



Budget 2016: Prospering The Rakyat



Budget 2016 has been announced by our Prime Minister, Datuk Seri Najib Tun Razak on October 23, 2015.

With the theme of Prospering the Rakyat, the Malaysia Budget 2016 estimates a revenue of RM225.7 billion, an increase of RM3.2 billion from Budget 2015 with RM215.2 billion allocated for Operating and Development Expenditure.

Five key thrusts are:

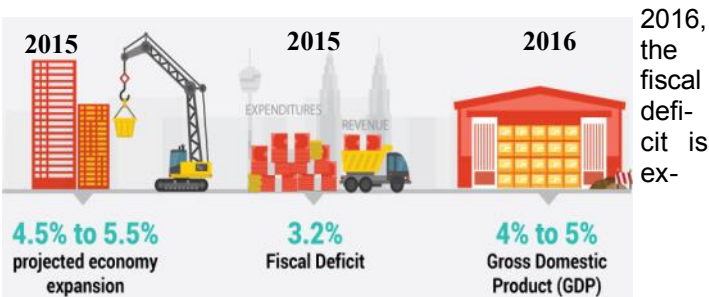
- ◆ Strengthening economic resilience
- ◆ Increasing productivity, innovation and green technology
- ◆ Empowering human capital
- ◆ Advancing Bumiputera agenda, and
- ◆ Easing the cost of living of the Rakyat

Some of the key areas that this Budget addressed are the Bottom 40 households, advancing Bumiputera agenda and the continuous issue on housing affordability.

Economic Highlights

The Malaysian economy grew at 5.3% in the first half of 2015 and is expected to expand between 4.5% and 5.5% for 2015, despite a slower global growth of 3.1%.

The Government managed to reduce the fiscal deficit from 6.7% of GDP in 2009 to an estimated 3.2% in 2015. For



pected to be around 3.1%.

Unemployment rate reduced from 3.4% in 1999 to 2.9% and the Government has succeeded in creating 1.8 million jobs.

Inflow of foreign direct investment remains strong at RM22.4 billion in the first half of 2015, while FBM KLCI recorded 1,705 points, with market capitalization of RM1.675 trillion as at October 22, 2015.

International reserves remained high at RM418 billion as at October 15, 2015, sufficient to finance 8.8 months of retained imports and is 1.2 times the short term external debt.

Inflation rate is expected to remain manageable, between 2% and 3% in 2016.

Budget Allocation

The 2016 Budget allocates a total of RM267.2 billion compared with the revised RM260.7 billion in 2015.



Under the Operating Expenditure, RM70.5 billion is for emoluments and RM36.3 billion for supplies and services. A total of RM106.6 billion is allocated for fixed charges and grants.

Under the Development Expenditure, the economic sector will receive RM30.1 billion followed by the social sector (education and training, health, housing and well being of the rakyat) at RM13.1 billion. RM5.2 billion is allocated to the security sector.

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Key Thrusts

Strengthening Economic Resilience

Under this thrust, projects and initiatives to **boost domestic investment** include the followings:

- Development of Malaysian Vision Valley (108,000 hectares).
- Implementation of Cyber City Centre, Cyberjaya.
- Development of airport township or KLIA Aeropolis (1,300 acres).
- Investment of RM6.7 billion by Khazanah Nasional Berhad in 9 high impact domestic projects such as healthcare, education, tourism as well as communication software and infrastructure.
- RM18 billion for the Refinery and Petrochemical Integrated Development Project (RAPID) Complex in Pengerang.
- Development of Rubber City, Kedah (RM320 million), Samalaju Industrial Park, Sarawak (RM142 million) and Palm Oil Jetty Sandakan, Sabah (RM20 million).
- RM730 million allocated to the Malaysian Investment Development Authority (MIDA) to develop the chemical, electrical and electronics, machinery, aerospace and medical devices industries and the services sectors.
- New incentive, the Special Reinvestment Allowance to replace the Reinvestment Allowance effective from Year of Assessment 2016 to 2018.

