

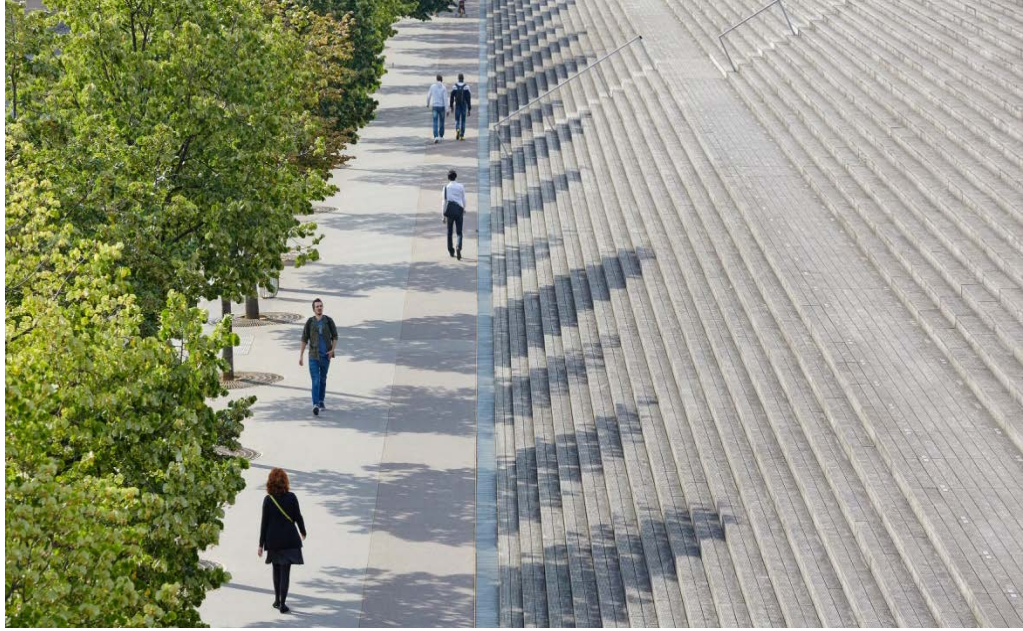


Budget 2019 overview

**What's in store for the economy
and impacted sectors**

Giving you the key
economic and
sectorial highlights
of Budget 2019





“Credible Malaysia, Dynamic Economy, Prosperous Rakyat”

Key takeaways for 2019

1 2019 economic outlook

Page 3

2 Other economic and fiscal data

Page 4

3 Sectors touched by Budget 2019

Agriculture, education, financial services, healthcare, gaming, infrastructure, logistics and transportation, media and entertainment, property, retail and consumer and tourism

Page 5 - 9

4 Selected development areas in Budget 2019

Digital and Industry 4.0, green industry and the workforce

Page 10 - 11

2019 economic outlook

Resilient growth, supported by the private sector

Growth to ease to 4.9% in 2019

The economy is forecast to expand by 4.8% for the full year 2018, and to subsequently pick up slightly in 2019.

Malaysia's 2019 forecast growth (4.9%) is slightly lower compared to the ASEAN-5 group (5.2%), but significantly outpaces forecast global economic growth (3.7%) according to the International Monetary Fund's World Economic Outlook Database, October 2018.

Driven by private consumption and sustained private investment

The government expects stable employment and wage growth, conducive financing conditions and benign inflation to support private consumption, which is forecast to expand by 6.8% in 2019 (2018: 7.2%).

Private investment is anticipated to grow to 5.0% in 2019 (2018: 4.5%), with capital outlays mainly channelled into the services (wholesale and retail trade, food & beverage, accommodation and ICT) and manufacturing (E&E and chemicals) sectors.

Public investment is expected to decline to 5.4% in 2019 (2018: -1.5%), mainly due to lower capital spending.

The external sector is forecast to remain resilient in 2019 similar to 2018, in line with stable global economic performance and a diversified export base.

Supported by the services and manufacturing sectors

Consumption and domestic tourism activities in addition to strong demand for ICT, transport and finance is projected to support growth in the services sector. On the other hand, the manufacturing sector is estimated to record steady growth in line with developments in the global semiconductor sector.

