



BUDGET 2019



Ministry of Finance Malaysia

BUDGET 2019

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YAB Tun Dr Mahathir Bin Mohamad
Prime Minister

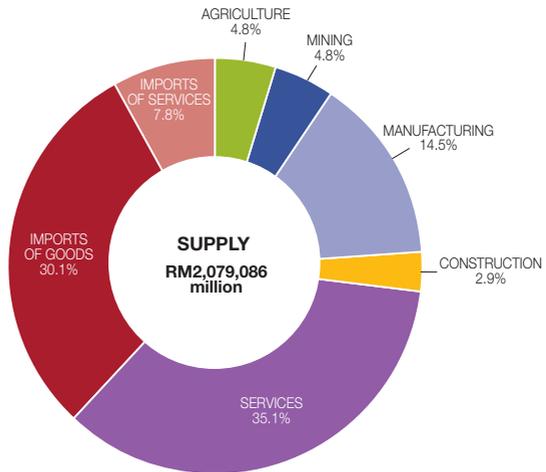
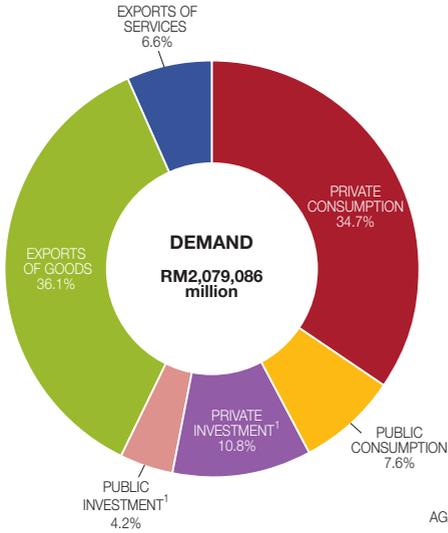
“Malaysia is akin to an Asian Tiger that has been in a state of somnolence and has now woken up, and is roaring again.”



YB Tuan Lim Guan Eng
Minister of Finance Malaysia

“On this historical day, I will table Budget 2019, the inaugural budget by the Pakatan Harapan Government.”

THE ECONOMY 2019 AT CONSTANT 2010 PRICES

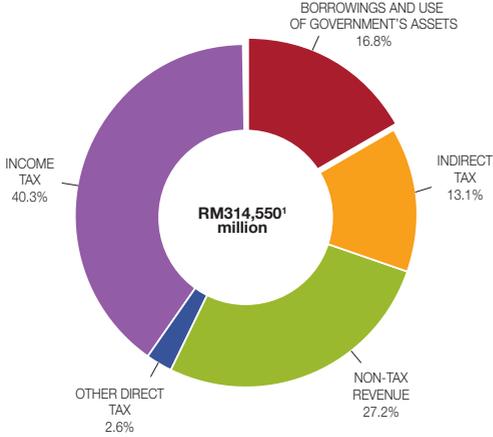


¹ Includes change in stocks.

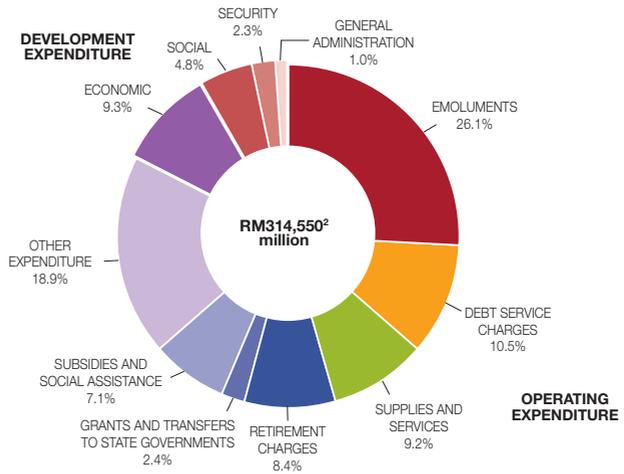
Source: Ministry of Finance, Malaysia.

THE 2019 FEDERAL GOVERNMENT BUDGET

WHERE IT COMES FROM



WHERE IT GOES



¹ Consists of revenue, borrowings and use of Government's assets.

² Excludes contingency reserves.

Source: Ministry of Finance, Malaysia.

BUDGET 2019 SPEECH

BY

**YB TUAN LIM GUAN ENG
MINISTER OF FINANCE**

**INTRODUCING
THE SUPPLY BILL (2019)**

**IN DEWAN RAKYAT
FRIDAY, 2 NOVEMBER 2018**

**“A RESURGENT MALAYSIA, A DYNAMIC ECONOMY, A
PROSPEROUS SOCIETY”**

Mr Speaker Sir,

1. I beg to move the Bill intituled “An Act to apply a sum from the Consolidated Fund for the service of the year 2019 and to appropriate that sum for the service of that year” be read a second time.

INTRODUCTION

2. Greetings, Salam Harapan and Salam Sayangi Malaysiaku, I bid to Mr Speaker Sir, the Honourable Members of Parliament of both the Government and the Opposition, ladies and gentlemen and fellow Malaysians. Indeed, we are truly fortunate to have been given the trust, support and opportunity for the Pakatan Harapan Government to reshape the administration of this nation in a more developed, competitive and transparent manner.

3. On this historical day, I will table Budget 2019, the inaugural budget by the Pakatan Harapan Government. I wish to firstly thank the Malaysian people who displayed great tenacity, bravery, and an undying love for the country in replacing a global kleptocracy Government with a clean and democratic Government. You, the people have created history after sixty-one years by choosing a new government which is led by not only the oldest Prime Minister in the world but also one of the most respected statesmen globally.

ECONOMIC PERFORMANCE AND CHALLENGES

Mr Speaker Sir,

4. The new Government has inherited a worrying state of financial affairs. Our actual debt and liabilities as at end June 2018 stood at RM1,065 billion, a debt burden that is nearly RM350 billion higher than the amount officially disclosed by the previous Government. The breakdown consists of RM725.2 billion in direct Federal Government debt, RM155.8 billion in committed contingent liabilities and RM184.9 billion in other liabilities including leased payments for Public Private Partnership (PPP) projects.

5. The debt level of trillion ringgit debt was caused by financial scandals disguised as investments and mega debts masked as mega projects. The Government discovered that the previous Government was secretly paying for the debts of 1MDB amounting to nearly RM7 billion as at 30 April 2018. Despite

that, the Government has also confirmed that we may be liable to pay up to RM43.9 billion more, to settle all of 1MDB's debts. The Government also discovered aberrant contracts such as the Trans-Sabah Gas Pipeline and Multi-Product Pipeline projects which were to cost approximately RM9.6 billion, where RM8.3 billion had already been paid despite less than 10% of the work being completed. Mega projects such as the East Coast Rail Link (ECRL) will cost up to RM81 billion, and tens of billions of ringgit more in recurring operational losses.

6. Further, the Accountant-General of Malaysia has confirmed the statements by both the Royal Malaysian Customs (Customs) and the Inland Revenue Board (IRB) that the Government revenues have been overstated for the past few years, by not paying back the Goods and Services Tax (GST) and Income Tax refunds. As at 31 May 2018, the total tax refunds owing amounted to RM35.4 billion, made up of GST refunds of RM19.4 billion and income tax refunds of RM16 billion. These refunds belong to the taxpayers and were misused without their permission or knowledge. Unlike the debts accruing to 1MDB and other financial scandals, which can be repaid over a longer period of time, the Government has a moral imperative that these tax refunds must be returned in 2019 to their rightful owners, companies and the people of Malaysia.

7. This is the high price that Malaysians have to pay as a result of becoming a global kleptocracy. To restore our fiscal health, the Prime Minister has asked Malaysians to be prepared to sacrifice for the nation. Nevertheless, while the Government is committed towards fiscal consolidation, this will be balanced with ensuring economic development to improve the socio-economic well-being of the rakyat.

Mr Speaker Sir,

8. The International Monetary Fund has revised downwards the 2018 global economic growth forecast from 3.9% to 3.7%. Next year, the global economic growth is expected to remain at 3.7%. The global trade growth forecast has also been reduced from 4.8% to 4.2% for 2018 and from 4.5% to 4% for 2019.

9. The rising prospect of a full-blown trade war between the United States of America (US) and the People's Republic of China (China), as well as a hawkish US monetary policy, has already precipitated massive capital outflows from Emerging Markets back into the US. Countries with twin deficits (current account deficit and fiscal deficit) are hit hardest. The Argentinian Peso has declined by 48.7% in value this year up to 31 October 2018 against the US dollar. The Turkish Lira and the Indonesian Rupiah have also declined by 32.1% and 11.3% respectively.

10. Malaysia, as an emerging economy, will face the inevitable prospect of net foreign outflows. While this puts pressure on the Ringgit, confidence in the Malaysian economy and the current account surplus, will provide support to our currency. As a result, the Ringgit has been one of the best performing Emerging Markets currencies this year up to 31 October 2018. The Ringgit has appreciated against the Indian Rupee by 12.3%, Indonesian Rupiah by 8.1%, Filipina Peso by 3%, China Renminbi by 3.2% and Singapore Dollar by 0.6%.

11. In addition, the Malaysian equity market has also proven to be resilient with the FBM KLCI declining by only 4.1% this year up to 31 October 2018, as opposed to the MSCI Emerging Market Index, which has fallen 17.7%. In the other key regional markets, Singapore has declined by 12%, Hong Kong by 18.3%, South Korea by 18.2%, the Philippines by 18.2%, Indonesia by 8% and Thailand by 6.2%. This is a vote of confidence from domestic and foreign investors in the new Pakatan Harapan government.

12. In light of the above global headwinds and consistent with IMF's cut in global economic growth forecast, Malaysia will be revising downwards our projected GDP growth rate from the previously announced 5.0%-5.5% to 4.8% for 2018. Exports have continued to grow at 6.9% for the period between January to June 2018 contributing to a healthy current account surplus of RM18.9 billion or 2.8% of the GDP. As at 15 October 2018, our international reserves are at US\$102.8 billion or RM426 billion, which is sufficient to finance 7.3 months of imports. Our inflation rate remains low, recording only 1.2% for the period from January to September 2018, allowing our monetary policy to remain accommodative and conducive for economic growth.

13. In presenting this year's Budget, the Government is mindful of an increasingly hostile global environment that requires us to promote sustainable economic growth while ensuring urgent fiscal consolidation and discipline. The GDP is expected to continue to grow by 4.9% despite the global economic uncertainties in 2019.

FOCUS OF BUDGET 2019

Mr Speaker Sir,

14. The theme for the Budget is “A Resurgent Malaysia, A Dynamic Economy, A Prosperous Society” with three focus areas and twelve key strategies to map out a path to restore the Malaysian economy as an Asian Tiger. The three focus areas are:

FIRST : TO IMPLEMENT INSTITUTIONAL REFORMS;

SECOND : TO ENSURE THE SOCIO-ECONOMIC WELL-BEING OF MALAYSIANS; AND

THIRD : TO FOSTER AN ENTREPRENEURIAL STATE.

FIRST FOCUS : TO IMPLEMENT INSTITUTIONAL REFORMS

15. The main weakness in Malaysia's macroeconomic management was in the mismanagement of our public finances, as exemplified by the RM50 billion 1MDB scandal and explicitly outlined in the book *Billion Dollar Whale*. Therefore, the Government shall implement institutional reforms that promote transparent fiscal discipline which will not only prevent repeats of such malfeasance, but also ensure overall macroeconomic stability and the sustainability of our economic growth.

Strategy 1: Strengthening Fiscal Administration

16. **FIRST:** The Federal Government has restructured the approach to budget through 'Zero-based Budgeting' which increases effectiveness, efficiency and higher cost-savings. This is because

budget allocations are provided through the assessment of the goals for each allocation rather than the previous year's budget and all discretionary spending is planned from zero.

17. **SECOND:** The Government will table a Fiscal Responsibility Act by 2021 to avoid excessive spending that engenders mega debts.

18. **THIRD:** The Government intends to table a new Government Procurement Act next year to govern procurement processes to ensure transparency and competition, while imposing punitive action against abuse of power, negligence and corruption. The implementation of open tenders will not only save taxpayers money but will also increase the efficiency and competitiveness of the private sector.

19. **FOURTH:** To ensure full disclosure of our debts and liabilities, as well as the value of our assets, the current cash basis of accounting shall be converted to an accrual basis by 2021.

Mr Speaker Sir,

Strategy 2: Restructuring and Rationalising Government Debt

20. Over the past decade, the Federal Government had increasingly relied on less transparent Government guaranteed borrowings or lease financing programmes known as the Public Private Partnership (PPP) projects, to fund its expenditure. The value of the Government guaranteed borrowings increased from RM69.2 billion in 2008 to RM238 billion in 2017, a massive increase of 244%. In contrast, the official Federal Government debt has only increased by 124% over the same period of time.

