

Cash Tax Booster for SMEs

In economically challenging times, when companies tighten their belts and look for ways to optimize their bottom line, taking advantage of tax incentives that are available will certainly be a gratifying boost, particularly to the Small and Medium Enterprise companies (SMEs). The additional cash arising from tax savings can be re-channelled to fund business operations of the SMEs and improve their overall cash flows.

As the Malaysian government has, and continues to offer, a wide range of tax incentives to various industries and businesses, SME's need to be aware of some of these tax incentives that may be available to them in the current environment.

Joining the Green Bandwagon

- SMEs embarking on green initiatives could tap into tax incentives for green technology projects, assets and services which are available up to the year of assessment 2020.
- SMEs that undertake green technology projects such as generation of renewable energy, energy efficiency, green building, green data centre and waste management are eligible for investment tax allowance (ITA) of 100% of qualifying capital expenditure (QCE) incurred.
- The said ITA is also available to SMEs that purchase green technology assets, equipment or systems for their business purposes or own use.
- In addition, companies that provide green technology services relating to renewable energy, energy efficiency, electric vehicle, green building, green data centre, green certification/verification and green township are also eligible for 100% income tax exemption.

Innovating to Beat Competition

- SMEs engaging in innovative products and services could explore the tax incentives available for research and development (R&D) in Malaysia.
- Generally, double deductions are available for revenue expenditure incurred for in-house R&D (manufacturing and agricultural sectors), cash contributions to approved research institutes and payments for the use of services of approved R&D companies.
- SMEs that undertake in-house R&D are able to enjoy double deduction of their R&D revenue expenditure incurred up to RM50,000 automatically based on their R&D projects submitted to the tax authorities in respect of the years of assessment 2016 to 2018. In addition, capital expenditure related to in-house R&D are eligible for ITA of 50% of QCE incurred.

- Apart from the above, SMEs which are approved as R&D companies providing R&D services in Malaysia to related or unrelated parties are eligible for ITA of 100% of QCE incurred.
- If the SME is set up as an approved contract R&D company providing services in Malaysia to third parties/unrelated parties, the said SME is eligible for either 100% income tax exemption or ITA of 100% of QCE incurred.
- Further, SMEs that invests in their subsidiary companies engaged in the commercialisation of R&D findings will be given tax deduction equivalent to the amount of investments made in their subsidiary companies, and the said subsidiary companies that undertake the commercialisation of R&D findings will be given 100% income tax exemption.
- These incentives are applicable for commercialisation of public sector R&D findings in Resource-based (such as agriculture, oil palm, wood, rubber) and Non Resource-based (limited to promoted activities by the government) industries.

Reinvesting for Expansion and Modernisation

- Reinvestment allowance (RA) is a popular incentive for SMEs engaged in the manufacturing and agricultural sectors.
- These SMEs which undertake expansion, modernization, automation and/or diversification projects in Malaysia are eligible for RA of 60% of QCE incurred, on top of their capital allowances claim for factory, plant or machinery.
- RA is available for 15 years of assessment and companies which have exhausted their eligibility to claim RA post the 15 year period could avail themselves of a special RA in respect of the years of assessment 2016 to 2018.

Exporting to International Markets

- SMEs taking the leap to go international by selling their goods and services to foreign markets can benefit from the tax incentives available for exports.
- SMEs that export local manufactured products or agricultural produce during the years of assessment 2016 to 2018 are eligible for allowance for increased exports (AIE) of 10% or 15% of the value of increased exports, provided that their exports attain at least 20% or 40% value added respectively.
- As for SMEs involved in the services industry such as legal, accounting, architecture, marketing, business consultancy, construction/building management, plantation management, private healthcare, private education, publishing, printing, ICT, engineering, and local franchise services, they are eligible for income tax exemption equivalent to 50% of the value of increased exports.
- In addition, certain expenses incurred for the promotion of exports of locally manufactured goods and services are eligible for double deduction such as overseas publicity and advertisement, printing of brochures, provision of samples, export market research, supply of technical information, preparation of tenders, travelling/hotel accommodation/sustenance for the purpose of negotiating and concluding contracts, participation in approved trade fairs and exhibitions overseas, maintenance of sales offices and warehouses overseas, professional fees on packaging design, and participation in trade portal and internet commerce.

Embracing the Digital Economy

- SMEs venturing into multimedia, information and communications technology or global business services in various sectors could avail themselves for Multimedia Super Corridor (MSC) tax incentives offered by the Malaysian government.
- Attractive incentives by way of 100% income tax exemption or ITA of 100% of QCE incurred are available to approved MSC status companies located at MSC cyber city or cyber centre which
- In addition, MSC status companies which are approved on or after 1 January 2015 and undertake qualifying MSC activities in an area outside the MSC cyber city or cyber centre are eligible for 70% income tax exemption for 5 years.
- The said incentive can be extended to 100% income tax exemption for another 5 years if these MSC status companies undertake qualifying MSC activities in an area within the MSC cyber city (such as Cyberjaya, Technology Park Malaysia, Kuala Lumpur City Centre) or MSC cyber centre located at Putrajaya, Kuala Lumpur, Damansara, Bandar Utama and Bangsar South City amongst others.

undertake qualifying MSC activities such as design and development of software and hardware technology products and applications, E-business, creation and enhancement of digital content, and global business services ranging from IT Outsourcing (ITO) and Business Process Outsourcing (BPO) to Knowledge Process Outsourcing (KPO) activities.

Conclusion

- It is certainly worthwhile considering whether any of these incentives could be applicable to your businesses as it definitely will come in handy in enhancing after tax returns to business owners.
- Often, some token of tax planning or legitimate business structuring may be necessary in order to capture the benefit of such tax incentives, and SMEs should consider approaching tax professionals for advice on these aspects to ensure that the Government's aims and ambitions in promoting specific business sectors and commercial activities are properly captured for the benefit of businesses operating in those sectors.

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