Abbreviations and notes:

ASEAN-5 = Indonesia, Malaysia, Philippines, Thailand and Vietnam

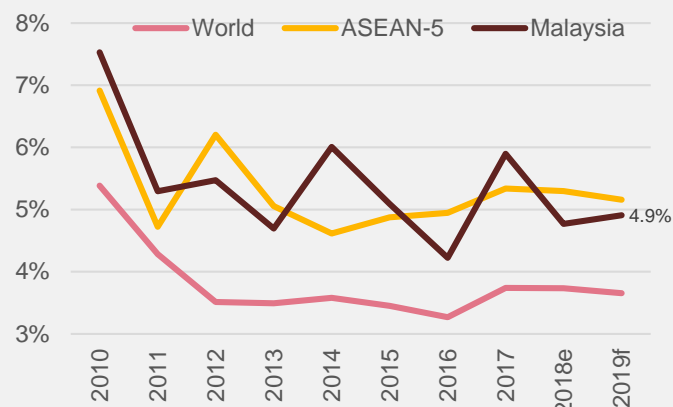
e = estimate, f = forecast

MoF = Ministry of Finance, IMF = International Monetary Fund

cons = consumption, inv = investment

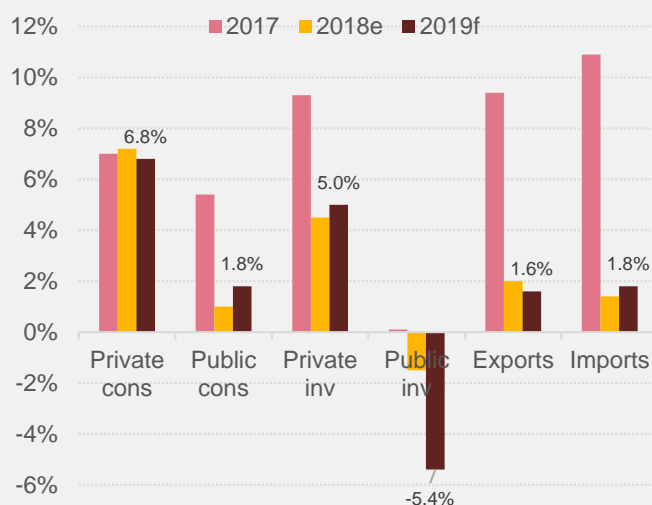
Agri = agriculture, Const = construction, E&E = electrical and electronics, ICT = information and communications technology, Manuf = manufacturing

Real GDP growth by region



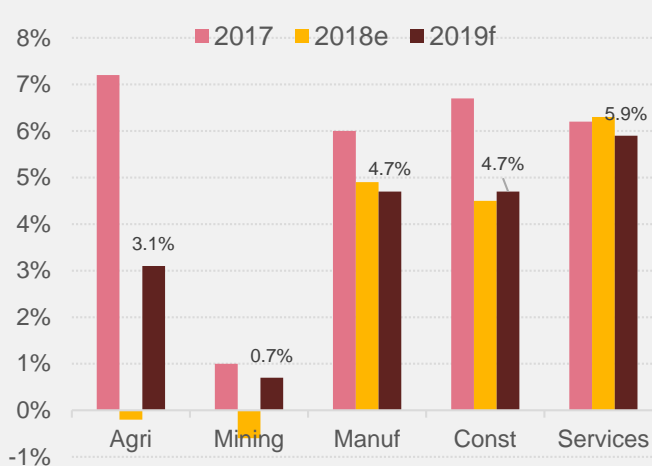
Sources: MoF Economic Outlook 2019 and IMF World Economic Outlook Database, October 2018

Real GDP growth by type of expenditure



Source: MoF Economic Outlook 2019

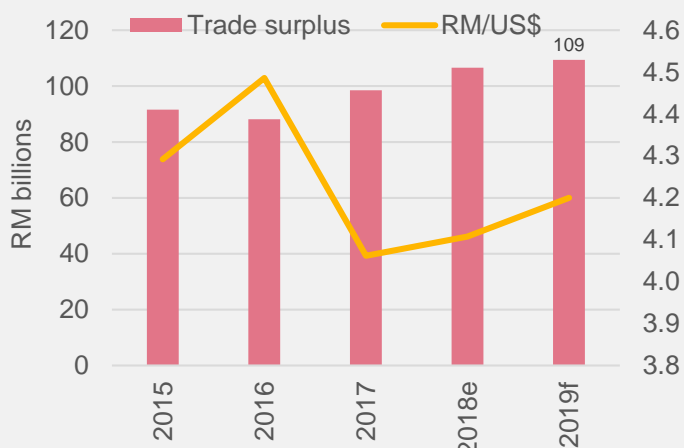
Real GDP growth by kind of economic activity