Improving Infrastructure

As 2016 will be the first year of the 11th Malaysian Plan, there is a strong focus in infrastructure spending as in the following:

- RM900 million to implement the Jalan Tun Razak Dispersal Project.
- Improving public transport through MRT-LRT such as the Ampang LRT line extension and LRT extension from Kelana Jaya to Putra Heights costing RM10 billion.
- MRT line from Sg Buloh –Semantan- Kajang costing RM32 bil. The above LRT and MRT projects will be ready by 2016 and mid 2017.
- Other upcoming public transport networks include MRT11 project (Sg Buloh-Serdang-Putrajaya) at RM28 billion (estimated completion 2022).
- LRT3 project from Bandar Utama, Damansara-Kelang costing RM10 billion (estimated completed 2020).
- Government to continue negotiations on the high speed rail with Singapore.
- Rapid Bus Transit (BRT) KL-Kelang at RM1.5 billion and BRT Kota Kinabalu at RM1 billion will be implemented.

Investments by Khazanah

Desaru Coast Destination Resort, an integrated leisure and tourism resort in Desaru, Johor, with a development cost of approximately RM4.5 billion between now and 2017 to 2022.

New Tourism Venture Fund of RM50 million for qualified tourism entrepreneurs in the sub sectors of eco-tourism and cultural/heritage tourism.

New hospitals and extension of existing hospitals under IHH Healthcare Bhd costing approximately RM670 million between 2015 and 2017 in Medini, Iskandar; Kuala Lumpur, Klang, Melaka, and Kota Kinabalu.

i2M Sdn Bhd, a 100% subsidiary of Khazanah, will accelerate an investment of RM90 million to attract a targeted RM2.2 billion of additional foreign investment by 2020 in the BPO sector in Iskandar Malaysia.

As Khazanah has substantial investments in Iskandar Malaysia, the above would be positive for our Tourism, Creative, Healthcare, Finance & Business Support Services sector.

Tourism

In the 2016 Budget, Government is targeting to increase tourism arrivals from 29.4 million projected for 2015 to 30.5 million in 2016. The Ministry of Tourism is allocated RM1.2 billion for its tourism programmes and marketing initiatives.

- To implement on-line visa applications by mid 2016, easing travellers from China, India, Myanmar, Nepal, Sri Lanka, USA and Canada
- Extension of the 100% income tax exemption on statutory income for tour operators until 2018.
- Airport infrastructures upgrade (Mukah, Kuantan and Kota Bahru and Melaka airports).
- GST for rural air service routes be exempted, applicable for routes servicing the interior parts of Sabah, Sarawak and Labuan.

As Johor is the main gateway to Peninsular Malaysia, the availability of on-line visa applications will bring in more tourists to Iskandar Malaysia.



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Empowering Human Capital



- RM41.3 billion to construct 30 primary schools, 27 secondary schools, 4 MARA Junior Science Colleges (MRSM) and 5 fully residential schools. 2 of the residential schools will be in Segamat and Ledang, Johor.
- RM500 million for development and maintenance of education facilities including national schools, national-type Chinese and Tamil Schools, religious schools, residential schools and MRSM.
- RM2 billion for scholarships under Public Service Department (JPA) (RM1.65 billion), Ministry of Education (RM288 million), Ministry of Higher Education (RM250 million) and Ministry of Health (RM258 million).
- RM4.8 billion to transform 545 technical and vocational education and training (TVET).
- MITI will establish the Industrial Skills Committee to coordinate TVET programmes with industries.
- RM930 million to the Ministry of Youth and Sports for technical and vocational training and enhancing youth participation in economic and entrepreneurial activities, amongst others.
- RM259 million for 1Malaysia Training Scheme which would be fully financed by government-linked companies (GLCs).

