HIGHLIGHTS OF THE 2015 BUDGET PROPOSALS

The Prime Minister and Minister of Finance, YAB Dato' Sri Mohd Najib Abdul Razak presented his 2015 Budget Proposals on 10th October 2014. The theme of Budget 2015 was 'The People's Economy', in reference to his plans to enhance the economic well-being of the country and its people. The 2015 Budget completes the ten Malaysia Plans that underpinned the national strategies contained in the previous Plans that spanned the last 5 decades. Amidst increasingly difficult global and domestic economic challenges, falling petroleum and commodity prices, strife and tensions in the Middle-East and Eastern Europe, and apprehensions over the introduction of GST in the country, the Honourable Prime Minister set forth his proposals to benefit the people and continue the economy towards achieving its vision to be a high-income nation by 2020.

Economic Outlook and Forecast

- The domestic economy expanded by a higher-than-expected GDP growth of 6.3% in the first half of 2014. It is anticipated that the growth will continue at between 5.5% and 6% over the remaining half of the year. The outlook for 2015 is for economic growth to remain strong at between 5% and 6%.

- Per capita income currently is estimated at around RM34,000. The target per capita income by 2020 remains challenging at RM46,500.

- 2015 Federal Government revenue collection is estimated at RM235.2 billion, an increase of around RM10 billion from 2014 estimates. Of this amount, the introduction of GST in 2015 is expected to contribute around RM23 billion towards the national coffers, but approximately 97% of this sum is expected to be returned to the public by way of cash payments under the BR1M welfare program and GST exemptions on essential goods and services.

- The 2015 Budget allocations will amount to a total of RM273.9 billion, an increase of around RM10 billion over 2014, with RM223.4 billion allocated for Operating Expenditure and RM50.5 billion towards Development Expenditure.

- Based on these revenue collection and budget allocations figures, it is anticipated by the Government that the fiscal deficit, estimated at 3.5% in 2014, will further be able to be reduced to around 3% of GDP in 2015. The financing of a deficit budget has been a feature of Malaysia's economic position for some time now and looks likely to continue over the near future.

The main thrusts of the 2015 Budget proposals were announced to be as follows:

1st Strategy:	Strengthening Economic Growth
2nd Strategy:	Enhancing Fiscal Governance
3rd Strategy:	Developing Human Capital and Entrepreneurship
4th Strategy:	Advancing Bumiputera Agenda
5th Strategy:	Upholding Role of Women
6th Strategy:	Developing National Youth Transformation Program
7th Strategy:	Prioritising Well-Being of the Rakyat

We examine the main highlights of the 2015 Budget proposals, predominantly taxation-related measures, against the backdrop of these strategies.

Corporate and Personal Tax

- The corporate tax measures announced in the 2014 Budget were reiterated in the 2015 Budget announcements, namely those relating to the proposed reduction in corporate tax rate in 2016, relief and incentives for spending related to the implementation of GST, etc. These have been included in the Finance Bill (No. 2) 2014.

- As with Corporate Tax, most of the proposals in relation to proposed reductions in personal tax rates and reliefs announced in Budget 2014 in tandem with the measures in implementing GST were similarly reiterated in the 2015 Budget pronouncements and included in the Finance Bill (No. 2) 2014.

- It is proposed that transactions between connected persons and relatives in circumstances where income that is due to be paid will be deemed to be obtainable on demand and brought to tax even though the income is not yet received. This is an extension to existing provisions.

- Measures are proposed to achieve greater tax neutrality between conventional insurance and Takaful by addressing disparities in the manner and amount of claims for tax deductions.

- In the continuing efforts to strengthen the Islamic financial market, the 2015 Budget proposes that the current incentive for tax deductions on expenses incurred for the issuance of sukuk under the principles of *Ijarah* and *Wakalah* be extended until year of assessment 2018.

- Proposal to provide tax incentives to the private sector to manage, maintain and upgrade industrial estates in less developed areas as well as other areas would be duly announced in an effort to encourage the development of such estates and industries.

- The automation of high labour intensive industries was also earmarked for special consideration. Industries related to rubber products, plastics, wood, furniture and textiles would stand to benefit from special capital allowances of 200% on expenditure up to RM4 million incurred within the period from 2015 to 2017. Other industries initialising automation could receive a similar allowance of up to the first RM2 million incurred within the period 2015 to 2020.

- The Government appears keen to step up its efforts to increase the number of multinational companies having global operational centres in Malaysia and it was announced that customised incentives will be introduced early in 2015.

- In an effort to encourage companies to provide scholarships to Malaysian students in the vocational and technical fields in institutions recognised by the Government, the Budget proposes that cost of fees, educational aid and cost of living expenses in respect of such scholarships be granted double deduction. This represents an extension to the current incentives and will be effective for years of assessment 2015 and 2016.

- Measures were also announced to extend the double deduction for companies under the Structured Internship Programme currently offered to full-time students pursuing training at the vocational and diploma courses, provided the criteria are met. This incentive is for years of assessment 2015 and 2016.

- The double deduction for Training costs under Skim Latihan 1Malaysia for unemployed Graduates incentive which is due to expire on 31st December 2016 is extended until 31st December 2020.