21. Essentially, the budget deficits announced and achieved in the previous years never truly reflected the real deficits incurred. Hence, in spite of our best efforts to reduce cost and postpone non-critical expenditures, it was unrealistic to achieve the 2018 deficit target of 2.8%, unless the Government continued the previous practice of hiding our expenses off-balance sheet.

22. Therefore, the fiscal deficit is projected to be 3.7% for 2018. The increase in fiscal deficit arises after taking into account commitments by the previous Government which were unbudgeted such as RM1 billion interest servicing cost for 1MDB debts, RM1.3 billion in compensation for the acquisition of Eastern Dispersal Link in Johor, RM1 billion for Prasarana Malaysia Berhad (Prasarana), RM1.4 billion for Ministry of Transport's rail projects and paying back GST refunds of RM3.9 billion.

23. For the next three years, the Pakatan Harapan administration is committed to maintain a path of fiscal consolidation to achieve a deficit of 3.4% in 2019; 3% in 2020 and 2.8% in 2021. Over the medium term, the deficit is expected to be reduced further to the region of 2%.

24. Going forward, the Federal Government will still be issuing Government Guarantees, but only for existing infrastructure projects to be completed such as the MRT2 and LRT3 projects, as well as for selected agencies which are able to demonstrate a degree of financial sustainability.

25. To ensure a successful fiscal consolidation exercise on our RM1 trillion debt, this Government will reduce our debt as a percentage of our GDP via the following measures:

26. **FIRST:** The Government will set up a Debt Management Office responsible for reviewing and managing the Government's debt and liabilities. The Office shall have oversight over debt issuance by the Federal Government, statutory bodies and Special Purpose Vehicles. The Government intends to avoid higher debt service charges because of poor coordination of debt issuance. The Office will also streamline Government funding sources as a whole, centralising management of funds such that statutory bodies with surplus funds can help meet the funding requirements of other agencies at a more competitive cost.

27. **SECOND:** In order to rationalise our debts, the Government must not only review our existing debts, but also review future debt commitments that include recurring operational leases amounting to tens of billions of ringgit. Therefore, the Government has taken the decision to cancel the RM15 billion Multi-Product

Pipeline and Trans-Sabah Pipeline projects. The construction of the RM81 billion East Coast Rail Link (ECRL) is suspended, and is pending renegotiation of the cost of the project.

28. The Government has cancelled the RM60 billion MRT3 project for now, pending the completion of MRT2. The implementation of the Kuala Lumpur – Singapore High-Speed Rail which would have cost us at least RM110 billion, has also been postponed.

29. The Government has decided to proceed with several infrastructure projects which will be able to deliver high economic multiplier effects after carrying out renegotiations with the respective vendors. For the 37km LRT3 project carried out by Prasarana, the Government was able to reduce the overall cost of the project from RM31.6 billion to RM16.6 billion. This represents a savings of 47% or RM15 billion. The cost of the construction contract for the MRT2 project managed by MRT Corp has been successfully reduced by RM8.8 billion from RM39.3 billion to RM30.5 billion, representing a savings of 22.4%.

30. The Klang Valley Double-Tracking 2 project which was awarded via direct negotiations just before the last general election for RM5.2 billion, has been terminated. The project will be re-tendered via an open tender exercise and is expected to realise a substantial reduction in cost. In addition, various Government agencies are in the process of renegotiating contracts entered into by the previous Government amounting to RM19 billion. These RM19 billion contracts were awarded via direct negotiations or limited tenders. The Government has left it to the Ministries to decide whether to proceed with these contracts or otherwise. These projects can continue provided that there is at least a 10% reduction on the construction cost. The Government expects to save at least RM1.9 billion from this exercise. The billions of ringgit saved from these projects significantly reduces our future debt burden.

31. **THIRD:** The Government will take all necessary actions to recover funds lost and stolen from 1MDB. On 30 October 2018, the Government has applied to the Courts of England

for an order to set aside a Consent Award recorded on 9th May 2017 by an Arbitration Tribunal sitting in London between International Petroleum Investment Company (IPIC) with Aabar Investments PJS. Further, 1MDB and the Minister of Finance Inc. Malaysia is using fraud as a reason not to pay the balance of the US\$4.32 billion to IPIC or Aabar under the Consent Award, and recover the US\$1.46 billion already paid.

32. The Government is also working hand-in-hand with foreign governments to recover seized cash and assets related to 1MDB. We have successfully seized a billion-ringgit luxury yacht, Equanimity, and will commence its 1-month international auction on 5 November 2018.

33. **FOURTH:** The Federal Government will track and publish not only the direct Federal Government debt ratios, but also provide the necessary transparency to disclose our total debt and liabilities. The direct Federal Government debt of RM687 billion stood as 50.7% of the GDP as at 31 December 2017. The direct Federal Government debt has increased to RM725 billion as at 30 June 2018, but maintained at 50.7% of the GDP.

34. Once committed contingent liabilities and leased payments are taken into account, our overall liabilities to GDP stands at 80.3% in 2017 and is expected to reduce to 74.6% at the end of 2018. Going forward for 2019, the direct Federal Government debt to GDP ratio is expected to be at 51.8%, while total liabilities is expected to reduce to 73.5%.

Strategy 3: Raising Government Revenue

Mr Speaker Sir,

35. To achieve the objective to increase revenue, the Government will first leverage on Government assets and second, review our taxation policies. The measures which Government will undertake are as follows:

Leveraging Assets

36. **FIRST:** The Government will seek to reduce its stake in non-strategic companies by obtaining the best value possible, and utilise the proceeds to pare down debt.

37. **SECOND:** The Government will implement the real form of Public Private Partnership (PPP) for public projects based on land swap transactions using an open tender mechanism and not direct negotiations. Previously, through the direct negotiation model, the real value of the government land is invariably under-priced while the cost of the public works project is over-priced.

38. The real PPP model based on open tenders will enable the Government to achieve the highest revenue for the asset disposed while receiving the best value for the project to be awarded. Based on this new model, 24 PPP projects such as schools, army camps, police and fire stations as well as affordable housing, worth RM5.2 billion will be implemented and the Government expects to receive a net surplus of RM800 million over the cost of the public works from the land sales.

39. **THIRD:** The Government plans to implement scheduled and staggered land sales via auction to the highest bidders, based on conditions imposed on the land, to maximise revenue for the Government.

40. **FOURTH:** To privatise infrastructure assets, the Government intends to set up the world's first "Airport Real Estate Investment Trust (REIT)". The investors of the Airport REIT will receive returns arising from user fees collected from Malaysia Airports Holdings Bhd (MAHB) which has the concession to operate these airports. The Government hopes to raise RM4 billion from selling a 30% stake of the REIT to private investment institutions, which will gain an invaluable opportunity to invest in top quality infrastructure assets. This REIT exercise will only be carried out after the Regulated Asset Base and user fees structure has been negotiated and finalised.

41. Going forward, the Airport REIT will have the opportunity to raise funds publicly either by issuing new REIT units or via borrowings in order to fund the improvement and expansion

of airports, especially those operating above capacity. This financial structure will significantly reduce the debt burden of the Government to fund all of these projects, while maintaining MAHB as an asset light operator not bogged down by heavy capital investments and debt. Other projects could also benefit from similar funding and investment structures, such as hospitals, or rail infrastructure.

Reviewing Taxation

Mr Speaker Sir,

42. As promised in the Pakatan Harapan Manifesto, GST was Zero-Rated on 1 June 2018 and was replaced with the Sales and Services Tax (SST) on 1 September 2018. Under the GST, only 545 items were zero-rated whereas under the SST, almost 10 times the number of items are exempted. Perhaps the biggest impact is to businesses, where 472,000 registered companies were previously required to collect GST. In contrast, only 100,000 companies are required to collect the SST, greatly relieving the burden from many small and medium enterprises. According to an initial study by the Ministry of Domestic Trade and Consumer Affairs, 70% or 291 items from 417 inspected goods and services were found to have a reduction in prices in September 2018 when compared against the prices during the GST regime in May 2018.

43. Nearly all operational issues and teething problems during the early stages of implementation with the SST have been resolved by the Customs Department and the Ministry of Finance through public interactions involving more than 50,000 people and tens of thousands of questions. I have personally led 18 SST dialogue sessions attended by more than 15,000 business people nationwide.

44. To further improve the efficiency and effectiveness of the SST, the provision of specific taxable services of a business to another business (B2B), registered for the same service will be exempted from service taxes beginning 1 Jan 2019. This will prevent the increase in the cost of doing business as a result of compounded taxation and protect the competitiveness of our local services industry.

45. To assist the problems faced by small manufacturers who purchase their input materials and components from importers instead of other registered manufacturers, the Government will introduce a credit system for Sales Tax deduction starting 1 January 2019. Again, this will prevent compounded taxation and in turn will decrease the cost of doing business.

46. In addition, the Tax Reform Committee was set up in September 2018 to identify and propose improvements and additional measures to create a more progressive and effective taxation system. Amongst the tax reforms proposed are:

47. **FIRST:** Imported services will be subjected to Service Tax to ensure our local service providers such as architecture, graphic design, Information Technologies (IT) and engineering design services are not unfairly disadvantaged against their foreign competitors starting 1 January 2019.

48. **SECOND:** For online services imported by consumers, the foreign service providers will be required to be registered with the Royal Malaysian Customs, charge and remit the relevant Service Tax on the transactions with effect from 1 January 2020. Examples of these services will include, but are not limited to downloaded software, music, video or digital advertising.

49. The above measures will neutralise the cost disadvantage faced by physical retailers against their virtual storefront counterparts, especially those operated by foreign entities.

Mr. Speaker sir,

50. **THIRD:** The Government will launch a Special Voluntary Disclosure Program to offer an opportunity for taxpayers to voluntarily declare any unreported income for Malaysian tax purposes, including that which is in offshore accounts.

51. Under the Organisation for Economic Co-Operation and Development's (OECD) Common Reporting Standards to enhance tax transparency, starting this year, Malaysia has implemented the Automatic Exchange of Information (AEOI) with the other tax authorities to access information for audit and investigation purposes.

52. The Special Voluntary Disclosure Program will be offered from 3 November 2018 until 30 June 2019 where taxpayers will receive reduced penalty rates. If disclosure of unreported income is made from 3 November 2018 until 31 March 2019, the penalty will be 10% of the tax payable. If disclosure is made from 1 April 2019 until 30 June 2019, the penalty will be 15% of the tax payable. After the program ends on 30 June 2019, the penalty rates will range from 80% to the maximum of 300% as provided for in the existing tax laws. With a clean and transparent government, Malaysians will be more than willing to pay their taxes as they know the leaders of this Government will not cheat them and steal their money.

53. **FOURTH:** IRB will scrutinise and investigate unexplained extraordinary wealth displayed by possession of luxury goods, jewellery, handbags or property. The IRB will use all necessary measures permitted by the law to recover such monies, whether in the form of additional taxes, penalties or fines.

54. **FIFTH:** The Government will also be reviewing the existing tax treatment and incentives under the various legislations to ensure relevance and reduce leakages. The Government will also now place a time limit of 7 years on carrying forward of business losses, unabsorbed capital allowances, unabsorbed reinvestment allowance and pioneer losses.

55. **SIXTH:** The Government will also carry out a thorough review of over 130 types of fiscal incentives to promote investments, administered by 32 investment promotion agencies with the intention to address incentives which are no longer relevant or are overlapping.

56. **SEVENTH:** Having successfully launched the SST system, the Royal Malaysian Customs will now step up enforcement against cigarette smuggling. Currently, the Government loses revenue due to the widespread availability of much cheaper contraband alternatives or even illicit products packaged with fake custom duty labels. The Government hopes to recover at least RM1 billion in tax losses as a result of clamping down on smuggling and fraudulent activities, which previously was uncollected.

57. **EIGHTH:** To encourage domestic tourism, the Government proposes to impose a departure levy for all outbound travellers by air starting 1 June 2019. Two categories of rates are proposed, RM20 for travellers to ASEAN countries and RM40 for travellers to countries other than ASEAN. The rate proposed is consistent with or not more than the rates charged by other countries such as Thailand (USD20), Hong Kong SAR (USD15) and Japan (USD10).

58. **NINTH:** The Real Property Gains Tax rates will be revised for disposals of properties or shares in a real property company in the sixth and subsequent years as follows:

- for companies, non-citizens and non-permanent residents, the rate shall be increased from 5% to 10%; and
- for Malaysian citizens and permanent residents, the rate shall be increased from 0% to 5%. However, low cost, low-medium cost and affordable houses with prices below RM200,000 will be exempted.

