

2009 Mini Budget Highlights

10 March 2009

TAX

Overview

The Deputy Prime Minister, who is also the Minister of Finance, YAB Dato' Sri Mohd. Najib Tun Abdul Razak tabled the Mini Budget on Tuesday, 10 March 2009.

The Mini Budget was delivered amidst an economic crisis that is threatening the world economy, where even economic giants such as the United States, Europe and Japan are in recession. The Mini Budget is aimed at stimulating the Malaysian economy to enable it to weather the challenging economic environment as well as building the long term capacity of the economy.

The Mini Budget, which is in addition to the First Economic Stimulus Package of RM7 billion tabled on 4 November 2008, proposes an additional package of RM60 billion. This additional package accounts for almost 9% of the Malaysian Gross Domestic Product.

The RM60 billion Mini Budget focuses on four main areas:

- Reducing unemployment and increasing employment opportunities;
- Easing the burden of the rakyat;
- Assisting the private sector in facing the crisis; and
- Building capacity for the future.

While the Mini Budget contained a variety of tax and non-tax measures, the following are some of the more notable tax proposals:

- Carry Back Of Losses

To assist companies in improving their cashflow, it is proposed that a company's current year tax losses be allowed to be carried back to the immediate preceding Year of Assessment (YA). The total losses that can be carried back is limited to a maximum of RM100,000 per YA. This treatment is applicable for losses incurred in YA 2009 and YA 2010.

- Accelerated Capital Allowances (ACAs)

To encourage businesses to invest, it is proposed that capital expenditure incurred on qualifying plant and machinery between 10 March 2009 and 31 December 2010 be given ACAs. The ACAs can be claimed over 2 years.

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ACAs are also given to companies which incur qualifying capital expenditure on renovation or refurbishment of their business premises. The expenditure is to be incurred between 10 March 2009 and 31 December 2010. The ACAs can be claimed over 2 years but are subject to a maximum limit of RM100,000.

These and other key tax changes are outlined in the following pages.

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KPMG Tax Services Sdn Bhd

Summary of Key Tax Changes

SUBJECT	MINI BUDGET PROPOSALS																				
CORPORATE TAX																					
Carry Back of Losses	To assist companies incurring losses, the Government proposes that a company's current year tax losses be allowed to be carried back to the immediate preceding YA where an irrevocable election is made. The total tax losses that can be carried back are up to RM100,000 per YA or the defined aggregate income of the preceding YA if lower. <i>Illustration:</i> Company XYZ has a 31 March year end <table> <tr> <th>YA 2009</th><th>RM</th></tr> <tr> <td>Chargeable income</td><td>100,000</td></tr> <tr> <td>Tax payable</td><td>25,000</td></tr> </table> <table> <tr> <th>YA 2010</th><th>RM</th></tr> <tr> <td>Adjusted business loss</td><td>(30,000)</td></tr> <tr> <td>Tax payable</td><td>Nil</td></tr> </table> <table> <tr> <th>Revised YA 2009</th><th>RM</th></tr> <tr> <td>Revised chargeable income (RM100,000 – RM30,000)</td><td>70,000</td></tr> <tr> <td>Revised tax payable</td><td>17,500</td></tr> <tr> <td>Tax refund (RM25,000 – RM17,500)</td><td>7,500</td></tr> </table> The carry back of tax losses is restricted to RM100,000, which in some cases, may be far less than the actual tax losses incurred. Loss carry back is excluded for, amongst others, companies enjoying tax incentives, companies carrying on an insurance business as well as listed investment holding companies. The proposal is applicable for losses incurred in YA 2009 and YA 2010.	YA 2009	RM	Chargeable income	100,000	Tax payable	25,000	YA 2010	RM	Adjusted business loss	(30,000)	Tax payable	Nil	Revised YA 2009	RM	Revised chargeable income (RM100,000 – RM30,000)	70,000	Revised tax payable	17,500	Tax refund (RM25,000 – RM17,500)	7,500
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ACAs on Plant and Machinery	To encourage businesses to invest, the Government proposes that expenses incurred on qualifying plant and machinery be given ACAs which can be claimed within 2 years. This proposal is welcomed as it would reduce the cost of doing business.																				