- To boost the development of human capital and enhance skills, knowledge and qualifications of their employees, training expenses incurred by companies for their employees to obtain recognised certifications and professional qualifications such as in the fields of accounting, finance and project management, approved by agencies appointed by the Ministry of Finance, would be given double deduction.

- In line with efforts to encourage and boost the medical tourism industry, It was proposed that companies engaged in expansion, modernisation and refurbishment of healthcare facilities be granted Investment Tax Allowance of 100% of qualifying capital expenditure incurred within a period of 5 years. Amongst the qualifying criteria is that the private healthcare provider needs to cater for at least 5% of their patients consisting of healthcare travellers. The incentive is available for applications received by MIDA from 1st January 2015 to 31st December 2017.

- The qualifying expenditure limits for the 100% capital allowances on small value assets are proposed to be increased from RM1,000 to RM1,300 and cumulatively from RM10,000 to RM13,000 (no cumulative restriction for SME's).

- It is also proposed that maximum fines for offences for failure to furnish a tax return, failure to give notice of chargeability to tax, leaving Malaysia without payment of tax and other offences be increased from RM2,000 to RM20,000.

- Due dates for payment of instalments by companies will be amended from the 10th day of the calendar month to the 15th day effective 1st January 2015. Equivalent measure is also proposed under the Petroleum (Income Tax) Act.

- Time frame for the raising of assessments or additional assessments to be extended from 5 years to 7 years in respect of transfer pricing adjustments effective upon the gazetting of the Finance Act.

- In an effort to alleviate the burden of medical expenses for treatment of serious diseases such as cancer, kidney failure, heart disease, AIDS, etc, the current tax relief of RM5,000 is proposed to be increased to RM6,000 from year of assessment 2015.

- Taxpayers with disabled children will be entitled to claim higher relief of RM6,000 from year of assessment 2015 from the current relief of RM5,000. Similarly, individual taxpayers are given relief of up to RM6,000 for the purchase of basic supporting equipment for the disabled taxpayer, spouse, child and parents, also increased from the current RM5,000 from year of assessment 2015.

- A new incentive was proposed as part of the plan to boost the funding of projects and venture companies and development of SME's by introducing a syariah-compliant fund that will attract investments from individual and institutional investors. Labelled the Investment Account Platform, it is proposed that profit earned by individual investors be accorded income tax exemption for a period of 3 consecutive years commencing with the first year of earning profit, subject to meeting certain criteria.

Goods and Services Tax

- The Government is pressing ahead with plans to implement GST in April of 2015. The 2015 Budget speech contained references to an expansion of the list of items that will not be subject to GST and this included some of the following items;

  - All types of fruits, local or imported;

  - National essential medicine, covering almost 2,900 medicines used to treat 30 types of diseases and illnesses including heart ailments, diabetes, hypertension, cancer and fertility treatment;

  - Reading materials such as children's books, text books, dictionaries, religious books and newspapers.

- The retail sale of RON95 petrol, diesel and LPG will be given relief from GST

- It is unclear at the time of writing which, or all, of these items will be exempted or zero-rated and this will be a significant factor that will affect the retailers of such products in terms of their pricing and margins.

Real Property Gains Tax

- In line with the previous moves towards self-assessment for income tax and petroleum income tax, it was proposed that RPGT follow suit with effect from year 2016, whereby tax on gains made by taxpayers on disposal of chargeable assets will be self-assessed.

- Sum to be retained by an acquirer of real property is to be increased from 2% currently to 3% of total consideration effective 1st January 2015.

Stamp Duty

- As a measure to further encourage and facilitate people owning their own homes, particularly first home owners, the Government proposes to extend the 50% stamp duty exemption on instruments of transfer and loan agreements to purchase of residential properties not exceeding RM500,000 (previously RM400,000). This will apply to sales and purchase agreements executed between 1st January 2015 and 31st December 2016. The increased ceiling also applies to purchases under the Skim Rumah Pertamaku under the purview of Cagamas where the age limit for borrowers qualifying for the scheme is proposed to be increased from 35 to 45 years.

Comments on the Budget Proposals

❖ It is without doubt a difficult task catering for the diverse needs and aspirations of the people of Malaysia. The widening income disparity between households, dangerously high household debt levels, escalating home and living expenses with no commensurate increases in earning power are some of the pressing issues being faced by the Government today.

❖ Budget 2015 extends the BR1M payments to another fiscal year, despite a fiscal deficit on the books. The question arises whether attempts by the Government to re-distribute income by direct means such as the BR1M payments will be able to cure what is really a longer-term affliction.

❖ With the economy continuing on a fiscal deficit position, meaningful corporate and income tax cuts do not appear to be tenable unless the Government's operating and development expenditure plans are to be curtailed. The introduction of GST, albeit a good move, will inevitably place additional strain on already stretched disposable incomes.

❖ Perhaps what is needed is concerted effort on the part of Government to take a pragmatic approach to strengthening the fundamentals of the economy, curbing corruption and wasteful spending, undertake consolidated and comprehensive tax reform, and unite the people under a common banner to achieve economic prosperity and Vision 2020 together as a singular nation.

13th October 2014