

Reforms in the Malaysian Income Tax System in 2008

- Reduction of corporate income tax by one percentage point to 25% in YA 2008 applicable to companies, trust bodies, executors and receivers.
- Introduction of Single Tier Company Income Tax System in order to simplify and enhance the efficiency of the tax administration system. Under this system, tax on a company's profits is a final tax and dividends distributed to shareholders will be exempted from tax. A transition period of 6 years will be provided for implementation of the Single Tier system. All companies will move to the Single Tier Tax System on 1 January 2014 even though they still have credit balance in their section 108 account as at 31 December 2013.
- Exemption of a newly established company with paid up capital of RM2.5 million and less from the requirement of submitting estimate tax payable for the year of assessment as well as 12 equal monthly installment payments beginning from the second month of the company's basis period. This exemption is for 2 years beginning from the year of assessment in which the company commences operation.
- Income tax exemption for the non profit oriented Government assisted and private schools which are formed by a body of persons, a trust body or a company limited by guarantee.
- Deduction for the renovation cost of the work place incurred by the employer to provide facilities for the disabled workers.
- Deduction for the expenses incurred by the employers on gift of computers and payment of broadband subscription fees to the employees. On the other hand, such benefits enjoyed by the employees would not be taxable in their hands.
- The disposal of buildings from companies to Real Estate Investment Trusts (REITs) is not subject to a balancing charge. As such, REITs are eligible to claim the balance of unclaimed Industrial Building Allowance of the disposer.
- Exemption for the dividend income derived by registered Trade Unions and National/Stare amateur sports organizations.
- Extension of withholding tax exemption to the following tax exempt interest paid or credited to a non-resident;
 - i. interest paid or credited to any company not resident in Malaysia (other than such interest accruing to a place of business in Malaysia of such company) in respect of securities issued by the Government, or debenture issued in Ringgit or Islamic

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securities issued in any currency, other than convertible loan stock approved by Securities Commission.

- ii. interest paid or credited to any individual not resident in Malaysia (other than such interest accruing to a place of business in Malaysia of such company) in respect of Islamic securities other than convertible loan stock –
 - a. issued in any currency other than Ringgit; and
 - b. approved by Securities Commission.
 - iii. Income of a unit trust in respect of interest derived from Malaysia and paid or credited by any bank or financial institution licensed under the Banking and Financial Institutions Act 1989 or the Islamic Banking Act 1983.
- Special Purpose Vehicles (SPV) established solely for the purpose of complying with Shariah requirement in the issuance of Islamic securities is not subject to income tax and not required to comply with tax administration procedures. Deduction is also allowed to the company establishing the SPV for cost of issuance of Islamic securities. The company is deemed to be recipient of income of SPV and taxed accordingly.
 - Local and foreign companies managing Islamic funds of local and foreign investors are given income tax exemption on all fees received from managing the funds. The Islamic fund must be approved by the Securities Commission.
 - Tax exemption to the income received by non resident experts in Islamic finance. The experts have to be verified by the Malaysia International Islamic Finance Centre (MIFC) Secretariat.
 - A special provision for Takaful business be introduced in the Income Tax Act 1967 including specific tax treatment as follows:
 - i. management expenses borne from the shareholders' fund be allowed a deduction from the gross income of the shareholders' fund;
 - ii. share of profits distributed from the family Takaful fund and general Takaful fund be allowed as tax deduction;
 - iii. share of profits distributed to the participants in relation to the investment income be taxed on the participants through a final withholding tax mechanism;
 - iv. tax be imposed on the Wakalah fee received by the shareholder from the Family Takaful fund and general Takaful fund; and
 - v. deduction be allowed for *Qard* from the shareholders' fund and to impose tax on the repayment of *Qard*.
 - A tax set-off from the total tax charged on the shareholders' fund be given to overcome the incidence of double taxation in life conventional insurance business.

- Labuan offshore companies are given an option to be taxed under the Income Tax Act 1967 in addition to the existing option under Labuan Offshore Business Activity Tax Act 1990. This new option is final and irrevocable.
- Full tax exemption on the value of increased export given to recipients of Export Excellence Award (Merchandise) be extended to recipients of Export Excellence Award (Services) and the Brand Excellence Award.
- Professional indemnity insurance premiums be allowed as a deduction for income tax purposes.
- Expatriates working for International Procurement Centre (IPC) and Regional Distribution Centre (RDC) are taxed only on that portion of employment income attributable to the number of days they are in the country.
- Courses eligible for individual tax relief not exceeding RM5,000 per annum be extended to all fields of studies at post graduate level i.e. masters and doctorate level.
- Individual tax relief up to a maximum of RM300 a year on purchase of sports and exercise equipment such as all types of racquets and balls, treadmill, exercise bike and *airwalker*.
- Full income tax exemption on the retirement benefit for private sector employees who retire at the compulsory retirement age of 50 and above. This exemption is given on the condition that the compulsory retirement age is provided for in the employment contract or collective agreement between employer and employee.