59. **TENTH:** The stamp duty on the transfer of property valued at more than RM1 million will be increased from 3% to 4%.

60. **ELEVENTH:** Since 1999, interest income earned from wholesale money market funds has been granted income tax exemption in order to promote the development of the unit trust industry. These funds has grown at 24% annually since 2010, achieving a total fund size of RM42.9 billion as at December 2017. As a result of this positive development, the tax exemption granted for these funds will cease beginning 1 January 2019.

61. **TWELFTH:** The Labuan International Business and Financial Centre was set up to provide a wide range of business and investment structures facilitating cross-border transactions, business dealings and wealth management needs. The Government will continue to enhance Labuan's competitiveness by removing restrictions on transactions in Ringgit Malaysia, transactions between Labuan entity and Malaysian residents. The corporate tax rate of 3% will be maintained, however the election of the maximum tax rate of RM20,000 under the Labuan Business Activity Tax Act 1990 will be removed.

62. **THIRTEENTH:** The taxes, fees and levy on the Gaming Industry which have not been increased since 2005 are increased as follows:

- casino license to be increased from RM120 million to RM150 million per annum;
- casino duties to be increased up to 35% on nett collection;
- machine dealer's license to be increased from RM10,000 to RM50,000 per annum;
- gaming machine duties to be increased from 20% to 30% on gross collection; and
- in addition, number of special draws will be reduced by fifty percent (50%).

63. Overall, for 2019, the Federal Government is expecting to receive a revenue of RM261.8 billion. This includes a one-off special dividend of RM30 billion from Petronas Nasional Berhad (Petronas) which will go towards repaying the GST and income tax refunds of RM37 billion. The Government is grateful that Petronas, as a company has been run in an extremely prudent manner and has been able to accumulate the above reserves which can be shared with the Government, without jeopardising Petronas ability to invest for its future growth.

SECOND FOCUS: TO ENSURE THE SOCIO-ECONOMIC WELL-BEING OF MALAYSIANS

Mr Speaker Sir,

64. Improving the socio-economic well-being of the rakyat will be the key performance indicator of whether this new Government is successful or otherwise. The Government will seek to meet this objective through 5 strategies as follows:

Strategy 4: Improving the Rakyat's Welfare and Quality of Life

65. **FIRST:** The Government will continue the B40 households via the “Bantuan Sara Hidup” (BSH) cash grants. However, the program will be better targeted to those in need, and enhanced to take into account the size of the family. Starting January 2019:

- every household with a monthly income between RM2,000 and below will receive RM1,000;
- households with a monthly income between RM2,001 and RM3,000 will receive RM750; and
- households with a monthly income between RM3,001 to RM4,000 will receive RM500.

66. In addition, for every child 18 years old and below or is disabled (no age limit), there will be an additional RM120 per child of up to a maximum of four dependents. Therefore, in a family with four children and a monthly household income of less than RM2,000, the household will receive a total RM1,480 annually. This is more than the existing sum of RM1,200.

67. Hence, under BSH, 4.1 million households will continue to receive this financial assistance from the Government, amounting to RM5 billion.

68. **SECOND:** For housewives under the e-Kasih programme, the Government has introduced the Employees Provident Fund (EPF) i-SURI contribution scheme where caring husbands are incentivised to contribute for their wives' retirement savings. For the e-Kasih beneficiaries whose husbands contribute at least RM5 monthly into their wives' retirement savings, the Government will contribute RM40 a month. An allocation of RM45 million is provided for this scheme.

69. **THIRD:** The Pakatan Harapan Manifesto has promised to provide a targeted fuel subsidy to individual car owners with engine capacity of 1,300cc and below or motorcycle owners of 125cc and below. However, the Government has decided to improve on our promise by expanding the scheme to vehicle

owners of 1,500cc and below or motorcycle owners of 125cc and below. Owners with multiple cars will not receive this benefit. The Government has decided that each car and motorcycle owner will enjoy up to 100 litres and 40 litres respectively of RON95 petrol per month with a subsidy of at least RM0.30 per litre, depending on the market price of petrol. As many as 4 million car owners and 2.6 million motorcycle owners will benefit from this targeted subsidy is expected to cost RM2 billion for 2019. In order to increase resource utilisation efficiency in addition to curbing leakages arising to the petrol price arbitrage and cross border smuggling, the Government will float the RON95 petrol prices based on the Automatic Price Mechanism (APM).

70. **FOURTH:** To stabilise supply and standardise prices of essential goods, especially in Sabah and Sarawak, the Government will allocate RM150 million. Among the list of goods are wheat flour, refined sugar and cooking oil in 1kg packs, local rice with 15% broken grains in 10kg packs, RON95 petrol, diesel and Liquid Petroleum Gas (LPG).

71. **FIFTH:** The Government calls upon all consumers to download the Price Catcher mobile application and be part of a vigilant crowdsourcing effort to collect information on the prices of goods and services, and thus, reduce the need for employing price checkers. The Price Catcher application will benefit not only all consumers in knowing the best prices in the market, but it will help the authorities monitor against unlawful pricing practices. The Government will allocate a further RM20 million towards more effective enforcement.

72. **SIXTH:** Currently, all households which consume RM20 or less of electricity usage per month are fully subsidised by the Government. The Government intends to make this subsidy more targeted where only the poor and hardcore poor registered with *e-Kasih* will qualify. In doing so, the Government is able to increase the subsidy to RM40 per month benefiting 185,000 accounts, with an allocation of RM80 million.

73. **SEVENTH:** The Government will identify and collaborate with Non-Governmental Organisations (NGOs) and Social Enterprises to support their efforts in uplifting the underprivileged and

marginalised communities. Examples of such partnerships will include the Government procurement of envelopes from the disabled. The Government will allocate RM10 million to expand such initiatives.

74. **EIGHTH:** Income tax deductions will be provided for contributions from any parties to any social enterprise subject to a maximum of 10% of aggregate income of a company or 7% of aggregate income for a person other than a company.

Strategy 5: Improving Employment and Employability

Mr Speaker Sir,

75. With an unemployment rate of only 3.4%, Malaysia is considered to be enjoying full employment. However, there are structural problems causing long-term unemployment especially among the youth. To address this problem, the Government will undertake the following steps:

76. **FIRST:** The Human Resource Development Fund (HRDF) will launch 2 new programmes, “Apprenticeship” and “Graduate Enhancement Programme for Employability” (GENERATE) to provide skills to school-leavers as well as to increase the marketability of our graduates from the institutions of higher-learning. HRDF will allocate RM20 million in matching grants for these programmes which will benefit at least 4,000 youths.

77. **SECOND:** By 2020, there will be an estimated 1 million Malaysians aged between 61 and 65 years old who will still be productive and active. To increase employment opportunities for Malaysians aged 60 and above, the Government proposes that the employer portion of EPF contributions be cut to 4% from the current 6% effective 1 January 2019. This group of employees would also not be required to contribute, as result increasing their disposable income. In addition, the Government also proposes to provide additional tax deduction to employers who employ this group up to a monthly salary of RM4,000. This provides an incentive for employers to hire or retain retirees, particularly among the B40.

78. **THIRD:** To ensure that ex-convicts are not left behind as the country moves forward and are able to contribute to economic growth, the Government will provide an additional tax deduction

for companies who employ ex-convicts up to a monthly salary of RM4,000. I wish to thank those who shared their inputs and suggestions, including this measure, through the Budget 2019 portal.

79. **FOURTH:** There are Government pensioners who are receiving pensions of less than RM1,000 per month. The Government hears their appeals for assistance. Hence, the Government will provide a one-off RM500 assistance to qualified recipients.

80. **FIFTH:** Amidst those working with the Government and serving the nation, there are nearly 30,000 'contract of service' officers who do not enjoy some of the benefits extended to the civil servants on permanent appointment. As such, the Government will allocate RM10 million per annum to provide healthcare for the parents of these 'contract of service' officers. In addition, these officers may apply for 'Quarantine Leave' when their children suffer from infectious diseases, with effect 12 November 2018.

81. **SIXTH:** The Government approved Unrecorded Leave for Muslim officers to perform their umrah for up to 7 days for the entire duration of service. To appreciate the 201,600 non-Muslim civil servants in the service, the Government has agreed to similarly allow for up to 7 days of Unrecorded Leave throughout the duration of service for the purposes of performing their religious pilgrimage and rituals.

82. **SEVENTH:** Cognizant of the need and importance of a living wage in an environment of rising costs, the Government proposes to raise the minimum wage to RM1,100 per month for the whole of Malaysia starting 1 January 2019.

83. **EIGHTH:** To reduce wage disparity, regulations will be implemented requiring public-listed companies in Malaysia to publicly disclose key pay metrics each year in their annual report. This will include the ratios of 'highest to median wage per worker' and the 'highest and lowest wage earned' as well as a statement by the company of how they intend to improve their employees' average pay.

84. **NINTH:** The Government will review labour laws to improve the labour market and workers welfare such as ban discriminatory practices by employers. We will also

expedite the resolution of industrial disputes between employers and employees by setting up an Industrial Appeals Court.

Strategy 6: Enhancing Health & Social Welfare Protection

Mr Speaker Sir,

85. **FIRST:** The Government will assist those who have lost their jobs with the full implementation of the Employment Insurance System (EIS) starting 1 January 2019. The Social Security Organisation (SOCSO) compensates those who have lost their jobs, including providing job search allowances, skills retraining as well as job placement. SOCSO will provide job placement advice and assist workers in their job search through the 54 SOCSO offices around the country.

86. **SECOND:** The Government is committed to assist Malaysian households become more financially resilient through insurance and takaful protection. Financial emergencies such as a critical illness in the family can cause severe financial stress. Insurance and takaful can act as a safety net by providing financial support and enabling households to get back on their feet especially for the lower income groups. In partnership with the private insurance industry, the Government will pilot a national B40 Health Protection Fund to provide free protection against the top 4 critical illness for up to RM8,000 and up to 14 days of income during hospitalisation cover at RM50 per day starting 1 January 2019. In other words, hospitalisation income of RM700 per annum is available. We are appreciative to Great Eastern Life Insurance for agreeing to contribute the initial seed funding of RM2 billion to this Fund which will be managed by Bank Negara Malaysia. We are expecting the fund size to grow with more partnership and contributions from other insurance companies. This is an important step in the Government's efforts to establish a comprehensive social safety net in collaboration with EPF, SOCSO, and other social safety institutions.

87. **THIRD:** It is also the Government's wish and intent that as the B40 households understand the benefit of insurance and takaful, they will over time acquire their own protection

policies. For this purpose, Bank Negara Malaysia had launched the 'Perlindungan Tenang' scheme in 2017 to make available affordable, accessible and simple insurance and takaful products for Malaysians costing as little as less than a packet of cigarettes a month. The Government proposes to a stamp duty exemption for all Tenang Insurance products for two years beginning 1 January 2019.

88. **FOURTH:** To encourage a higher life insurance take up rate, the combined tax relief for EPF contribution and life insurance or takaful deduction will be separated into RM4,000 for EPF contributions or approved provident fund and RM3,000 for takaful or life insurance premiums. For civil servants under the pension scheme, the tax relief will remain combined and up to RM7,000.

89. **FIFTH:** The Government will be allocating nearly RM29 billion for the Ministry of Health, which is an increase of 7.8% compared to the previous year. This includes an allocation of RM10.8 billion to provide medicine, to upgrade and improve the quality of health services at our clinics and hospitals.

90. **SIXTH:** The Ministry of Health will pilot a nationwide health screening programme, Skim Perlindungan Kesihatan (PEKA) for 800,000 individuals aged 50 and above in B40 households at a cost of RM100 million.

91. **SEVENTH:** To protect women's health, the Government will allocate RM20 million to provide free mammogram screening, Human Papilloma Virus (HPV) vaccinations as well as Pap Smear tests, benefitting up to 70,000 women.

92. **EIGHTH:** The Government will also allocate RM50 million for the specific purpose of treating rare diseases, treating Hepatitis C, addressing stunting among children, providing more haemodialysis screening and treatments, and Enhanced Primary Healthcare (EnPHC).

93. **NINTH:** The Government will widen the Public-Private Partnership programs where the Government will invest in facilities, while the private sector will provide the

funds towards implementing programmes for the people's well-being. Example of such partnerships include Pusat Katarak Majlis Agama Islam Wilayah Persekutuan, Selayang.

94. **TENTH:** Statistics from the Ministry of Health indicates that nearly one out of two Malaysians are overweight or obese. In order to healthy eating and lifestyle, the Government proposes to introduce an excise duty starting 1 April 2019 at RM0.40 per litre for two categories of sweetened beverages, manufactured in the form of ready to drink with sugar content as follows:

- beverages including carbonated drinks containing added sugar or flavoured and other sweetening matter which contains sugars exceeding 5gm per 100 millilitres; and
- for fruit juices and vegetable juices which contains sugar exceeding 12gm per 100 millilitres.