Source: MoF Economic Outlook 2019

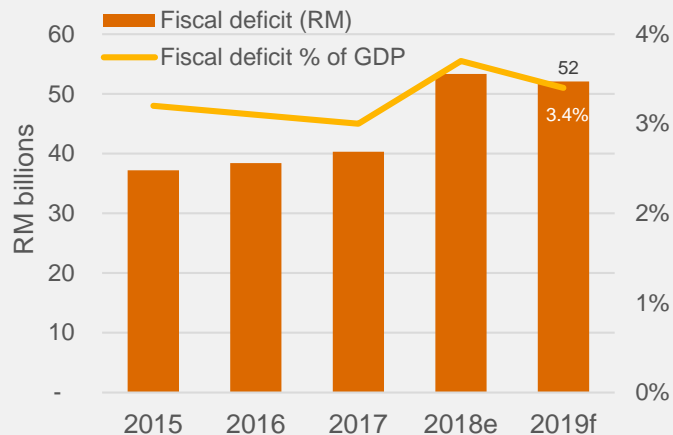
Other economic and fiscal data

External market



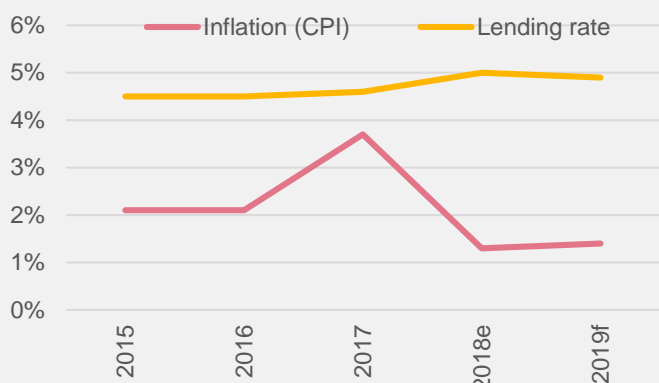
Sources: MoF Economic Report 2019, Department of Statistics Malaysia and EIU ViewsWire, October 2019

Fiscal deficit



Source: MoF Fiscal Outlook and Federal Government Revenue Estimates 2019

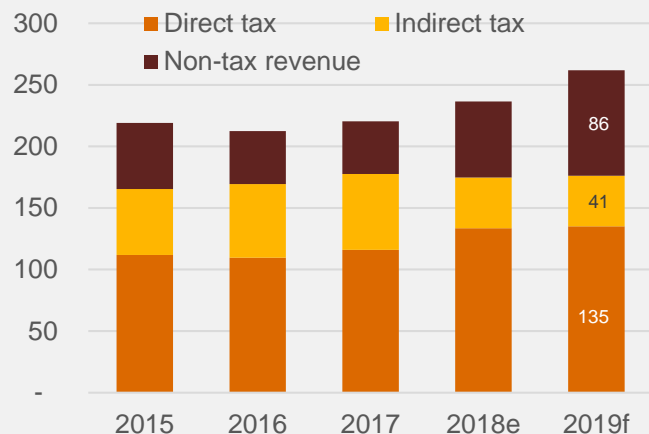
Prices



CPI 2018 data is as of end August 2018)

