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GES NewsFlash
Malaysia — Budget News

November 7, 2011

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Background

This NewsFlash on the 2012 national budget announced on October 7, 2011, presents the following relevant issues from the individual tax perspective in Malaysia:

Preferential tax rate for Returning Experts

The Government implemented the Returning Expert Programme (REP) in order to encourage skilled Malaysian professionals to return and boost the country's economic growth. It was proposed that individuals approved under said programme will be eligible to a flat tax rate of 15% for a period of five years. Further details regarding the REP can be found on **www.talentcorp.my**

Effective date: Year of assessment 2012.

Separate tax relief for contribution to Private Retirement Scheme and Deferred Annuity

In order to ensure the welfare of retirees, it is proposed that:

- A separate tax relief of up to RM 3,000 be given for contributions made to a Private Retirement Scheme (PRS) approved by the Securities Commission, or deferred annuity, as distinct from the existing relief of RM 6,000;
- The existing relief of RM 6,000 will then only be applicable for life insurance premiums and contributions made to approved schemes other than PRS;
- Withdrawals of contributions from PRS by individuals prior to the maturity period or prior to attaining mandatory retirement age will be subject to tax in the hands of the individuals; and
- Corporate tax deductions of up to 19% on employer contributions are now extended to contributions made to PRS.

Effective date: Year of assessment 2012.

Increase in employers' Employee Provident Fund (EPF) contribution

To increase savings for old age, and to ensure that retirees have sufficient savings to bear the cost of living upon retirement, the Government proposes that the employers' EPF contribution be increased from 12% to 13% for contributors who earn RM 5,000 and below.

Effective date: Year of assessment 2012.

EPF withdrawal for the purchase of a house by expatriates

Currently, expatriates making voluntary EPF contributions are not allowed to make withdrawals to purchase a house. However, the budget recognizes the contributions of expatriates to the economic development of the country. Thus, to provide a more conducive environment for expatriates to continue working in Malaysia, it has been proposed that similar to the EPF rules applicable on Malaysians, expatriates are now able to withdraw from Account 2 in the EPF account for the purchase of a house.

Effective date: Year of assessment 2012.

Compensation for late refund of income tax by Inland Revenue Board

To enhance efficiency in tax administration, it is proposed that a taxpayer who has submitted his or her tax returns within the stipulated time and is due for a tax refund will be compensated 2% per annum on the amount of late refunded tax by the Director General.

The 2% compensation will be payable where the amount refunded is made after:

- 90 days from the due date for electronic filing; or
- 120 days from the due date for manual filing

Compensation is only applicable to refunds of income tax overpayment and no other taxes, including Real Property Gains Tax (RPGT).

Compensation will not be payable under the following circumstances:

- Where the tax return is not submitted by the due date;
- Where the person appeals against the assessment; and
- Where it is a tax repayable case in which the tax set off or tax deducted from dividends is in excess of tax payable.

Effective date: Year of assessment 2013.

Enhancing tax compliance

To further enhance the e-filing system in line with current technological advances, it is proposed that:

- Individual taxpayers be allowed to submit tax returns through e-filing via mobile devices; and
- Information regarding total income, PCB deductions, EPF contributions, insurance, and zakat be prefiled by the Inland Revenue Board (IRB) for salaried taxpayers using the e-filing system. Employers must submit employee information to the IRB.

Effective date: Year of assessment 2013.

Deloitte’s view

In an environment of global uncertainty, the 2012 budget focuses more on extensive budget allocation for a wide spectrum of society, and is generous in providing for the welfare of the low-income earners, students, teachers, and elderly.

From an individual tax perspective, the 2012 budget enforces private sector employees and the self-employed to have sufficient savings upon retirement by introducing a new separate tax relief for contribution to the PRS, and a 1% employer’s contribution increase for employees who earn less than RM 5,000 a month.

A mild change by the 2012 Budgets proposals to the existing tax regime on individual income tax, except for the compensation on late refund by the IRB which is a welcome move. More changes are expected for individual tax if a Goods and Services Tax (GST) is introduced, the implementation of which is pending a formal announcement.

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People to contact

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