95. **ELEVENTH:** The Ministry of Health has fixed a target of a "Smoke-free Malaysia" by year 2045. As such, the Ministry will expand the number of locations where smoking will be prohibited including restaurants or eateries to be gazetted starting 1 January 2019.

96. Malaysians can only enjoy the fruits of economic growth and the country's prosperity if we are safe and secure. The Government will strengthen our national security by allocating development expenditure of RM5.9 billion to the Ministry of Defence and the Ministry of Home Affairs.

Strategy 7: Raising Real Disposable Income

Mr Speaker Sir,

97. Based on the study by the Khazanah Research Institute, in 2016, households with income below RM2,000 spent 95% of their incomes on daily necessities. What is more worrying is that their balance of income after accounting for inflation is only RM76 in 2016, compared to RM124 in 2014. The two largest expenditure components other than food, is housing and

transport. Therefore, in order to increase real disposable income of ordinary households together with the measures mentioned earlier, the Government will specifically address the cost and affordability of housing and transport for Malaysians from both the B40 and M40 households.

Housing for All

98. The Government will continue to support the construction and completion of affordable homes with an allocation of nearly RM1.5 billion for Program Perumahan Rakyat, Perumahan Penjawat Awam Malaysia, Perumahan Rakyat 1 Malaysia (PR1MA) and Syarikat Perumahan Negara Bhd to ensure the availability of supply.

99. However, without the necessary availability and accessibility of loans from financial institutions, the supply of these affordable homes will fail to meet the pent-up demand for housing. To assist the lower income group earning not more than RM2,300 per month to own a house for the first-time, a fund amounting to RM1 billion will be established by Bank Negara Malaysia, to help them to purchase affordable homes priced up to RM150,000. The fund will be made available from 1 January 2019 at participating financial institutions, namely AmBank, CIMB Bank, Maybank, RHB Bank and BSN through a concessionary financing rate as low as only 3.5% per annum. This will significantly reduce the monthly financing instalment of borrowers to own a house, and make it easier to qualify for the required financing. The RM1 billion fund is available for two years or until the allocation is exhausted.

100. For first-time home-buyers purchasing residential properties priced up to RM500,000, the Government will exempt stamp duty up to RM300,000 on the instrument of transfer and the loan agreement for a period of two years until December 2020. For first-time home buyers with household income of up to RM5,000 per month, the Government will allocate RM25 million to Cagamas Berhad to provide mortgage guarantees to enable borrowers to obtain higher financing from financial institutions, inclusive of down payment support. These measures are expected to provide between 7% and 11% cost savings to the home buyers, before taking into consideration any promotional discounts which may be offered by the property developers.

101. In line with the Government's intent to assist civil servants in acquiring their homes, the Public Sector Housing Financing Board will extend the loan repayment period from 30 to 35 years for the first loan, and from 25 to 30 years for the second loan.

102. To improve the living conditions of the police, armed forces and teachers, the Government will also allocate RM400 million for the upgrading, repair and maintenance of Government housing quarters.

103. The Government has already announced that construction and building materials have been exempted from SST. In return, the Government secured the commitment from the Real Estate Housing Developers Association (REHDA) that there will be a 10% reduction in the price of houses that are not subjected to price control in new projects.

104. There is an existing over-hang of RM22 billion worth of residential properties as at 31 March 2018, an increase of 65% as compared to RM13.3 billion last year. To address this, the Government will for a limited time of 6 months only, starting 1 January 2019, will exempt stamp duty on the instrument of transfer and the loan agreement for purchases of new homes from developers valued between RM300,001 and RM1 million. This will be part of a National Home Ownership Campaign, where in return, developers will offer a minimum price discount of 10% for these residential properties.

105. Finally, as a demonstration of the Government's willingness to explore new, technology-enabled and innovative mechanisms to solve our housing problems, we will be approving private sector driven 'Property Crowdfunding' platforms which will serve as an alternative source of financing for first time home buyers. These exchange platforms will be regulated by the Securities Commission under the peer-to-peer financing framework. As an example, the buyer will be able to acquire a selected property for 20% of the price of the property, while the balance 80% will be fulfilled via potential investors who are interested to fund the acquisition in exchange for the potential appreciation in value of the property over a particular period of time.

106. In simple terms, Ah Chong will be able to own and stay in a RM250,000 property by paying up RM50,000 without having to procure a mortgage. Investor Syarikat Ali Berhad, who might only be interested in investing in a new property for capital appreciation, will fund the balance of the RM200,000 via the peer-to-peer Property Crowdfunding exchange. This financial innovation will be the first in the world, and if successful, will transform the affordability of homes for first-time home buyers in the country. The first exchange is expected to go live in the first quarter of 2019, after all necessary approvals are obtained from Securities Commission.

Encouraging Public Transport Adoption

Mr Speaker Sir

107. After housing expenses, transport is the next biggest expense item. Many households don't just own one car, they own at least two. The typical monthly expenses for just a Perodua Myvi would be approximately RM900 after taking into consideration the loan instalment, petrol, parking and maintenance. Therefore, a key solution to increasing the real disposable income of Malaysian households is to migrate from private car ownership to the adoption of public transport.

108. To increase the utilisation of public transport, the Government will allocate RM240 million to introduce a RM100 unlimited public transport pass, to be implemented initially on the rail and RapidKL bus network on 1 January 2019. There will also be an unlimited monthly pass of RM50 available just for the RapidKL bus services. The campaign will be expanded to other bus companies in stages. This scheme will immediately increase the disposable income of households by a few hundreds of ringgit a month.

109. The Government's wholly-owned public transport subsidiary, Prasarana Malaysia Berhad (Prasarana) will also seek to improve its bus network by fully utilising and optimising its current fleet of 1,131 RapidKL, 408 RapidPenang, 69 RapidKuantan and 300 MRT feeder buses. Prasarana will also work in partnership with other existing bus companies to manage routes and services as well as cost control, in order to maximise efficiency and quality of service.

110. The reduction of LRT3 and MRT2 construction cost increases the operational viability of the projects, which in turn translates into lower public transportation fares. This in turn, will encourage the use of public transport as well as reduce the usage of cars and maintenance of road infrastructure.

111. To further improve public transport coverage in Kuala Lumpur, the Kuala Lumpur City Council, will allocate RM20 million next year to provide additional free GoKL free bus services in addition to the 4 existing routes.

112. The Government through Bank Pembangunan Malaysia Berhad (BPMB) will make available RM500 million for a Public Transport Loan Fund with a 2% interest subsidy to taxi and bus companies as well as other public transport operators.

113. The Government will freeze toll hikes on all intra-city tolls around the country for 2019 that will cost the Government approximately RM700 million. In addition, the Government will also abolish toll for motorcycles for the First and Second Penang Bridge, as well as the Second Link in Johor, costing approximately RM20 million per annum effective 1 January 2019.

114. In addition, the Government will prioritise for both the Causeway and the Second Link to Singapore, the easing of congestion and hardship of Malaysians and residents who travel on a daily basis. As a start, the Government will allocate RM10 million to upgrade the Autogate Malaysia Automated Clearance System and M-Bike.

Strategy 8: Education for a Better Future

Mr Speaker Sir,

115. The only sustainable and guaranteed means to achieve higher income growth is through better quality education at all levels. The Education Ministry remains the single largest recipient of Budget allocation at RM60.2 billion or 19.1% of the total Government expenditure for 2019. Among the measures that will be undertaken include:

116. **FIRST:** A total of RM2.9 billion will be provided to help students from lower income groups in terms of food, text books and cash assistance.

117. **SECOND:** The Government will allocate RM652 million for the purposes of maintenance of schools, as compared to RM615 million allocated in 2018, as follows:

- National Schools – RM250 million
- Chinese Schools (SJKC) – RM50 million
- Tamil Schools (SJKT) – RM50 million
- Full Boarding Schools – RM50 million
- Maktab Rendah Sains Mara – RM50 million
- Government Aided Religious Schools – RM50 million
- Mission Schools – RM50 million
- Tahfiz Schools – RM50 million
- Registered Religious Pondok Schools – RM25 million
- Conforming Schools – RM15 million
- Independent Chinese Secondary Schools – RM12 million

118. **THIRD:** All donors to the school maintenance fund for national schools and public institutions of higher learning (IPTA) registered with the Ministry of Education will be eligible for a tax exemption on their donations in the calculation of income tax, starting 1 January 2019. For other schools and institutions of higher learning registered with the Ministry of Education, the exemptions will be evaluated on a case-by-case basis.

119. **FOURTH:** The Government will allocate RM100 million towards the rebuilding of dilapidated schools throughout the country. Additional dilapidated schools will be rebuilt, funded through competitively-tendered land swaps.

120. **FIFTH:** RM206 million will be allocated towards the development and provision of training programs in Polytechnics and Community Colleges.

121. **SIXTH:** The Government will also introduce a RM30 million Technical and Vocational Education and Training (TVET) Contestable Fund to encourage public training institutions to bid for funds to run competitive programs with assured job

placements for the graduates. There will also be an additional allocation of RM20 million to raise youth competencies via a TVET Bootcamps.

122. **SEVENTH:** RM400 million will be allocated to public institutions of higher learning (IPTA) for research activities. This allocation includes RM30 million for matching grants via the Malaysia Partnerships and Alliances in Research (MyPAIR) program to promote collaborations between IPTAs with local industries and international agencies in strategic areas.

123. **EIGHTH:** The Government will continue to provide scholarships and loans to all Malaysians via various Ministries and Agencies, such as MARA, the Public Services Department and the Ministry of Health with a total allocation of RM3.8 billion. Of this amount RM2 billion is allocated to provide scholarships for Bumiputeras under MARA.

124. **NINTH:** The Government will allocate RM17.5 million over the next 5 years to the Malaysia Professional Accountancy Centre (MyPAC) to produce 600 qualified Bumiputera accountants towards meeting the goal of 3,000 Bumiputera accountants registered with the Malaysian Institute of Accountants from the 1,554 today.

125. **TENTH:** The Government will allocate RM210 million as part of the Bumiputera Empowerment Agenda to strengthen education and human capital development programs via Program Pengeraju Tunas, Program Pengeraju Skil dan Program Pengeraju Profesional which will be managed by Yayasan Pengeraju Pendidikan Bumiputera.

126. **ELEVENTH:** To ensure the sustainability of the National Higher Education Fund Corporation (PTPTN), the Government plans to introduce:

- a progressive loan repayment schedule with a salary deduction percentage ranging from 2% to 15% of the borrowers' monthly income depending on their income level. This repayment schedule will only apply to those with at least RM1,000 in monthly income;

- tax deduction for companies that help settle the remaining loans of their employees for the year ending 2019;
- individual tax relief for the National Education Savings Scheme (SSPN) will be increased from RM6,000 to RM8,000;
- students from B40 households who have successfully obtained first class honours in their studies will enjoy a discount on their loans; and
- writing off the debt of those who are 60 years old and above with a monthly income of less than RM4,000, benefiting up to 350 debtors and costing RM4.2 million.

127. **TWELFTH:** To instil good moral values and a strong sense of patriotism amongst our youth, a new program, Malaysia Future Leaders School (MFLS) will be introduced for youths ages 15 to 30 years old involving 70,000 participants in 2019 with an allocation of RM70 million.

128. **THIRTEENTH:** The Government congratulates all medal winners at the Asian and Asian Paralympic Games who have brought glory to Malaysia. The Government will allocate RM100 million to prepare our athletes for the Tokyo Olympics 2020 in hopes of bringing back our first gold medal.

129. **FOURTEENTH:** The Government will also allocate RM10 million for eSports to the Malaysia Digital Economy Corporation (MDEC), recognising that this is an activity and industry which is increasingly popular among the younger generation, involving software engineers and gaming developers.

Upholding Islam

130. As the religion of the Federation, Islam enjoys a special position in the Constitution. The allocation for Islamic affairs for both development and operating expenditures has been increased from RM1.1 billion in 2018 to RM1.2 billion in 2019. As such, to ensure the activities related to Islamic affairs is not

impacted due to the challenging economic situation, an additional RM150 million has been made available to carry out programmes such as building mosques and surau across the country, enhancing the “Khaira Ummah” initiative to train more professionals among the huffaz and religious learning modules using *braille*.

THIRD FOCUS: TO FOSTER AN ENTREPRENEURIAL STATE

Mr Speaker Sir,

131. We need to create an ecosystem that enables Malaysians to fulfil their potential. Sustainable and dynamic economic growth can be promoted through an entrepreneurial state and by embracing the new economy and digital economy.

132. The entrepreneurial state model adopts a 4P partnership involving the Public Sector, Private Sector, Professionals and the People to develop and implement projects. There will be co-financing by the four principal parties, however the projects will be managed by the private sector or professionals and held accountable to both the Government and the people.