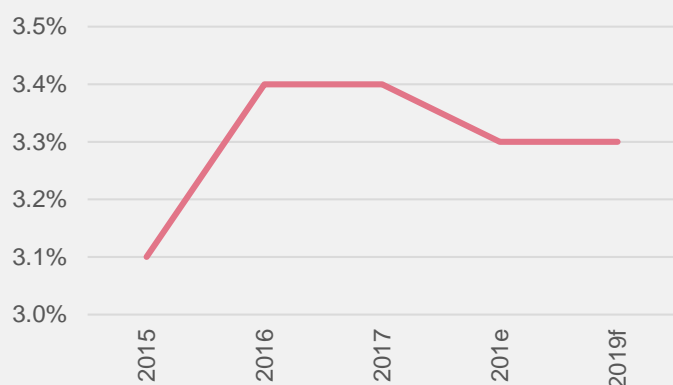
Source: MoF Economic Report 2019 and EIU ViewsWire, October 2019

Federal government revenue (RM billion)



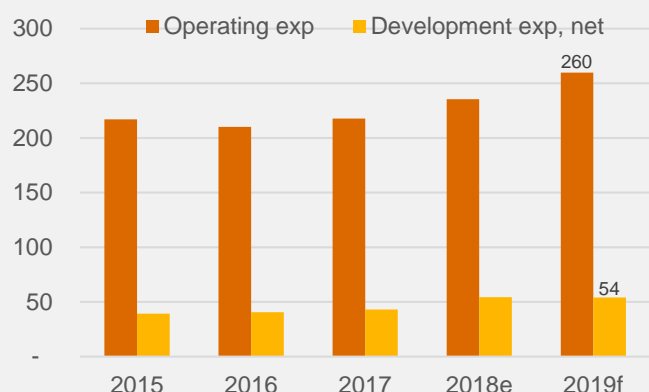
Source: MoF Fiscal Outlook and Federal Government Revenue Estimates 2019

Unemployment rate



Source: MoF Economic Report 2019

Federal government expenditure (RM billion)



Source: MoF Economic Report 2019

Sectors touched by Budget 2019

Agriculture



- **Addressing agriculture and plantation labour shortage**
 - Extension levy for foreign workers who have served for 10 years or more to be reduced from RM10,000 to RM3,500 per worker per annum
- **Value adding commodities (palm oil and rubber)**
 - Implementation of Biodiesel B10 programme for the transportation sector and B7 for the industrial sector in 2019
 - Allocation of RM30 million to assist smallholders to obtain the Malaysian Sustainable Palm Oil (MSPO) certification
 - Allocation of RM100 million for the use of Cuplump Modified Bitumen technology for the construction of roads at ports and industrial areas in stages and RM50 million for the Rubber Production Incentive.
- **Developing the agrofood sector**
 - Allocation of RM18 million to incentivise the automation of the agrofood industry and RM52 million to implement initiatives for the agricultural and agrofood industry, as well as entrepreneurship training for youths.

Education



- **Getting the workforce fit for Industry4.0 (I4.0)**
 - Initiative to upgrade graduates and workforce skill-level by providing double tax deduction:
 - For scholarships and bursaries provided by companies to students enrolled for technical and vocational training, diploma and degree courses in engineering and technology
 - For company expenses related to participation in the National Dual Training Scheme for I4.0 and other related programmes approved by the Ministry of Human Resources or MIDA
 - For company expenses in carrying out structured training programmes for students in the fields of engineering and technology as approved by the Ministry of Human Resources

Financial services and healthcare



- **Enhancing household financial resilience through insurance**
 - To encourage higher 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 contribution and RM3,000 for takaful or life insurance premiums
 - In partnership with the private insurance industry, the Government, through Bank Negara Malaysia (BNM), will pilot a national B40 Health Protection Fund, with an initial seed fund of RM2 billion from Great Eastern Life Insurance
 - Proposal to waive stamp duty for all Perlindungan Tenang Insurance products for two years beginning 1 January 2019. The insurance scheme was launched by BNM in 2017 to provide affordable, accessible and simple insurance and takaful products to Malaysians.

Sectors touched by Budget 2019

Financial services



- **Promoting Malaysia as a bond and sukuk hub**
 - Proposal to extend 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. These will be made available for 3 years commencing 2019.
- **Unit trust on firmer footing**
 - Tax exemption for interest earned on wholesale money market funds will cease beginning 1 January 2019, in view of a more mature market (total fund size reached RM42.9 billion as at December 2017).
- **Labuan business activity tax**
 - Tax ceiling of RM20,000 under the Labuan Business Activity Tax Act 1990 will be removed

Gaming



- **Increasing contribution to the Government**
 - Casino license fee to be increased from RM120 million to RM150 million per annum;
 - Casino duties to be increased up to 35% on gross collection;
 - Machine dealer's license to be increased from RM10,000 to RM50,000 per annum; and
 - Gaming machine duties to be increased from 20% to 30% on gross collection.
 - The number of special draws will be reduced by half for number forecast operators.