Advancing Bumiputera Agenda

- RM150 million for the Bumiputera Agenda Unit (TERAJU).
- RM150 million for Bumiputera Education Steering Foundation.
- RM3.7 billion to MARA for expenditure including sponsorship of 72,000 Bumiputera students to continue studies at tertiary level.
- Increase equity ownership and strengthen Bumiputera entrepreneurship and businesses through EKUINAS (RM400 million), PUNB (RM250 million), Pelaburan Hartanah (RM150 million) and RM100 million loan to UDA Holdings for development of Kampung Baru in Kuala Lumpur.
- More allocation to develop infrastructure (road, air connectivity etc) and on-the-ground initiatives to develop the Bumiputeras in Sabah and Sarawak.
- Sarawak Pan Borneo Highway (1090 km) to cost RM16.1 billion and estimated to be completed by 2021.
- Construction of Sabah Sindumin-Tawau highway (706 km) to cost RM12.8 billion will commence in 2016.

Increasing Productivity, Innovation and Green Technology

The Government has targeted an annual labour productivity growth of 3.7%. Allocations to increase productivity and innovation include:

- RM1.5 billion allocation to the Ministry of Science, Technology and Innovation (MOSTI).
- RM100 million to Malaysian Innovation Agency (AIM).
- RM200 million under Funding Scheme for Technology and Innovation Acceleration by Malaysia Debt Ventures Berhad.
- RM35 million to MaGIC as a Leading Entrepreneurship and Innovation Hub.
- RM50 million or a Public-Private Research Network to accelerate demand-driven innovation activities in 2016.

To inculcate green technology:

- RM877 million allocation to the Ministry of Energy, Green Technology and Water to implement projects including providing clean water supply by building treatment plants
- RM515 million to ensure reliability of electricity supply in Sabah
- RM45 million for implementation of an Electricity Mobility Action Plan
- RM1.2 billion to Green Technology Financing Scheme and implementation period be extended to 31 Dec 2017.
- SEDA to offer quota of 100mW per year under the net energy metering scheme to encourage use of solar photovoltaic.



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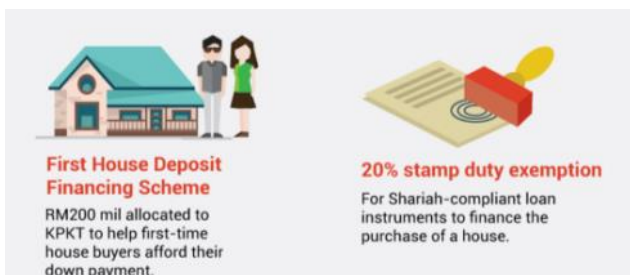
Easing Cost of Living of the Rakyat

There is a strong focus on increasing the quality of life of B40 households including the orang asli community and farmers.

Affordable Homes



- Government will allocate RM60 million to build houses for the orang asli community. Separate allocation to build houses for second generation FELDA, FELCRA and RIS-DA.
- GLCs to build affordable houses near MRT station in Bandar Kwasa Damansara.