Strategy 9: Unleashing the Power of the New Economy

Mr Speaker Sir,

Embracing the Digital Economy

133. To support new technology developments and ensure sufficient funding for entrepreneurs via conventional and alternative financing sources, the Government proposes the following initiatives:

134. **FIRST:** The many venture capital funds managed by Government agencies such as the Malaysia Technology Development Corporation, Malaysia Debt Ventures Bhd, Malaysia Venture Capital Management Bhd, Kumpulan Modal Perdana Sdn Bhd and Cradle Fund Sdn Bhd, will be streamlined. To ensure that the funds are accessible to those who are most

likely to succeed, the disbursement of funding will be tied to the companies ability to secure matching funds from the private sector.

135. **SECOND:** Government-Linked Investment Funds will similarly allocate RM2 billion in matching grant to co-invest in the private equity and venture capital funds. This Fund will focus on strategic sectors and new growth areas for Malaysia.

136. **THIRD:** The Government will allocate RM50 million to set up a Co-Investment Fund (CIF) to invest alongside private investors via new alternative financing platforms involving Equity Crowdfunding and Peer-to-Peer Lending.

137. The Securities Commission has approved the regulatory framework for these platforms. To date, almost RM170 million has been raised through these crowdfunding platforms, benefitting 450 companies across a broad cross-section of sectors, through these platforms. Almost 10,000 individual investors have invested through these alternative financing platforms, where 45% of the investors are youths below the age of 35.

138. **FOURTH:** The Capital Markets and Services (Prescription of Securities) Order will be gazetted in early 2019 to set up a new regulatory framework to approve and monitor Digital Coin and Token Exchanges.

139. **FIFTH:** To promote Malaysia as a global leader of the bond and sukuk markets, the Government will:

- extend the double tax deduction for additional expenditure incurred when issuing sukuk under the principles of *Ijarah* and *Wakalah*, as well as for additional expenditure incurred by the companies issuing retail bonds or sukuk, for 2 years of assessment beginning 2019; and
- set up a Special Committee on Islamic Finance led by the Ministry of Finance with members from Bank Negara Malaysia and Securities Commission.

140. **SIXTH:** To promote a world-class film production industry in Malaysia, The Government will continue the Film In Malaysia Incentive (FIMI) with an allocation of RM30 million. Moreover, Khazanah Nasional Berhad (Khazanah) will provide an allocation of RM100 million for FIMI specifically for film productions at the Pinewood studio in Iskandar Johor.

141. **SEVENTH:** To support the growth of the digital economy, the Government will implement the National Fibrerisation and Connectivity Plan in 2019, starting with an allocation of RM1 billion. The plan will develop our broadband infrastructure to ensure more efficient spectrum allocation to achieve the targeted 30 Mbps speed at rural and remote areas in the country within 5 years as part of the overall plan to achieve world class infrastructure at affordable prices. The Government has enforced the Mandatory Standards for Access Pricing (MSAP) which is expected to result in fixed broadband prices being reduced by at least 25% by the end of 2018.

Accelerating the Adoption of Industry 4.0

Mr Speaker Sir,

142. The recent Industry 4.0 blueprint, titled “Industry4WRD” aims to make Malaysia the prime destination for high-tech industries. The Government will initiate the following measures to support Industry4WRD as follows:

143. **FIRST:** The Government will allocate RM210 million from 2019 to 2021 to support the transition and migration to Industry 4.0. The Malaysia Productivity Corporation will carry out Readiness Assessments to assist up to 500 Small Medium Enterprises (SMEs) to migrate to Industry 4.0 technologies.

144. **SECOND:** The Knowledge Resource for Science and Technology Excellence (KRSTE.my) will be established to enable greater sharing of Research and Development (R&D) resources between public and private sector. In 2019, the Government will make available 250 facilities and 1,200 scientific equipment and research data for the private sector to access and share.

In addition, the Government will start a Researcher-Mapping program to place at least 100 public sector researchers with the private sector, with the cost borne by the Government.

145. **THIRD:** To incentivise SMEs to invest in automation and modernisation which forms part of the Industry 4.0, RM2 billion will be provided under the Skim Jaminan Pembiayaan Perniagaan (SJPP) loan guarantee program where the Government will provide a guarantee of up to 70% of the amount financed.

146. **FOURTH:** The Government will establish a RM3 billion Industry Digitalisation Transformation Fund under BPMB offering an interest subsidy of 2%. The purpose of this fund is to accelerate industry adoption of Industry 4.0 related technologies including robotics and artificial intelligence.

147. **FIFTH:** MIDA will continue to provide matching grants through the High Impact Fund (HIF) with a specific emphasis on promoting Industry 4.0 initiatives. This includes activities such as Research & Development, adoption of international certification and standards, modernisation and upgrading of facilities and tools with the latest technology.

148. **SIXTH:** Khazanah will lead and develop an 80-acre development in Subang as a world class aerospace industry hub. Khazanah will also work with all relevant agencies, especially MARA to produce high-skilled workers to meet industry demands.

149. In addition to the above measures, the Government proposes the following double tax deduction to improve employability of graduates and the Industry 4.0 related skill competencies of required by the workforce:

- for scholarships and bursaries provided by companies to students enrolled for technical and vocational training, diploma and degree courses in engineering and technology;
- for expenses incurred by companies related to participation in the National Dual Training Scheme for Industry 4.0 approved by the Ministry of Human Resources; and

- for expenses incurred in carrying out structured training and internship programmes for students in the fields of engineering and technology, which are approved by the Ministry of Human Resources.

Strategy 10: Seizing Opportunities in the Face of Global Challenges

Mr Speaker Sir,

150. Malaysia will undoubtedly be affected by the US-China trade war given that both these countries are among our top 3 trading partners. However, the trade conflict between China and the US also creates a unique opportunity for Malaysia to position itself as a safe haven for manufacturing investors.

151. Therefore, it is not surprising that Malaysia continues to strongly attract Foreign Direct Investment (FDI). From January to August 2018, Malaysia recorded a total of RM61.6 billion in investment approvals, up from RM40.4 billion during the same period in 2017.

152. The manufacturing sector continues to contribute the largest share of investment approvals at RM49.8 billion, or approximately 81% of total investments. The 411 projects approved have the potential to create more than 34,000 jobs nationwide. This demonstrates that investor confidence in Malaysia has not wavered after the 14th general election.

153. In the World Bank's Doing Business Report 2019 published this week, Malaysia's ranking jumped from 24th to 15th in the world. To further enhance Malaysia's competitiveness and ease of doing business, the Ministry of Finance (MoF) and the Ministry of International Trade and Industry (MITI) will form a task force jointly chaired by both Ministers to drive regulatory reform, particularly in the areas of improving trade processes and tax administration. This will send a signal to the world that Malaysia is investor friendly and that we are open for business.

154. To increase investments of companies already participating in the Principal Hub, the Government proposes to enhance the existing incentives by providing a concessionary income tax rate of 10% on the overall statutory income related to Principal Hub activities for a period of 5 years.

Strengthening Small Medium Enterprises (SME)

Mr Speaker Sir,

155. SMEs constitute 98.5% of businesses in the country and is the primary engine of economic growth for the nation. Therefore, to ensure that SMEs continue to thrive, especially in the principal industries, The Government will implement the following measures:

156. **FIRST:** A RM4.5 billion SME fund will be made available via commercial financial institutions with a 70% guarantee from SJPP, including RM1 billion for Bumiputera SMEs;

157. **SECOND:** For SMEs with taxable income up to RM500,000 and paid-up capital of up to RM2.5 million, the corporate income tax rate will be reduced from 18% to 17%

158. **THIRD:** The Government will encourage exports through financing by the Export-Import Bank of Malaysia Berhad (EXIM) Bank by making available RM2 billion worth of credit and takaful facilities to SME exporters.

159. **FOURTH:** The Government will be allocating RM100 million to upgrade the capability of the SMEs in the halal industry through various programs in order to increase exports and to make Malaysia a global halal hub by 2020.

160. **FIFTH:** There will also be a RM1 billion SME Syariah Compliant Financing Scheme made available via Islamic financial institutions to finance exporters of halal products, where the Government will provide a profit rate subsidy of 2%.

161. **SIXTH:** Perbadanan Usahawan Nasional Berhad will also make available RM200 million for the wholesale and retail industry, as well as for the purchase of business premises to be rented to Bumiputera SMEs. In addition, RM100 million is allocated to TEKUN to finance small enterprises.

162. **SEVENTH:** The Government will allocate RM20 million to initiate a 'Buy Malaysian First' campaign to support local products and services. The campaign will be focused at grassroots level to

provide a platform for local producers, manufacturers and service providers to market their products and services at hypermarkets, shopping centres and trade fairs. To take the lead, the Ministry of Finance will ensure Malaysian products and services, such as medical devices which have been recognised internationally will be provided access to Government procurement.

163. To ensure Malaysian companies continue to move up value chain, the Government is committed to reduce our dependency on low-skilled foreign labour. Therefore, The Government will implement a new tiered levy system where the levies charged will be higher for employers with a higher proportion of foreign workers.

164. The shortage of workers in the agriculture and plantation industries and the decline in prices of agricultural commodities have affected output in these sectors. The Government will assist these two sectors by reducing the extension levy for foreign workers who have served for 10 years or more, from RM10,000 to RM3,500 per worker per annum.

Facilitating the Logistics and Transportation Sector

Mr Speaker Sir,

165. The logistics and transportation sector plays an important role in national development, particularly given both exports and manufacturing are key pillars of the economy. The Government will allocate RM2.46 billion for upgrading and restoration works for railway tracks to upgrade the country's transport infrastructure.

166. The Government is committed to drive the development and growth of the Kota Perdana Special Border Economic Zone in Bukit Kayu Hitam, Kedah as a strategic gateway for two way trade between Malaysia and Thailand. As an initial phase of the project, RM25 million will be allocated to develop a truck depot.

167. The Government plans to convert 380 acres of land in Pulau Indah into a Free Trade Zone to support and catalyse increased shipping and logistics activities in Port Klang. The new FTZ will serve as a natural extension to the Port Klang Free Zone. The land will be developed through a joint venture or solely by the private sector.

Value-adding the Commodities Sector

Mr Speaker Sir,

168. Palm oil and rubber are the two export-oriented commodities which contribute significantly to our economy. The sector also provides a key source of income for our smallholders. In order to raise the demand for palm oil and increase the sustainability of our energy resources, the Government will implement the Biodiesel B10 program (comprising a mix of 10% palm oil) for the transportation sector and B7 for the industrial sector in 2019. In addition, to raise the sustainability and export competitiveness of our palm oil industry, the Government will allocate RM30 million to assist smallholders to obtain the Malaysian Sustainable Palm Oil (MSPO) certification.

169. For the rubber industry, the Government is committed to increase the utilisation of local rubber as a new raw material for various industrial products. As an example, the Government will increase the use of local rubber as a composite material for the construction of roads in Malaysia to increase durability while at the same time reducing maintenance cost. The Government targets the use of Cuplump Modified Bitumen (CMB) to build roads, including at ports and industrial areas in stages. The Government will allocate RM100 million for this purpose.

170. In addition, the Government will continue to provide the Rubber Production Incentive (IPG), with an allocation of RM50 million to mitigate the impact of low rubber prices to smallholders. The smallholders would receive supplemental income when rubber prices fall below RM2.20 per kilogram.

171. For the agricultural sector, the Government will allocate

- RM47 million for R&D to increase the productivity of our seeds, grains and fruits;
- RM18 million to promote automation of the agrofood industry; and

- RM52 million to implement entrepreneurship and training programs in agriculture, including to encourage the participation of youths in the agrofood industry.

Boosting the Tourism Industry

Mr Speaker Sir,

172. The tourism industry is a key contributor to our services sector, constituting 14.9% of our GDP or RM201.4 billion in 2017. Given the importance of the tourism industry, especially as a source of foreign exchange income, the Government will pay close attention towards achieving the Ministry of Tourism, Arts and Culture's target of 30 million foreign tourists contributing RM100 billion to the economy by 2020.

173. To achieve these goals, the Government will allocate RM100 million on a matching grant basis to the private sector in relation to promotional and marketing campaigns to increase the number of tourists to the country.

174. The government will provide tax-free facilities to Penang's Swettenham Pier in the form of duty-free shops to cater for its booming cruise tourism. To realise the tourism potential of Pulau Pangkor, the Government is committed to Pulau Pangkor as a duty free island, subject to specific terms and conditions. The duty-free island status of Pulau Langkawi will also be expanded.

175. To support the efforts by the respective state governments in promoting tourism, the Government will allocate 50% of the proceeds from tourism tax as collected in the respective states. This measure is expected to translate to additional revenue to all states amounting to an estimated total of RM50 million.

