GMS Flash Alert

2019-160 | October 22, 2019

Malaysia - Increase in Top Rate Among Measures Affecting Individuals in Budget

Malaysia's finance minister presented the 2020 Budget proposals on 11 October 2019, and announced an increase in individual income tax rates by 2 percent.[1] There is also an increase and expansion of the scope of individual tax reliefs.

WHY THIS MATTERS

One of the key proposals in this year's Budget is the increase in individual income tax rate (highest band) from 28 percent to 30 percent for resident individuals with chargeable income of more than MYR 2,000,000. The fixed income tax rate for nonresident individuals is also increased to 30 percent. There are other minor proposed tax measures on additional deductions and reliefs affecting individual taxpayers.

Companies with high net-worth international assignees are likely to see an increase in their assignment-related costs.

For assignments to Malaysia where assignees are subject to Malaysian taxation and for assignees working outside Malaysia but who are still subject to Malaysian taxation, international assignment cost projections and budgeting should reflect these changes once they come into effect. Where appropriate, adjustments to gross-up packages and withholding taxes may need to be considered.

(For coverage of last year's Budget, see GMS *Flash Alert* 2018-149, 19 November 2018.)

Increase in Individual Income Tax Rates for High-Income Earners

The government has proposed that a new band for a tax-resident individual's chargeable income in excess of MYR 2,000,000 be taxed at 30 percent. Income tax rates for tax resident individuals for chargeable income bands below MYR 2,000,000, remain unchanged.

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The fixed income tax rate for nonresident individuals is also increased from 28 percent to 30 percent.

The above proposal is effective from Year of Assessment 2020.

KPMG NOTE

Tax residency is based on the individual's physical presence. In view of the higher tax liability if the individual is assessed as a nonresident, due consideration should be given to his or her pattern of stay in Malaysia. The tax liability will be lower if the taxpayer could qualify as a tax resident in a calendar year.

For example, for a taxpayer with annual total income of MYR 2,500,000, the estimated tax liability for a resident individual would be MYR 664,950 (assuming only individual tax relief of MYR 9,000 is claimed), while the estimated tax liability for a nonresident individual would be MYR 750,000. Thus, the potential estimated tax savings would be MYR 85,050 if he could qualify as a tax resident in a calendar year.

Three Percent Increase on Deduction for Approved Donations

To further encourage philanthropy, it is proposed that the deduction on donations to approved organisations will be increased from 7 percent to 10 percent of aggregate income in the year of assessment.

The above proposal is effective from Year of Assessment 2020.

KPMG NOTE

An individual must be able to produce the donation receipt to substantiate his or her donation amount in the year concerned.

Extension of Period of Tax Incentive for Women Returning to Work after Career Break

Currently, an income tax exemption is given on employment income up to a maximum of 12 consecutive months to women who return to the workforce between Years of Assessment 2018 to 2020.

To encourage more women who have been on a career break to return to the workforce, it is proposed that the existing tax incentive be extended for another four years, i.e., from Years of Assessment 2021 until 2024.

KPMG NOTE

Eligible individuals must submit an application to Talent Corporation Malaysia Berhad ("TalentCorp") from 1 January 2018 to 31 December 2023. The above will have no impact on inbound assignees to Malaysia as they are not likely to be eligible for this tax incentive.

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Expansion of Relief on Medical Expenses for Serious Diseases

Currently, the medical expenses relief for serious diseases for oneself, spouse, and child of MYR 6,000, claimable by an individual resident taxpayer is limited to medical treatment of serious diseases such as cancer, kidney failure, heart disease, acquired immune deficiency syndrome, Parkinson's disease, and leukemia. This tax relief includes expenses of up to MYR 500 for a full medical check-up.

To reduce the financial burden of married couples in seeking fertility treatment, it is proposed that the above relief be extended to include the cost of fertility treatment.

The above proposal is effective from Year of Assessment 2020.

KPMG NOTE

In terms of claiming the relief for fertility treatment expenses, the claim for medical treatment has to be evidenced by a receipt and a certification issued by a medical practitioner registered with the Malaysian Medical Council (MMC), certifying that fertility treatment was provided to the individual/spouse.

While the coverage of the relief has expanded, the total relief is restricted to MYR 6,000.

Tax Relief for Fees Paid to Child-Care Centres and Kindergartens

To reduce the financial burden of parents providing child-care and early childhood education, it is proposed that the tax relief be increased from MYR 1,000 to MYR 2,000, for resident individuals who enroll their children aged up to six years old in child-care centres or kindergartens registered with the Department of Social Welfare or the Ministry of Education.

The above proposal is effective from Year of Assessment 2020.

KPMG NOTE

Taxpayers are reminded to retain documentary evidence to support their claims for tax relief. In the event of a tax audit, the absence of documentary evidence could attract penalties of up to 100 percent of the tax under-charged (i.e., additional tax that will arise from the disallowance of the claims).

[MYR 1 = EUR 0.214 | MYR 1 = USD 0.239 | MYR 1 = GBP 0.184 | MYR 1 = AUD 0.348]

FOOTNOTE:

1 The Budget speech and related budget documents can be found on the "Budget 2020" Web page on the Web site for Malaysia's Ministry of Finance, see (in English) by clicking here.

And in Malay, by clicking here.

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