SUBJECT	MINI BUDGET PROPOSALS
	This proposal is applicable to expenditure incurred between 10 March 2009 and 31 December 2010. Whilst it has been proposed that companies are to be allowed to carry back business losses, a similar proposal was not announced in respect of unabsorbed capital allowances.
<i>ACAs on Renovations or Refurbishments</i>	Currently, expenses incurred on renovations or refurbishments of business premises are not allowed as a deduction and do not qualify for capital allowances. To encourage companies to renovate or refurbish their business premises, the Government proposes that qualifying expenditure incurred on renovations or refurbishments be given ACAs, which can be claimed within 2 years. The qualifying expenditure for ACA purposes is capped at RM100,000. This proposal is available for qualifying expenditure incurred on renovations or refurbishments between 10 March 2009 and 31 December 2010.
<i>Double Tax Deduction on Remuneration Paid</i>	Private companies need to contribute towards providing jobs to retrenched workers. To support this endeavour, the Government proposes that employers who employ Malaysian citizens and residents retrenched from 1 July 2008, be given a double tax deduction on the amount of remuneration paid. The amount of remuneration eligible for this deduction shall not exceed RM10,000 per employee per month and is limited to 12 months remuneration per employee. This incentive is applicable to workers retrenched from 1 July 2008 and employed from 10 March 2009 to 31 December 2010.
<i>Incentives for Banks to Defer Repayments of Housing Loans</i>	The Government is cognisant of the problems faced by retrenched workers in repaying their housing loans. To assist them, banking institutions have agreed that retrenched workers may defer repayment of their housing loans for one year. To support the initiative of the banking institutions to extend this repayment period, the Government has agreed that the interest income related to the deferment of housing loan repayments be taxed only when such interest is received. The incentive is subject to the following conditions: - the deferment or moratorium on the repayment of housing loans is for a period of up to 12 months, approved by the banking and financial institutions between 10 March 2009 and 9 March 2010; - the individual who has the housing loan is a Malaysian citizen and is retrenched from 1 July 2008; and - the banking and financial institutions are institutions licensed under

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	the Banking and Financial Institutions Act 1989, Islamic Banking Act 1983, Development Financial Institutions Act 2002 and any other institutions approved by the Minister of Finance. The proposal is effective from YA 2009.
<i>Profit Levy on Oil Palm</i>	At present, a windfall profit levy on oil palm is imposed when the price of crude palm oil exceeds RM2,000 per tonne. However, of late, the cost of production has increased and the threshold of RM2,000 per tonne does not appear to reflect the level of windfall profit. Therefore, the threshold for the windfall profit levy will be increased to RM2,500 per tonne for Peninsular Malaysia and to RM3,000 per tonne for Sabah and Sarawak.
PERSONAL TAX	
<i>Tax Relief on Interest Paid on Housing Loans</i>	To stimulate the housing sector, the Government proposes that house buyers be given tax relief on interest paid on housing loans of up to RM10,000 a year for 3 years. The claim for deduction is subject to the following conditions: i. the taxpayer is a Malaysian citizen and a resident; ii. limited to one residential house including flat, apartment or condominium; iii. the sale and purchase agreement is executed between 10 March 2009 and 31 December 2010; and iv. the taxpayer has not derived any income in respect of that residential property. The tax deduction is given for 3 consecutive years from the first year the housing loan interest is paid. The proposal is effective from YA 2009.
<i>Increased Tax Exemption on Retrenchment Benefits</i>	The Government is concerned with the plight of retrenched workers. To reduce their burden and to increase the disposable income of retrenched workers, the Government proposes that the existing tax exemption of RM6,000 given on retrenchment benefits, be increased to RM10,000 for each completed year of service. The above is also extended to Voluntary Separation Schemes or Mutual Separation Schemes. The proposal is effective in respect of an individual who has ceased employment on or after 1 July 2008.
<i>Government Savings Bonds</i>	To increase the disposable income of the rakyat, the Government will issue syariah-compliant Savings Bonds amounting to RM5 billion in 2009. The Bonds will have a maturity of three years, with an annual

SUBJECT	MINI BUDGET PROPOSALS
	return of 5% which will be paid quarterly to bond holders. The bonds are available to all Malaysian citizens aged 21 and above, with a minimum investment of RM1,000 and a maximum of RM50,000. Based on existing provisions in the Income Tax Act 1967, interest received by individuals in respect of securities or bonds issued or guaranteed by the Government is exempt from tax.