176. The Government will also provide a 2% interest subsidy for RM500 million worth of loan facilities under the SME Tourism Fund managed by SME Bank. This will assist handicraft makers and homestay operators to expand their businesses.

177. Khazanah will lead the public-private partnership for the re-development and restoration of the Sultan Abdul Samad building in Kuala Lumpur into an arts, cultural and heritage hub. Such an urban regeneration project will be carried out involving the local heritage company, Think City Sdn Bhd with an international organisation accredited by United Nations Education, Scientific, and Cultural Organisation (UNESCO).

178. Medical tourism in Malaysia continues to gain global recognition. The Government will allocate RM20 million to the Malaysia Healthcare Tourism Council (MHTC) to generate 25% growth in 2019 to collaborate with reputable private hospitals to enable the branding of Malaysia as a destination of choice for medical tourism.

Strategy 11: Redefining the Role of Government in Business

Mr Speaker Sir,

179. The business of the Government is not to be in business. Clearly, government owned companies have been competing directly with private companies in non-strategic sectors. The outcome was the apparent crowding out of private sector investments where private companies are unable to grow and compete on a level playing field.

180. For an entrepreneurial economy to succeed, the private sector must lead. For a start, the Ministry of Finance will set up a Special Task Force to evaluate the role and functions of statutory bodies and companies owned by Ministry of Finance, Inc. to reduce duplication of functions and direct competition with the private sector. Going forward, the Government will focus its expenditure and investments only in strategic sectors and areas where free markets and the private sector are not interested or unable to meet the needs of the people and economy.

181. The private sector can provide expertise, service quality and delivery, while the Government can make available public sector capacity, resources and infrastructure to the private sector. As an example, public TVET training institutes can be operated by the private sector to ensure the relevance and quality of

courses conducted. The Government can also offer its existing under-utilised infrastructure as shared facilities for them. The concept of private sector operating public infrastructure can be done for Pusat Sains Negara and Planetarium as a means to reduce Government expenditure.

Strategy 12: Ensuring Equitable and Sustainable Economic Growth

Mr Speaker Sir,

182. Malaysia can certainly emerge a developed high-income nation by ensuring that economic growth is equitable, inclusive and sustainable for all regardless of race and religion.

Ensuring Balanced Development

Mr Speaker Sir,

183. As a responsible Government, due emphasis will be given to ensure balanced development throughout the country, especially in the rural areas. Therefore, the Government will continue to improve and upgrade basic infrastructure especially in rural areas with the following initiatives.

184. **FIRST:** To build and upgrade roads, rural roads, and bridges with an allocation of RM926 million.

185. **SECOND:** To broaden the electricity and water supply to rural areas with an allocation of RM694 million and RM738 million respectively.

186. **THIRD:** An allocation of RM85 million to New Villages towards upgrading and maintaining basic infrastructure such as roads, community halls and open spaces.

187. **FOURTH:** An allocation of RM100 million to support the Indian community, including TVET to improve the career advancement opportunities of the Indian youths.

188. **FIFTH:** An allocation of RM100 million to strengthen the development of orang asli communities through the construction and upgrading of infrastructure for the supply of water, relocation, education, welfare and economic development.

189. **SIXTH:** An allocation of RM20 million to residents' associations registered with the Registrar of Societies to carry out community, security, cleaning and community activities.

190. **SEVENTH:** For FELDA settlements, the Government will allocate RM100 million to upgrade roads, RM160 million to carry out water supply projects and RM35 million for building construction and upgrading works, as well as installation of street lights. This represents an overall increase of 51% compared to the previous year's allocation.

191. The Government will ensure continued development of Sabah and Sarawak. The Government has allocated RM5,009 million has been allocated to Sabah as compared to RM4,133 million in 2018. As for Sarawak, RM4,346 million has been allocated compared to RM4,336 million in 2018.

192. The Government will continue to implement the Pan Borneo Highway Project encompassing Sabah and Sarawak, subject to a cost rationalisation exercise. In addition, projects in Sabah and Sarawak will include the construction and upgrading of water supply, electricity supply, and infrastructure, health and education facilities as well as the development of the respective economic corridors.

Women in the Workforce

Mr Speaker Sir,

193. The participation rate of Malaysian women in the labour force is only 53.5% in 2017 compared to 77.7% for men. Of the number who are not working, 60% or 2.6 million women cited the burden of housework as the primary reason they are not part of the labour force.

194. According to a report recently published by Khazanah Research Institute, raising women's employment level by 30% would raise Malaysia's GDP between 7 to 12%. Hence, the Government will formulate policies to encourage women to participate in the workforce:

195. **FIRST:** An allocation of RM10 million will be provided to set up additional 50 childcare facilities in Government buildings to ease the burden of working mothers. The Government will continue to encourage and incentivise the private sector towards providing equal employment opportunities for women.

196. **SECOND:** The Government is committed towards increasing the participation of women in line with the 30% target at leadership and decision-making levels in companies and organisations. The Government has created history by electing the very first female Deputy Prime Minister in Malaysia, as well as female Ministers. Currently, 36% of the senior officers in the public sector are women.

197. **THIRD:** The Government will encourage higher women participation among the public listed companies as only 23.2% of the appointed Board of Directors are women today among the top 100 largest companies on Bursa Malaysia. We call upon the private sector to emulate the Government by ensuring the objective of 30% women participation in the Board of Directors is achieved by 2020.

Environment and Energy for the Future

Mr Speaker Sir,

198. The Government is committed to take all necessary measures to protect our environment, both as a responsibility and an endowment to our future generations. Seeing that the forest and marine reserves are under the purview of State Governments, the Federal Government will allocate RM60 million to State Governments marking efforts to protect and expand existing natural forest reserves and protected areas.

199. The Government will take steps to list the Forest Research Institute Malaysia (FRIM) Forest Park in Selangor, and Royal Belum Perak as UNESCO World Heritage Sites.

200. The Government will allocate RM5 million for micro-grants to implement community-led programmes in collaboration with the United Nations Development Program (UNDP), to manage and protect the environment towards fostering the economic development of Orang Asli and Orang Asal communities.

201. To attract environmentally-friendly investments and to reduce the pollution of plastic waste, the Government proposes to provide Pioneer Status incentive of 70% or investment tax allowance of 60% for 5 years to companies which produces environmentally-friendly plastics based on bio-resin and biopolymer materials.

202. To incentivise investments in green technology, a RM2 billion Green Technology Financing Scheme (GTFS) will be made available where the Government will subsidise the interest cost by 2% for the first 5 years.

203. Bank Pembangunan Malaysia Berhad will also provide a Sustainable Development Financing Fund of RM1 billion to support Agenda 2030 for Sustainable Development as well as the 17 Sustainable Development Goals (SDG) under the United Nations Development Programme. To this end, The Government will provide an interest subsidy of 2% as an incentive.

204. Additionally, to promote the use of green technology, the Government will expand the list of green assets which qualifies for the Green Technology Investment Allowance (GITA) from 9 assets to 40 assets which will be listed in the MyHijau directory.

CONCLUSION

Mr Speaker Sir,

205. Budget 2019 will allocate a total of RM314.5 billion in expenditure as compared to an estimated RM290.4 billion in 2018. From the total, RM259.8 billion is for Operating Expenditure while RM54.7 billion is provided for Development Expenditure. This does not take into consideration the Contingency Fund of RM2 billion.

206. For Development Expenditure, the Economic Sector received the highest allocation of RM29.2 billion encompassing transport, trade, industry, energy and public utilities and agriculture. The Social Sector will receive RM15.2 billion. The Security Sector will receive an allocation of RM7.1 billion, and General Administration, RM3.2 billion.

207. The Development Expenditure has increased from RM44.9 billion in 2017 to a projected RM54.9 billion and RM54.7 billion in 2018 and 2019 respectively. The key reason is due to a reclassification of what was previously classified as Operating Expenditure to Development Expenditure amounting to RM6.9 billion and RM9.7 billion in 2018 and 2019 respectively.

208. Examples of reclassified items are payments to Prasarana for LRT construction and to Suria Strategic Energy Resources for the gas pipeline projects. Previously, the expenditures were treated as transfers under Operating Expenditure when they were actually Development Expenditures in nature. Other similar expenditures were lease or maintenance payments for the construction of PDRM buildings and refurbishment of schools.

209. To ensure that the Government is able to meet the objectives expressed in the Mid-Term Review by the Prime Minister as well as this Budget, we will need to have an effective and efficient public sector. Policymaking and implementation must be efficient and effective. It is only then we engender confidence amongst investors and the rakyat in our institutions.

210. The Government will increase the practise of Alternative Service Delivery to reduce the role of the Government in providing non-core services. This will be pioneered in the welfare sector through partnerships with NGOs. For example, children from orphanages will be transferred to family-based care facilitated by NGOs.

211. The Government is allocating RM286.8 million to the Malaysian Anti-Corruption Commission (MACC) for its Operating Expenses, an 18.5% increase from RM242.1 million allocated last year. The labour resources will be increased by 100 personnel in 2019 to ensure that the MACC has all the necessary resources and manpower to combat corruption in both the private and public sector, and follow the money trail to recover stolen funds.

Mr Speaker Sir,

212. The Government records its appreciation to the Malaysian Armed Forces, Royal Malaysian Police, Fire Rescue Department and Royal Malaysian Customs Department for ensuring the

security, peace and safety of the country. In appreciation of the efforts and dedication of all civil servants, the Government would like to announce a bonus of RM500 for grades 54 civil servants and below. For government pensioners, a bonus of RM250 will be paid. These bonus payments will cost the Government RM1 billion. Unlike the previous government, who usually made bonus payments in the next year, these bonus payments will be made by the end of December 2018.

213. The Government wishes to thank the donors who have contributed to Tabung Harapan Malaysia which has amounted to RM196.5 million this week. The fund represents a symbol of loyalty and patriotism of the Malaysian people to assist the Federal Government to pay off the country's debts inherited from the previous Government. The Tabung Harapan Amanah Account will be closed on 31 December 2018.

214. There is no doubt that the new Malaysia under the dynamic and forward-looking leadership of YAB Prime Minister (Langkawi) has been the inspiration of the rakyat and the world. There is now a renewed confidence in Malaysia that we will overcome our economic challenges and shape a new future.

215. The confidence in YAB Prime Minister (Langkawi) and in Malaysia cannot be better expressed than the offer by the Japanese Government to guarantee JPY200 billion of 10-year Samurai bonds, or approximately RM7.4 billion, via Japan Bank for International Cooperation at an indicative coupon of 0.65%. This Samurai Bond is expected to be issued before March 2019. The Government wishes to record our sincere appreciation to the Japanese Government for guaranteeing the samurai bond.

216. Despite facing fiscal challenges, our financial sector remains healthy and monetary sector continues to be stable. Sustainable economic growth must be maintained to improve economic well-being, and the higher revenues generated will address our public finances.

217. In conclusion, the historic moment on 9 May 2018 will only matter if the government's fiscal health can be restored and the people are better off economically in the form of higher wages, better jobs and more money to spend.

218. As long as we are clean, people-centric and focused on carrying out institutional reforms, we can restore Malaysia back to its fiscal health in three years. Our love for our country should unite us in facing our challenges. In the words of YAB Prime Minister "Malaysia is akin to an Asian Tiger that has been in a state of somnolence and has now woken up, and is roaring again".

219. Despite our differences, Malaysians are special in that we continue to work together and trust each other without taking into account the differences in culture, religion or background. The choice made by the people has been proven correct yet again yesterday after two former Goldman Sachs bankers, Tim Leissner and Roger Ng, were arrested and charged by the US Justice Department.

220. These are the unscrupulous bankers who engineered the US\$6.5 billion or RM26 billion 1MDB bonds, by colluding with thieves in Malaysia to steal from the people of Malaysia. Better news yet, Jho Low, the architect of the fraudulent scams, has been indicted in absentia in the United States of America.

221. To the crooks who have stolen our money, you should not only return the money back but you must also be prepared to face justice. To those who still support these crooks, you should apologise and resign from public office.

222. Malaysia is clean and we are proud that Malaysia is clean again. For those who have strayed from the path, return to the straight path. *Amar makruf nahi mungkar* (Enjoin what is right and forbid what is reprehensible). Let us forge ahead, full of hope towards "A Resurgent Malaysia, A Dynamic Economy, and A Prosperous Society."

Mr. Speaker Sir,

I beg to propose.

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REVIEW OF CORPORATE INCOME TAX RATE FOR SMALL AND MEDIUM ENTERPRISES (SME)

Current Position

A company with paid-up capital of up to RM2.5 million or a Limited Liability Partnership (LLP) with total contribution of capital of up to RM2.5 million are categorised as SME and subjected to income tax rate of 18% on chargeable income up to RM500,000. The remaining chargeable income is subject to income tax rate of 24%.

