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HIGHLIGHTS OF 2016/2017 TAX CHANGES

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¶100 2017 Budget Proposals and Finance Act 2017

The Budget 2017 was announced on Friday, 21 October 2016, against the background of a challenging economic environment. The Budget theme of ***"Ensuring Unity and Economic Growth, Inclusive Prudent Spending, Well-being of the Rakyat"*** although largely similar to recent Budget themes, is nonetheless ambitious given the current economic climate in the country and external factors.

Given the need to maintain revenues in view of the impact of reduced petroleum-based revenue, there has been a flurry of tax audit and investigation activity from the Inland Revenue Board (IRB) this year, and we can expect the same from the Royal Malaysian Customs Department. The introduction of Goods and Services Tax (GST) in 2015 has been critical in plugging the deficit from petroleum taxes/revenue, but the tax revenue must continue to grow to be able to achieve a balanced Budget by 2020. Clearly, this must be coupled with measures to stimulate growth and to manage expenditure effectively with minimum leakages.

The Government has projected a 3% fiscal deficit for 2017, a reduction from 3.1% expected this year. Government revenue for 2017 is projected to be RM219.7 billion, while the operating expenditure is RM214.8 billion and development expenditure is RM46 billion. The growth rate is projected to be between 4% to 5% in 2017 compared to 4% to 4.5% this year. From a tax perspective, the targeted revenue for 2017 sees an increase of RM10 billion to RM7 billion from corporate taxes, RM1 billion from personal taxes and RM2 billion from petroleum income tax. That indeed is a very optimistic target given that the collection in 2016 has not met the original targets which had to be scaled down in January 2016 under the re-calibrated Budget.

Highlights of Budget 2017 include the following:

PERSONAL INCOME TAX

1. Tax relief for lifestyle

Currently, in order to inculcate a reading habit, lead a healthy lifestyle and enhance the usage of computers and internet, a tax resident individual is entitled to claim the following reliefs:

(i) Tax relief of up to RM1,000 for the purchase of reading materials (excluding newspapers and banned reading materials)

(ii) Tax relief of up to RM300 for the purchase of sports equipment for sports activities as defined under the *Sports Development Act 1997*, and