Infra-structure



- **Extracting more value from capital projects**
 - The renegotiations with respective vendors to reduce rail construction cost has resulted in:
 - Savings of 47% for LRT3 project from RM31.6 billion to RM16.6 billion
 - Savings of 22.4% for MRT2, which will proceed at RM30.5 billion
 - Twenty-four PPP projects worth RM5.2 billion will be implemented and the Government expects to gain an excess of RM800 million over the cost of the public works from the land sales
- **Privatising infrastructure assets**
 - The Government is looking to raise funds publicly either by issuing new Real Estate Investment Trust (REIT) units or via borrowings in order to fund capital projects such as airports, hospitals, or rail infrastructure
 - The Government intends to set up the world's first Airport REIT and hope to raise up to RM4 billion funding via a 30% equity sale in the REIT
- **Strengthening regional development**
 - Allocation of RM5 billion for development in Sabah, and RM4.3 billion to develop Sarawak, including the construction and upgrading of water, electricity and road infrastructure, health, education facilities and development of economic corridors.

Sectors touched by Budget 2019

Infra-structure (continue)

- **Rail upgrading**
 - Allocation of RM2.46 billion for upgrading and restoration works for railways tracks
- **Maintaining toll rates**
 - Freeze of toll hikes on all intra-city tolls for 2019, costing the Government approximately RM700 million
 - Abolish toll for motorcycles for the First and Second Penang Bridge as well as the Second Link in Johor effective 1 January 2019

Logistics and transportation



- **New hubs for the logistics and transportation sector**
 - Plans to convert 380 acres of land in Pulau Indah into a Free Trade Zone (FTZ) to support and catalyse increased shipping and logistics activities in Port Klang. It will serve as a natural extension to Port Klang Free Zone. The land will be developed through a joint venture or solely by the private sector.
 - 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 the demands of the industry.
- **Encouraging domestic travel (and tourism)**
 - Levy for all passengers travelling overseas via air routes starting 1 June 2019 - RM20 for passengers travelling to ASEAN countries and RM40 for other countries
- **Encouraging public transport adoption**
 - Unlimited monthly public transport pass of RM100 will be made available from 1 January 2019, through an allocation of RM240 million from the Government
 - Allocation of RM500 million for a Public Transport Loan Fund with 2% interest subsidy via Bank Pembangunan Malaysia to taxi and bus companies as well as other public transport operators
- **Supporting petrol subsidies**
 - Owners of cars with engine capacity of 1,500cc and below or motorcycles of 125cc and below will enjoy RON95 petrol subsidy of at least RM0.30 per litre. This is limited to 100 litres per month for cars and 40 litres per month for motorcycles. The subsidy is expected to commence in the second quarter of next year.

Media and entertainment



- **Promoting world-class film production**
 - Khazanah will provide an allocation of RM100 million for Film In Malaysia Incentive (FIMI), specifically applicable to film production at the Pinewood studio in Iskandar Johor.
 - The government will also allocate RM30 million to FIMI.