Proposal

To enhance competitiveness of SME and boost economic growth, it is proposed that the tax rate on chargeable income of up to RM500,000 be reduced by 1 percentage point from 18% to 17%, whilst the tax rate for the remaining chargeable income is at 24%.

Effective Date

From year of assessment 2019.

**REVIEW OF INCOME TAX TREATMENT ON
PROVISION OF GROUP RELIEF**

Current Position

Group relief is an income tax treatment which allows the current year adjusted loss of a company, surrendered to a related company within the same group to be set-off against the claimant company's income after 12 months of surrendering company commences operation. Currently, the adjusted loss may be surrendered indefinitely.

Companies that are enjoying Investment Tax Allowance (ITA) or Pioneer Status (PS) incentives are not eligible for the group relief tax treatment. However, the companies are still eligible to enjoy the group relief if the ITA or PS incentives have expired and still have unutilised investment allowance or unabsorbed pioneer losses.

Proposal

To strengthen the implementation of group relief tax treatment and to minimise the revenue implication to the Government, it is proposed that:

- i. the surrendering of losses is to be allowed only after the 12th month period of surrendering company has commenced its operation and limited up to 3 consecutive years of assessment; and
- ii. the claimant company which has unutilised ITA or unabsorbed pioneer losses upon the expiry of its ITA or PS incentives, will not be eligible to claim the group relief.

Effective Date

From year of assessment 2019.

**REVIEW OF TAX TREATMENT ON UNABSORBED LOSSES AND
UNUTILISED CAPITAL ALLOWANCE**

Current Position

The unabsorbed business losses in the current year of assessment can be carried forward indefinitely until it is fully absorbed.

The unutilised capital allowances in a current year of assessment can be carried forward to be deducted from the adjusted income of the subsequent years of assessment indefinitely until it is fully utilised.

Proposal

To strengthen the tax treatment on unabsorbed losses and unutilised capital allowances, as well as to minimise the revenue loss to the Government, it is proposed that:

- i. the unabsorbed losses in a year of assessment be allowed to be carried forward for a maximum period of 7 consecutive years of assessment; and
- ii. the unutilised capital allowances in a year of assessment be allowed to be carried forward for a maximum period of 7 consecutive years of assessment.

Effective Date

From year of assessment 2019.

**REVIEW OF TAX TREATMENT ON UNUTILISED
REINVESTMENT ALLOWANCE AND
INVESTMENT ALLOWANCE FOR SERVICE SECTOR**

Current Position

The Reinvestment Allowance (RA) under the Schedule 7A of the Income Tax Act (ITA) 1967 is eligible to be claimed by manufacturing companies and companies undertaking selected agricultural activities for the purpose of expansion, modernisation or diversification. The RA is eligible to be claimed for a period of 15 consecutive years of assessment commencing from the year of assessment the company makes the first claim provided that the company has been in operation for a period of at least 36 months. The RA rate is at 60% of the qualifying capital expenditure and to be set-off against:

- i. 70% of statutory income; or
- ii 100% of statutory income, provided that in that relevant year of assessment the company achieves the level of productivity as prescribed by the Minister of Finance.

The Special RA has also been introduced to further promote reinvestment by existing companies which their qualifying period of the RA have expired. This Special RA is made available to companies that incur qualifying capital expenditure from year of assessment 2016 to the year of assessment 2018.

The Investment Allowance for Services Sector (IASS) as stipulated under the Schedule 7B of ITA 1967 was introduced specifically to intensify investments under the approved services projects scheme for communications, transportation and utilities sectors.

The unutilised allowances under Schedule 7A and 7B of ITA 1967 in the current year of assessment can be carried forward indefinitely.

Proposal

In strengthening tax treatment under Schedule 7A and 7B of ITA 1967, it is proposed that the unutilised RA or IASS is only allowed to be carried forward for a maximum period of 7 consecutive year of assessments upon expiry of qualifying period of RA and IASS.

Effective Date

From year of assessment 2019.

**REVIEW ON TAX TREATMENT OF UNABSORBED PIONEER
LOSSES AND INVESTMENT TAX ALLOWANCE UNDER THE
PROMOTION OF INVESTMENTS ACT 1986**

Current Position

The Promotion of Investment Act 1986 does not limit the period for claiming the unabsorbed pioneer losses and Investment Tax Allowance (ITA). Thus, those pioneer losses and allowances are allowed to be carried forward and fully absorbed after the pioneer period or after the period of ITA has ended. For businesses which do not generate sufficient statutory income, a longer period will be taken to be able to make full claim of the incentives, which will result in loss of revenue to the Government.

Proposal

To strengthen the current tax treatment, it is proposed that:

- i. unabsorbed pioneer losses after the end of pioneer period be allowed to be carried forward up to a maximum of 7 consecutive years of assessment; and

- ii. unabsorbed allowances after the end of ITA period be allowed to be carried forward up to a maximum of 7 consecutive years of assessment.

Effective date

From year of assessment 2019.

**REVIEW OF INCOME TAX RELIEF ON CONTRIBUTIONS TO AN
APPROVED PROVIDENT FUND OR TAKAFUL OR
LIFE INSURANCE PREMIUMS**

Current Position

Currently, an individual income taxpayer is eligible to claim income tax relief on contributions made to approved provident funds such as the Employees Provident Fund (EPF) and payment for life insurance premiums or takaful contributions up to RM6,000 per year of assessment.

Proposal

To further encourage savings for old age, it is proposed that the income tax relief on contributions to approved provident funds or takaful or payment for life insurance premiums be increased to RM7,000 and separated as follows:

- i. income tax relief on contributions to approved provident funds up to RM4,000; and
- ii. income tax relief on takaful contributions or payment for life insurance premiums up to RM3,000.

For public servants under the pension scheme, the income tax relief on takaful contributions or payment for life insurance premiums is given up to RM7,000

Effective Date

From year of assessment 2019.

**INDIVIDUAL INCOME TAX RELIEF ON NETT ANNUAL SAVINGS
IN THE NATIONAL EDUCATION SAVINGS SCHEME**

Current Position

Individual income tax relief of up to RM6,000 on nett annual savings in the National Education Savings Scheme (SSPN) is eligible to be claimed annually by tax payers effective from year of assessment 2012 until year of assessment 2020.

Proposal

To further encourage parents to save for the purpose of financing tertiary education of their children, it is proposed that the individual income tax relief on nett annual savings in the SSPN be increased from RM6,000 to RM8,000.

Effective Date

From the year of assessment 2019 to year of assessment 2020.

REVIEW OF REAL PROPERTY GAINS TAX RATE

Current Position

Real Property Gains Tax (RPGT) is a tax imposed on gains from the disposal of all types of real properties such as residential homes, commercial buildings and land, as well as shares in the real property company.

Current RPGT rates are between 0% to 30% depending on the holding period of the property. The holding period refers to the period between the date of acquisition of the property and the date of disposal of such property. The date of acquisition as well as disposal of the property refers to the date recorded on the stamped sales and purchase agreement or stamped Form KTN14A or stamped memorandum of transfer.

Disposal	Current RPGT Rates		
	Company	Other Than Company and Other Than Non-Citizen and Non-Permanent Resident Individual	Non-Citizen and Non-Permanent Resident Individual
Within 3 years	30%	30%	30%
In the 4th year	20%	20%	30%
In the 5th year	15%	15%	30%
In the 6th and subsequent years	5%	0%	5%

Proposal

In order to ensure a more robust tax rate, it is proposed that the RPGT for the gains from the disposal of real properties and shares in the real property company in the 6th and subsequent years of disposal, be revised as follows:

- i. for company, the RPGT rate to be increased from 5% to 10%;
- ii. for other than company and other than non-citizen and non-permanent resident individual, the RPGT rate to be increased from 0% to 5%; and
- iii. for non-citizen and non-permanent resident individual, the RPGT rate to be increased from 5% to 10%.

RPGT exemption is given to Malaysian citizens for the disposal of low cost, medium low and affordable residential homes at the price of RM200,000 and below in the sixth and subsequent years.

Effective Date

From 1 January 2019.

**PROPOSAL ON RESTRUCTURING OF STAMP DUTY RATES
FOR THE TRANSFER OF REAL PROPERTY**

Current Position

The stamp duty rates imposed on instrument for the transfer of real property are as follows:

Price / Market Value of Real Property Bands (whichever is higher)	Rates of Stamp Duty
First RM100,000	1%
RM100,001 to RM500,000	2%
RM500,001 and above	3%

The imposition of stamp duty is based on the consideration price of the real property or the current market value of the real property as ascertained by the Valuation and Property Services Department (JPPH), whichever is higher.

Proposal

To make the stamp duty rates more progressive, it is proposed the band of RM500,001 and above be restructured by introducing new bands of RM500,001 to RM1,000,000 and RM1,000,001 and above. The stamp duty rates for both new bands are as follows:

Price/Market Value of Real Property Bands (whichever is higher)	Rates of Stamp Duty
First RM100,000	1%
RM100,001 to RM500,000	2%
RM500,001 to RM1,000,000	3%
RM1,000,001 and above	4%

Effective Date

From 1 January 2019.

**EXTENSION OF TAX INCENTIVE FOR ISSUANCE OF
SUKUK IJARAH AND WAKALAH**

Current Position

Expenses incurred in issuing sukuk under the principles of *Ijarah* and *Wakalah* is eligible for deduction for the purpose of income tax. A further deduction is also eligible to be claimed on additional costs incurred on the issuance of such sukuk as follows:

- i. professional fees relating to due diligence, drafting and preparation of prospectus;
- ii. printing costs of prospectus;
- iii. advertisement cost of prospectus;
- iv. Securities Commission prospectus registration fee;
- v. Bursa Malaysia processing fee and initial listing fee;
- vi. Bursa Malaysia new issue crediting fee; and
- vii. primary distribution fee.

Proposal

To further promote the issuance of sukuk under the principles of *Ijarah* and *Wakalah*, it is proposed that the existing tax incentives be extended for another 2 years as follows:

- i. tax deduction for issuance cost of sukuk under the principles of *Ijarah* and *Wakalah*; and
- ii. further deduction on additional issuance costs of sukuk under the principles of *Ijarah* and *Wakalah*.

Effective Date

From year of assessment 2019 until year of assessment 2020.

**EXTENSION OF TAX INCENTIVE FOR ISSUANCE OF
RETAIL BOND AND RETAIL SUKUK**

Current Position

The issuance of retail bonds and retail sukuk incurs additional costs as compared to the issuance of non-retail bonds and non-retail sukuk. The additional costs are as follows:

- i. professional fees relating to due diligence, drafting and preparation of prospectus;
- ii. printing costs of prospectus;
- iii. advertisement costs of prospectus;
- iv. Securities Commission prospectus registration fees;
- v. Bursa Malaysia processing fees and initial listing fees;
- vi. Bursa Malaysia new issue crediting fees; and
- vii. primary distribution fees.

The above additional costs are eligible for tax incentives as follows:

- i. double deduction on additional issuance costs of retail bonds; and
- ii. double deduction on additional issuance costs of retail sukuk under the principles of *Mudharabah*, *Musarakah*, *Istisna'*, *Murabahah* and *Bai' Bithaman Ajil* based on *Tawarruq*.

Proposal

To further encourage investment in capital market, it is proposed that tax incentives period for retail bonds and retail sukuk be extended for 2 years.

Effective Date

From year of assessment 2019 until year of assessment 2020.

**STAMP DUTY EXEMPTION FOR PERLINDUNGAN
TENANG PRODUCTS**

Current Position

Insurance policy and takaful certificates are subjected to stamp duty of RM10 for each policy or certificate. The stamp duty is exempted for policies with sum insured not exceeding RM5,000.

Perlindungan Tenang products which are affordable and accessible with simple claiming process were launched in December 2017. These products are aimed to enable Malaysians especially from the lower income group to have insurance protection which includes life insurance, fire and flood with low premium.

Proposal

To encourage more lower income group to get insurance protection under the Perlindungan Tenang products, it is proposed that stamp duty exemption be given on the insurance policy and takaful certificate with yearly premium/contribution not exceeding RM100. The exemption is given for a period of 2 years.

Effective Date

For policies/certificates issued from 1 January 2019 until 31 December 2020.

**STAMP DUTY EXEMPTION FOR THE PURCHASE
OF FIRST RESIDENTIAL HOME**

Current Position

To encourage the purchase of a residential home, the Government has granted 100% stamp duty exemption on instrument of transfer and loan agreement for the purchase of first home priced not exceeding RM300,000 by Malaysian citizens.

