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Malaysian Budget 2019

Reactionary Statement by Adeline Wong and Yvonne Beh, Partners in the Tax Practice of Wong & Partners, a member firm of Baker McKenzie International

Kuala Lumpur, 2 November 2018, 19:40 **-** The first budget under the new Pakatan Harapan government reflects a desire to benefit the people of Malaysia, whilst seeking ways to increase the government's revenues, including introducing tax on the digital economy, increases in real property gains tax rates, stamp duty rates and imposing a 'sugar tax'.

The Malaysian Government's proposal to impose service tax on electronically supplied services obtained from foreign service providers to consumers with effect from 1 January 2020 is in line with the OECD's BEPS Project's recommendation that any tax on the digital economy should be imposed based on the place of consumption of the services in the form of consumption tax. It is heartening to note that the Malaysian Government has not introduced unilateral measures for direct tax in this Budget.

Another notable service tax development, relate to the imposition of service tax on foreign service providers providing taxable services in Malaysia with effect from 1 January 2019. This is to ensure that local service providers of taxable services are not unfairly disadvantaged compared to foreign service providers.

In order to increase the tax revenues of the Malaysian Government, measures are proposed to increase the real property gains tax rate, from 5% to 10% (for disposals after 5th year) for companies and foreigners and from 0% to 5% for individuals (with exemptions for low cost, low-medium cost and affordable housing). Stamp duty for properties valued above RM 1,000,000 will be increased from 3% to 4%. These measures may soften the second-hand property market, and may further curb the increase in prices of real property.

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Companies would be relieved to note that there is no increase in general corporate income tax rates or the introduction of a broad-based capital gains tax. Additionally, there is a slight reduction in income tax rate from 18% to 17% for small-medium enterprises for the first RM 500,000 taxable income.

The imposition of excise duties on sugar sweetened beverages was much anticipated, given that the Malaysian Government is hoping to curb obesity and to promote a healthier lifestyle amongst the people. This is in line with many other countries in the world, which have also imposed 'sugar taxes'.

- Ends -

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