Sectors touched by Budget 2019

Property



- **Addressing existing property unsold**
 - With RM22 billion worth of residential properties unsold as at 31 March 2018, the Government will waive all stamp duty charges for first time purchases of homes valued between RM300,001 and RM1 million for a period of 6 months starting 1 January 2019.
This will be part of the National Home Ownership Campaign, where in return, developers will offer a minimum price discount of 10%.
- **Better funding for homes**
 - A fund amounting to RM1 billion will be established by BNM to help the lower income group earning not more than RM2,300 per month to purchase affordable homes priced up to RM150,000. The fund will offer a concessionary financing rate as low as only 3.5% per annum.
 - To assist civil servants to acquire 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
- **Housing for all**
 - Allocation of nearly RM1.5 billion to support the construction and completion of affordable homes for Program Perumahan Rakyat, Perumahan Penjawat Awam Malaysia, PR1MA and Syarikat Perumahan Nasional Bhd
- **Home financing going digital**
 - The government will be approving private sector driven 'Property Crowdfunding' platforms which will serve as an alternative source of financing for first time home buyers. It will be regulated by the Securities Commission under the peer-to-peer financing framework.
- **Passing SST saving to home buyers**
 - Government has 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
- **Review of property tax**
 - The Real Property Gains Tax rates will be revised for disposals of properties or shares in property holding companies after the fifth year as follows:
 - For companies and foreigners, the rate shall be increased from 5% to 10%;
 - For Malaysian individuals, the rate shall be increased from 0% to 5%.
 - However, low cost, low-medium cost and affordable housing with prices below RM200,000 will be exempted.
 - The stamp duty on the transfer of property priced or at market value in excess of RM1,000,000 will increase from 3% to 4%.
 - It is proposed that stamp duty exemption is given to first residential homes valued up to RM300,000 on the instrument of transfer and loan agreement for a period of two years until December 2020 to assist first time home buyers purchasing residential properties priced up to RM500,000.

Sectors touched by Budget 2019

Retail and consumer



• Ensuring people's welfare

Continued support of B40 through “Bantuan Sara Hidup” cash grants for households with monthly income of

- RM2,000 and below will receive RM1,000
- RM2,001 - RM3,000 will receive RM750
- RM3,001 - RM4,000 will receive RM500
- Top up of RM120 per child 18 years old and below or who is disabled, up to a maximum of four children

• Healthier living

- “Sugar sweetened beverages” will be added to the list of manufactured goods subject to excise duty, proposed at RM0.40 per litre to be implemented on 1 April 2019:
 - For non-alcoholic beverages containing added sugars > 5gm/100 ml drink
 - For fruit or vegetable juice containing added sugars > 12gm/100ml drink
- The Ministry of Health has set 2045 as the year to achieve the goal to be a “Smoke-free Malaysia”. As such, the Ministry will expand the number of locations where smoking will be disallowed starting 1 January 2019.

• Curbing cigarette smuggling

The Government will step up enforcement against cigarette smuggling and hopes to recover at least RM1 billion in lost tax.

Tourism



• Preserving Kuala Lumpur's heritage

- Khazanah Nasional will lead the public-private partnership for the redevelopment and restoration of the Sultan Abdul Samad building in KL into an arts, cultural and heritage hub

• Expanding duty-free shops and tourism potential

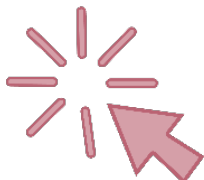
- Tax-exempt facilities will be provided to duty-free shops at Swettenham Pier in Penang to further promote the cruise tourism sector
- To develop the tourism potential of Pulau Pangkor by declaring it as a duty free island
- The duty free island status of Pulau Langkawi has been enhanced and will be further expanded

• Expanding healthcare tourism presence

Allocation of RM20 million for the Malaysia Healthcare Tourism Council (MHTC) to generate 25% growth to collaborate with reputable private hospitals, in regards to branding Malaysia as a destination of choice for medical tourism.

Selected development areas in Budget 2019

Digital and Industry 4.0 (I4.0)



• Preparing for digital and I4.0

- To accelerate the adoption of smart technology, a RM3 billion Industry Digitalisation Fund with a subsidised interest rate of 2% under Bank Pembangunan will be created to drive the use of automation, robotics and artificial intelligence in the industry
- Government-linked investment funds will allocate RM2 billion in matching funds to co-invest with private equity and venture capital funds to support new technology developments and ensure sufficient funding for entrepreneurs
- Streamlining of venture capital funds managed by government agencies i.e. Malaysia Technology Development Corporation, Malaysia Debt Ventures Bhd, Malaysia Venture Capital Management Bhd, Kumpulan Modal Perdana Sdn Bhd and Cradle Fund Sdn.Bhd.

In addition, the funding disbursements will be tied to the companies' ability to secure matching funds from the private sector. This is to ensure that the funds are accessible to those who are most likely to succeed,

- MIDA's High Impact Fund (HIF) matching grants will have a specific emphasis of I4.0 initiatives. This includes activities such as R&D, initiatives to obtain international certification, modernising of facilities and licensing/purchase of high technology.

