management fee income for SRI funds**

A company that provides management services of Shariah-compliant funds approved by the SC is exempted from tax on the following:

i) The statutory income derived from the business of providing fund management services to foreign investors in Malaysia;

ii) The statutory income derived from the business of providing fund management services to local investors; and

iii) The statutory income derived from the business of providing fund management services to business trusts or real estate investment trusts in Malaysia.

These tax incentives are given to promote management activities of local and foreign Islamic funds and are effective until YA 2020. To further promote fund management activities, it is proposed that a fund manager managing SRI funds approved by the SC be given tax exemption on management fee income from managing both conventional and Shariah-compliant SRI funds. This is effective from YA 2018 to YA 2020.

**Review of tax incentives for venture capital**

Venture capital is financial capital provided by individuals, companies or venture capital companies (VCC) to high potential and high risk start-up venture companies (VCs) at early stages. A VCC is a company incorporated under the Companies Act to obtain funds from investors (equity capital) or loan capital, which are then invested in the VC in the form of seed capital, start-up or early stage financing. A venture capital management corporation (VCMC) manages, on behalf of a VCC, the investments of a VC at different business stages, i.e. seed capital, start-up or early stage financing.

Currently, a VCMC is exempted from income tax on statutory income derived from its share of profits received on the investments made by the VCC. It is proposed that the income which is exempted be expanded to include income received from management fees and performance fees in managing the VCC funds. The tax exemption is proposed to be given for a period of five years from YA 2018 to YA
2022 and the application must be received by the SC between 1 January 2018 and 31 December 2018.

With respect to the VCC, the VCC is given an income tax exemption for 10 years or according to the life of the fund whichever is shorter. It is proposed that the investment limit of a VC at the seed, start-up and early stages be reduced from 70% to 50%, effective from YA 2018 to YA 2022 and the application must be received by the SC between 1 January 2018 and 31 December 2018.

In addition, it is proposed that companies or individuals with business income from investing in the VCC funds created by a VCMC will be given a tax deduction equivalent to the amount of investment made, restricted to a maximum of RM20 million per year for each company or individual. This incentive is to be given for a period of five years from YA 2018 to YA 2022 and the application must be received by the SC between 1 January 2018 and 31 December 2018.

**Double deduction for expenses incurred in obtaining certification for quality system and standard expanded**

In 2016, the Minister of Finance approved the following five certification bodies for the accreditation of companies providing private healthcare services:

a) Malaysian Society for Quality in Health - Malaysia;
b) Joint Commission International - United States of America;
c) CHKS Accreditation Unit - United Kingdom;
d) The Australian Council on Health Care Standard - Australia; and
e) Accreditation Canada - Canada

Any private healthcare company registered with the Malaysian Healthcare Travel Council (MHTC) is eligible for double deduction on expenses incurred in obtaining certification for quality systems and standards. To build the confidence of healthcare travellers in the level of safety and quality of services offered, it is proposed that a company registered with MHTC that provides dental and ambulatory healthcare services be given double deduction for expenses incurred in obtaining certification for quality systems and standards from the above five certification bodies, effective from the YA 2018.

**Stamp duty exemptions to revive abandoned housing projects extended to 31 December 2020**

Currently, stamp duty exemption is provided on the following instruments executed by the original house purchaser on or after 1 January 2013 but not later than 31 December 2017:

(a) Any loan instrument or loan agreement approved by the financier to finance the revived residential property in relation to the abandoned project; and
(b) Any instrument of transfer for the purpose of transferring the revived residential property in relation to the abandoned project
Stamp duty exemption is also provided on the following instruments executed by a rescuing contractor or a developer approved by the Minister of Housing and Local Government (MHLG) on or after 1 January 2013 but not later than 31 December 2017:

(a) Any loan instrument or loan agreement approved by the financier to finance the abandoned project; and
(b) Any instrument of transfer for the purpose of transferring revived residential property in relation to the abandoned project

To be eligible for the above stamp duty exemptions, the abandoned project must be certified by the Minister of Housing and Local Government (MHLG) as an abandoned project pursuant to Paragraph 11(1)(ca) of the Housing Development (Control and Licensing) Act 1966.

In recognition of the hardship caused by abandoned housing projects and to further ease the financial burden of the original house purchaser and to encourage the involvement of rescuing contractors to revive abandoned housing projects, it is proposed that the above stamp duty exemptions be extended for another three years. The exemptions will thus apply to all loan agreements and memorandum of transfers executed from 1 January 2018 to 31 December 2020.