For the purchase of first home priced exceeding RM300,000 up to RM500,000, stamp duty on instrument of transfer and loan agreement are fully exempted but limited to the first RM300,000 of the value of the property. The remaining balance of the home value is subjected to the prevailing rate of stamp duty.

This exemption is effective for the sales and purchase agreement executed from 1 January 2017 to 31 December 2018. Only Malaysian citizens who have yet to own a home are eligible for this stamp duty exemption.

At present, no stamp duty exemption is granted for the purchase of a residential home priced above RM500,000.

Proposal

To further encourage Malaysians to purchase the first home and to increase the purchase of unsold residential units from developers and to boost the residential property market, it is proposed that the stamp duty exemption be given as follows:

- A. 100% stamp duty exemption on the instrument of transfer and the loan agreement for purchase of a first residential home priced up to RM300,000;
- B. 100% stamp duty exemption is limited to the instrument of transfer for the purchase of a first residential home priced between RM300,001 and RM1 million from any housing developer for a period of 6 months; and

- C. Stamp duty exemption on the instrument of transfer and the loan agreement for purchase of a first residential home priced between RM300,001 and RM500,000. The stamp duty is 100% exempted but limited to the first RM300,000 of the price of the home. The remaining balance of the price of the home is subject to the prevailing rate of stamp duty.

Effective Date

- A. For sales and purchase agreement executed from 1 January 2019 to 31 December 2020.
- B. For sales and purchase agreement executed from 1 January 2019 to 30 June 2019.
- C. For sales and purchase agreement executed from 1 July 2019 to 31 December 2020.

**REVIEW ON TAX TREATMENT FOR LABUAN INTERNATIONAL
BUSINESS FINANCIAL CENTRE (IBFC) WITH THE
INTERNATIONALLY AGREED TAX STANDARD**

Current Position

Trading activities carried out by entity registered or licensed under Labuan laws will be given an election to be taxed at 3% tax rate or RM20,000 under the Labuan Business Activities Tax Act (LBATA) 1990, subject to the following conditions:

- i. transactions in currencies other than Ringgit Malaysia; and
- ii. transactions are restricted to be carried out between:
 - a. Labuan entity and non-resident; or
 - b. Labuan entity and other Labuan entity.

Proposal

In line with the initiatives to further promote long term competitiveness of Labuan as an international financial hub, as well as ensuring compliance to the internationally agreed taxation standards, it is proposed that the Labuan IBFC tax treatment be restructured as follows:

- A. **The current treatment and conditions as follows be abolished:**
 - i. election for income tax at the fixed rate of RM20,000 under LBATA 1990;
 - ii. restriction on transactions conducted in Ringgit Malaysia; and
 - iii. restriction on transactions between Labuan Entity and resident of Malaysia.

B. Imposition of new conditions:

- i. Labuan IBFC activity carrying out in Labuan is subjected to substantive condition as determined by a committee;
- ii. income from intellectual property assets held by Labuan entity is subjected to the prevailing income tax rate under the Income Tax Act 1967; and
- iii. resident who transacts with Labuan entity is entitled for tax deduction on expenditure incurred, limited to 3% of the allowable expenditure.

Effective Date

From 1 January 2019.

TAX INCENTIVES FOR INDUSTRY4WRD

Current position

The Government has introduced the Industry4WRD Policy as a national policy for the period between 2018 and 2025, consisting of 3 visions for the manufacturing sector and the manufacturing-related services sector which is targeted for Malaysia to become:

- i. strategic partners for smart manufacturing and manufacturing-related services in Asia Pacific;
- ii. the preferred destination for high-tech industry investment; and
- iii. the total solution provider for advanced technology.

The Industry4WRD Policy is formulated based on 3 key principles, namely to attract stakeholders towards the application of Industry4.0 (I4.0) technology, creating a comprehensive ecosystem for I4.0 application process by the industry and transforming the manufacturing sector holistically.

Proposal

In order to achieve the Industry4WRD Policy aspirations and goals, it is proposed that the following tax incentive be given:

A. Income Tax Incentive for the I4.0 Readiness Assessment (I4.0-RA)

To spur the implementation of I4.0, a comprehensive assessment process will be undertaken to assess the readiness of the company and its current capability as well as its potential to shift to I4.0 technology. In assisting the company to undertake this assessment process, it is proposed that a tax deduction is eligible to be claimed on the readiness assessment expenses of I4.0-RA. The eligible deduction is on such expenses of up to RM27,000 paid to the Malaysian Productivity Corporation.

B. Income Tax Incentive for Industry4WRD Vendor Development Program

Anchor company that develop local vendors in I4.0 is eligible to claim double deduction on expenses incurred in implementing the Industry4WRD Vendor Development Program as follows:

- i. operating expenditure on costs of product development, upgrading capabilities of vendors and skill training of vendors, as verified by the Ministry of International Trade and Industries (MITI); and
- ii. the qualifying operating expenditure are capped up to RM1 million per year and eligible to be claimed for 3 consecutive years of assessment.

C. Income Tax Incentive for Human Capital Development

In enhancing skills of existing workforce and talent development to be in line with the I4.0 requirement, the following incentives are proposed:

- i. a double deduction on scholarships provided by companies to Malaysian students pursuing studies at technical and vocational levels, diplomas and degrees in the fields of engineering and technology. The eligibility criteria of students:
 - a. a Malaysian and resident in Malaysia;
 - b. receives full time course of study;
 - c. has no means on his own; and
 - d. whose parents or guardian have total monthly income not exceeding RM8,000 per month.
- ii a double deduction on expenses incurred by companies participating in the National Dual Training Scheme for the I4.0 program approved by the Ministry of Human Resources;

- iii. tax deduction on expenses for development of new I4.0 technology and engineering courses by the Private Higher Education Institutions. The new courses must be verified by Ministry of Education;
- iv. a double deduction on expenditure incurred by a company in upgrading and developing its employees technical skills in I4.0 technology for training programmes approved by the Malaysian Investment Development Authority (MIDA);
- v. a double deduction on expenditure incurred by a company in conducting internship programme approved by the Ministry of Human Resources for undergraduate students in fields of engineering and technology; and
- vi. tax deduction on equipment and machinery contributed by companies to Skills Development Centres, Polytechnics or Vocational Colleges certified by the Ministry of Human Resources or the Ministry of Education.

Effective Date

- A. From year of assessment 2019 to year of assessment 2021.
- B. For MOU signed between company and MITI from 1 January 2019 to 31 December 2021.
- C.
 - i. From year of assessment 2019 to year of assessment 2021;
 - ii. For programmes implemented from 1 January 2019 to 31 December 2019;
 - iii. From year of assessment 2019 to year of assessment 2021;
 - iv. For companies participating in the Readiness Assessment Intervention Plan from 1 January 2019 to 31 December 2019;

- v. From year of assessment 2019 to year of assessment 2021; and
- vi. For contributions made from 1 January 2019 to 31 December 2021.

**TAX INCENTIVE FOR EMPLOYERS TO EMPLOY SENIOR
CITIZENS AND EX-CONVICTS**

Current Position

The current income tax treatment allows remuneration paid by employers to be deducted for the purpose of computation of company's income tax.

Proposal

To encourage employers to employ senior citizens who are above 60 years old or ex-convicts as a full-time employee, it is proposed that a further deduction be given on the remuneration paid by employers to employees in these categories.

This treatment is for employment of employees in these categories whose monthly remuneration does not exceed RM4,000.

Effective Date

From year of assessment 2019 until year of assessment 2020.

**INCOME TAX DEDUCTION FOR EMPLOYERS ON PERBADANAN
TABUNG PENDIDIKAN TINGGI NASIONAL (PTPTN) LOAN
AMOUNT PAID BY EMPLOYERS ON BEHALF OF EMPLOYEES**

Current Position

Perbadanan Tabung Pendidikan Tinggi Nasional (PTPTN) has introduced various programs to encourage repayment of loans by offering discounts as follows:

- i. 20% of the outstanding debt for full settlement made by 31 December 2018;
- ii. 10% for repayment of at least 50% of the outstanding debt made in a single payment made by 31 December 2018; and
- iii. 10% for repayment through salary deductions or scheduled direct debit made by 31 December 2018.

In addition, there are various methods to facilitate repayment of loans by borrowers, including salary deductions, online payments and automatic deductions via bank accounts (auto-debit).

Proposal

As an effort to improve PTPTN's loans repayment performance, it is proposed that employers who have made payments of PTPTN loans on behalf of their full-time employees are eligible for tax deduction on the repayment amount, provided that employees are not subjected to make any payment to the employers in return for the payment of their PTPTN loans.

Effective Date

For payment made between 1 January 2019 and 31 December 2019.

**EXTENSION OF PERIOD FOR APPLICATION ON VENTURE
CAPITAL TAX INCENTIVE**

Current Position

From 2018, venture capital tax incentives are made available as follows:

i. Venture Capital Management Corporation (VCMC)

Income tax exemption on management fees, performance fees and income from profit sharing received on investment made by venture capital companies (VCC).

ii. Venture Capital Company

a. income tax exemption on statutory income from all sources of income except interest income from savings or fixed deposits and profits from Shariah-compliant deposits; and

b. exemption be given for a period of 5 years from the year of assessment 2018 until the year of assessment 2022 for investments made in the Venture Company (VC). The VCC must be registered with the SC. VCC needs to invest at least 50% of funds in the early stage, seed and start up and the remaining 50% is allowed for other levels of investment. VCC and VC are not related companies.

iii. Investment In VCC

Companies or individuals with business income investing into VCC funds created by VCMC are given tax deduction equivalent to the amount of investment made in VCC and limited to a maximum of RM20 million per year for each company or individual.

iv. Investment In VC

Companies or individuals with business income investing in VC are given tax deductions equivalent to the amount of investment made in VC at the adjusted income level.

The above incentives are given for application received by the Securities Commission Malaysia from 1 January 2018 until 31 Disember 2018.

Proposal

To encourage the growth of the venture capital activities, it is proposed that the application period be extended for another 1 year.

Effective date

For applications received by the Securities Commission Malaysia until 31 December 2019.

**IMPOSITION OF EXCISE DUTY ON SUGAR
SWEETENED BEVERAGES**

Current Position

The percentage of Malaysian population with diabetes had increased from 15.2% in 2011 to 17.5% in 2015. Among causes of diabetes are the intake of high-sugar-content food and beverages, especially ready to drink beverages which are widely available. The rising number of diabetic patients will result in large financial burden to government in providing the necessary continuous treatment as well as productivity loss among workforce.

Proposal

As a measure to curb the rising trend of diabetic patients, it is proposed that an excise duty at the rate of RM0.40 per litre be charged on sugar sweetened beverages based on the sugar content as follows:

- i. fruit juices and vegetable juices whether or not containing added sugar or other sweetening matter under the tariff heading of 20.09, which contains sugar exceeding 12 grams per 100 millilitres; and
- ii. beverages including carbonated drink containing added sugar or other sweetening matter or flavoured and other non-alcoholic beverages under the tariff heading of 22.02, which contains sugar exceeding 5 grams per 100 millilitres.

Effective Date

From 1 April 2019.

TREATMENT OF SERVICE TAX ON IMPORTED SERVICES

Current Position

In line with the implementation of the new consumption tax system, service tax is imposed on prescribed services. Currently, service tax is only imposed on services provided by service providers who are located in Malaysia.

Proposal

To ensure equal treatment for services supplied by both local and foreign service providers, it is proposed that service tax be imposed on the taxable services imported into Malaysia. The imposition of service tax on imported services will be carried out in phases as follows:

- i. services imported by businesses (business to business - B2B) be implemented from 1 January 2019; and
- ii. services imported by consumers (business to consumer - B2C) be implemented from 1 January 2020.

For importation of prescribed services by businesses (B2B), a new provision will be introduced in the Service Tax Act 2018 to enable the recipients of the imported services to account, declare and pay the service tax to the Royal Malaysia Customs Department.

For importation of digital products and services by consumers (B2C), a new provision will be introduced in the Service Tax Act 2018 requiring the foreign suppliers who provide such services to consumers in Malaysia to register and charge service tax.

Effective Date

- i. Importation of services by businesses (B2B) effective from 1 January 2019.
- ii. Importation of services by consumers (B2C) effective from 1 January 2020.

REVIEW OF IMPORT DUTY RATE ON BICYCLES

Current Position

Bicycles are subjected to import duty rates as follows:

Tariff Code	Description	Import Duty Rates
8712.00.10 00	Racing bicycles	0%
8712.00.20 00	Bicycles designed to be ridden by children	0%
8712.00.30 00	Other bicycles	25%

Proposal

To further support healthy lifestyle through cycling activity and to ensure that bicycles are more affordable, it is proposed that the import duty rate for bicycles falling under the tariff code 8712.00.30 00 be reduced from 25% to 15%.

Effective Date

From 1 January 2019.

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