• Getting SMEs on board I4.0

- Allocation of RM2 billion under Business Loan Guarantee Scheme (SJPP) to incentivise SMEs to invest in automation and modernisation, with guarantees of up to 70%
- Allocation of RM210 million from 2019 to 2021 to support the transition and migration to I4.0. The Government will assist the first 500 SMEs to carry out the Readiness Assessment to migrate to I4.0 platforms via Malaysia Productivity Corporation.

• Catering to digital coin and token

- The Capital Markets and Services (Prescription of Securities) Guidelines will be gazetted in early 2019 to set up a new regulatory framework to approve and monitor Digital Coin and Token Exchanges

• Levelling the playing field for local online service providers

- 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.

• Expanding broadband infrastructure to rural areas

- The Government will launch the National Fibre Connectivity Plan in 2019 with an allocation of RM1 billion to achieve the targeted 30 Mbps speed at rural and remote areas within 5 years

Selected development areas in Budget 2019

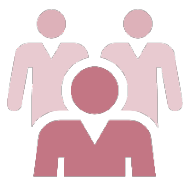
Green industry



• Attracting green investments

- A RM2 billion Green Technology Financing Scheme (GTFS) will be made available at selected banks, and will subsidise the interest cost by 2% for the first 5 years
- Bank Pembangunan Malaysia will provide a Sustainable Development Financing Fund of RM1 billion to support UN's Agenda 2030 for Sustainable Development and its 17 Sustainable Development Goals (SDG), with a subsidised interest rate of 2%
- Pioneer Status incentive of 70% or investment allowance of 60% for 5 years to be granted to companies which produce environmentally-friendly plastics based on bio-resin and biopolymer
- To encourage the use of green energy, the Government will expand the list of green assets which qualifies for the Green Technology Investment Allowance (GITA) from 9 assets to 40 assets

Workforce



• Reducing wage disparity amongst PLCs

- Regulations will be implemented requiring public-listed companies to publicly disclose key pay metrics each year in their annual report. This will include 'the lowest wage paid', 'average wage per worker', the 'highest and lowest wage ratio' as well as a statement by the company of how they intend to improve their employees' average pay.

• Advocating for more women in senior positions

- The Government is committed towards increasing women participation to 30% at leadership and decision-making levels in companies and organisations
- The Government will continue to encourage the private sector to achieve the objective of 30% women participation in the Board of Directors by 2020

• Sustaining living wages

- Minimum wage to increase to RM1,100 nationwide starting 1 January 2019

• Reducing reliance on foreign workers

- The government will implement a new tiered levy system where the levies charged will be higher for employers with a higher percentage of foreign workers

• Hiring and retaining of retirees and ex-convicts

- The Government's proposal:
 - For retirees, the employer portion of EPF contributions will be cut to 4% from the current 6% effective 1 January 2019, and the current mandatory employee contribution be zeroed
 - To provide additional tax deduction to employers who employ this group (retirees) up to a monthly salary of RM4,000
 - To provide an additional tax deduction for companies who employ ex-convicts up to a monthly salary of RM4,000 each

Checkout our Budget 2019 seminar

Fiscal discipline in driving sustainable growth

Budget 2019 Seminar

Kuala Lumpur

Date: Tuesday, 13 November 2018
Venue: Connexion Conference & Event Centre @
The Vertical, Bangsar South, Kuala Lumpur
Contacts: Fazlina Jaffar +60(3) 2173 3830
Fiona Ren +60(3) 2173 1313
e-mail: events.info@my.pwc.com
Register [here](#)

Johor Bahru

Date: Thursday, 15 November 2018
Venue: Double Tree by Hilton Johor Bahru
Contacts: Ms Brenda Beh / Ms Teoh Evonne
+60(7) 218 6000
e-mail: brenda.hk.beh@my.pwc.com
evonne.t.teoh@my.pwc.com
Register [here](#)

Penang

Date: Friday, 16 November 2018
Venue: G Hotel, 168A Persiaran Gurney, Penang
Contacts: Ann Yew +60(4) 238 9291
Ong Bee Ling +60(4) 238 9170
e-mail: siew.lay.yew@pwc.com
bee.ling.ong@pwc.com
Register [here](#)