### Stamp duty exemptions for trading of ETF and SW

Stamp duty is currently charged on contract notes at the rate of RM1 for every RM1,000 or part thereof for the trading of shares of listed companies on Bursa Malaysia, subject to a cap of RM200 for each contract note.

To promote the development of the capital market and to make Malaysia's capital market more competitive at the international level, it is proposed that stamp duty exemptions be given on contract notes for the trading of ETF and SW. This applies to contract notes executed between 1 January 2018 and 31 December 2020.
EY 2018 Budget and Tax Conference

How will the 2018 Malaysian Budget affect your company and business? Are there new incentives that your organization can take advantage of? Are there new taxes or regulations that you need to be mindful of? What are the latest developments in the tax arena that will impact how you manage tax risks? EY’s senior tax professionals are ready to help answer these questions for you. They can explain and guide you through the salient issues of the 2018 Malaysian Budget and share practical insights on the latest tax developments. Participants at our Budget and Tax Conferences will be provided a copy of the 2018 Budget commentary, as well as opportunities for questions and answers.

Mark these dates down for an insightful session on the 2018 Malaysian Budget and more!

Peninsular Malaysia

<table>
<thead>
<tr>
<th>Date</th>
<th>Venue</th>
<th>Time</th>
<th>Contact</th>
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</thead>
<tbody>
<tr>
<td>Kuala Lumpur</td>
<td>2 November 2017, Mandarin Oriental, Kuala Lumpur</td>
<td>9:00 a.m. - 5:00 p.m.</td>
<td>Valerie Joshua: +603-74958310</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Jan Lim: +603-74958458</td>
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<tr>
<td>Kuantan</td>
<td>6 November 2017, The Zenith Hotel</td>
<td>9:00 a.m. - 5:00 p.m.</td>
<td>Juliana Hanim/Eddie Eries: +609-5157500</td>
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<tr>
<td>Ipoh</td>
<td>9 November 2017, Weil Hotel</td>
<td>9:00 a.m. - 5:00 p.m.</td>
<td>Leong Kit Yee: +605-2411255</td>
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<tr>
<td></td>
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<td>Tai Saw Wan: +605-2415253</td>
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<tr>
<td>Penang</td>
<td>14 November 2017, Eastern &amp; Oriental Hotel</td>
<td>9:00 a.m. - 5:00 p.m.</td>
<td>Angie Oo: +604-2641878</td>
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<tr>
<td>Johor Bahru</td>
<td>17 November 2017, Renaissance Hotel</td>
<td>9:00 a.m. - 5:00 p.m.</td>
<td>Roslina Md Salleh/Lili Nazirah Abdul Hamid: +607-3341740</td>
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<tr>
<td>Melaka</td>
<td>20 November 2017, Hatten Hotel</td>
<td>9:00 a.m. - 5:00 p.m.</td>
<td>Chan Lay Khim/Michelle Tan Pau Choo: +606-2882399</td>
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## Sarawak

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<td>7 November 2017</td>
<td>Hilton, Kuching</td>
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<td>Sibu</td>
<td>8 November 2017</td>
<td>RH Hotel</td>
<td>8:00 a.m. - 5:00 p.m.</td>
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<td>Bintulu</td>
<td>9 November 2017</td>
<td>Promenade Hotel</td>
<td>8:30 a.m. - 5:00 p.m.</td>
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<tr>
<td>Miri</td>
<td>10 November 2017</td>
<td>Pullman Hotel</td>
<td>8:30 a.m. - 5:00 p.m.</td>
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## Sabah

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<tr>
<th>Date</th>
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<th>Contact</th>
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</thead>
<tbody>
<tr>
<td>Kota Kinabalu</td>
<td>- TBA -</td>
<td></td>
<td>Dora Wong/Jennifer Vun: +6088-235733</td>
</tr>
<tr>
<td>Tawau</td>
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<td>Chai Siew Moi/Alison Chung: +6089-774233</td>
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<tr>
<td>Sandakan</td>
<td>- TBA -</td>
<td></td>
<td>Stephanie Au: +6089-217266</td>
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## Japanese seminar

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<tr>
<td>Kuala Lumpur</td>
<td>8 November 2017</td>
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<td>9:30 a.m. - 12:00 p.m.</td>
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<td>Penang</td>
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<td>EY office, MWE Plaza</td>
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<td>(TBC)</td>
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<td>Johor Bahru</td>
<td>10 November 2017</td>
<td>EY office, Menara Pelangi</td>
<td>2:30 p.m. - 4:00 p.m.</td>
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<tr>
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<td>(TBC)</td>
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</tbody>
</table>
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