Melaka

Date: Thursday, 22 November 2018
Venue: Double Tree by Hilton Malaka
Contacts: Puan Roslena Yaakup / Ms Lydia Chue
+60(6) 283 6169
e-mail: roslena.yaakup@pwc.com
lydia.s.chue@pwc.com
Register [here](#)

Let's talk

Kuala Lumpur

Jagdev Singh
jagdev.singh@pwc.com
+60(3) 2173 1469

Labuan

Jennifer Chang
jennifer.chang@pwc.com
+60(3) 2173 1828

Penang & Ipoh

Tony Chua
tony.chua@pwc.com
+60(4) 238 9118

Johor Bahru

Benedict Francis
benedict.francis@pwc.com
+60(7) 218 6000

Melaka

Benedict Francis
benedict.francis@pwc.com
+60(7) 218 6000

Au Yong

paik.hup.au@pwc.com
+60(6) 283 6169

Corporate Tax Compliance & Advisory

Consumer & Industrial Product Services

Margaret Lee
margaret.lee.seet.cheng@pwc.com
+60(3) 2173 1501

Steve Chia

steve.chia.siang.hai@pwc.com
+60(3) 2173 1572

Emerging Markets

Fung Mei Lin
mei.lin.fung@pwc.com
+60(3) 2173 1505

Energy, Utilities & Mining

Lavindran Sandragasu
lavindran.sandragasu@pwc.com
+60(3) 2173 1494

Financial Services

Jennifer Chang
jennifer.chang@pwc.com
+60(3) 2173 1828

Technology, Media and Telecommunications

Heather Khoo
heather.khoo@pwc.com
+60(3) 2173 1636

Specialist Services

GST / Indirect Tax

Raja Kumaran
raja.kumaran@pwc.com
+60(3) 2173 1701

Yap Lai Han

lai.han.yap@pwc.com
+60(3) 2173 1491

Chan Wai Choong

wai.choong.chan@pwc.com
+60(3) 2173 3100

International Tax Services / Mergers and Acquisition

Frances Po
frances.po@pwc.com
+60(3) 2173 1618

Transfer Pricing

Jagdev Singh
jagdev.singh@pwc.com
+60(3) 2173 1469

Dispute Resolution

Tai Weng Hoe
weng.hoe.tai@pwc.com
+60(3) 2173 1600

Tax Reporting & Strategy

Pauline Lum
pauline.ml.lum@pwc.com
+60(3) 2173 1059

International Assignment Services

Sakaya Johns Rani
sakaya.johns.rani@pwc.com
+60(3) 2173 1553

Hilda Liow

hilda.liow.wun.chee@pwc.com
+60(3) 2173 1638

Corporate Services

Lee Shuk Yee
shuk.yee.x.lee@pwc.com
+60(3) 2173 1626

Japanese Business Consulting

Yuichi Sugiyama
yuichi.sugiyama@pwc.com
+60(3) 2173 1191

Clifford Yap

clifford.eng.hong.yap@pwc.com
+60(3) 2173 1446

China Desk

Lorraine Yeoh
lorraine.yeoh@pwc.com
+60(3) 2173 1499

Tax Technology

Yap Sau Shiung
sau.shiung.yap@pwc.com
+60(3) 2173 1555

The information contained in this document is of a general nature only. It is not meant to be comprehensive and does not constitute financial, legal, tax or other professional advice. You should not act upon the information contained in this publication without obtaining specific professional advice. Whilst every care has been taken in preparing this document, PwC makes no guarantee, representation or warranty (expressed or implied) as to its accuracy or completeness, and under no circumstances will PwC be liable for any loss caused by reliance on any opinion or statement made in this document. Except as specifically indicated, the expressions or opinion are those of PwC only and are subject to change without notice. This document shall not be copied, reproduced, transmitted or further distributed by any recipient. The materials contained in this document were assembled on 2 November and were based on information available at the time.

© 2018 PricewaterhouseCoopers. All rights reserved. "PricewaterhouseCoopers" and/or "PwC" refers to the Malaysia member firm, and may sometimes refer to the PwC network. Each member firm is a separate legal entity. Please see www.pwc.com/structure for further details.