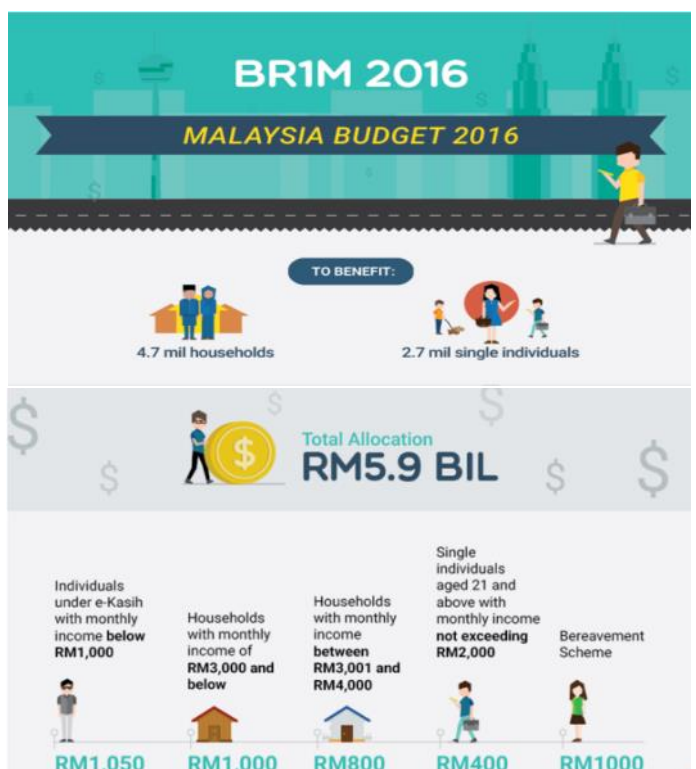
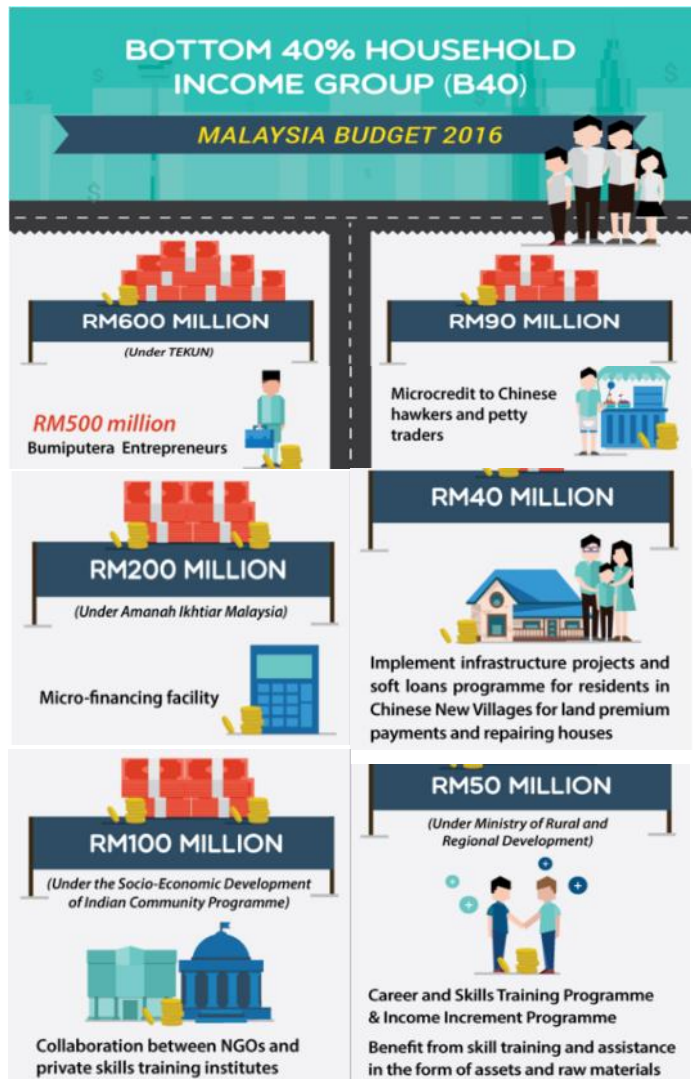


Quality Healthcare Services

- Building 5 new hospitals in **Pasir Gudang**, Kemaman, Penang, Maran and Cyberjaya
- RM848 million Kuala Lumpur Women and Children's Hospital.
- RM260 million allocation to build and upgrade rural clinics, health clinics and quarters nationwide.
- RM4.6 billion for supply of medicines, consumables, vaccines and reagents to all Government hospitals and clinics.
- With effect from 1 Jan 2016, non citizens will be charged full medical fee for services at public healthcare facilities.

Others—Capacity building for Malaysian Armed Forces

- RM17.3 billion to Ministry of Defense.



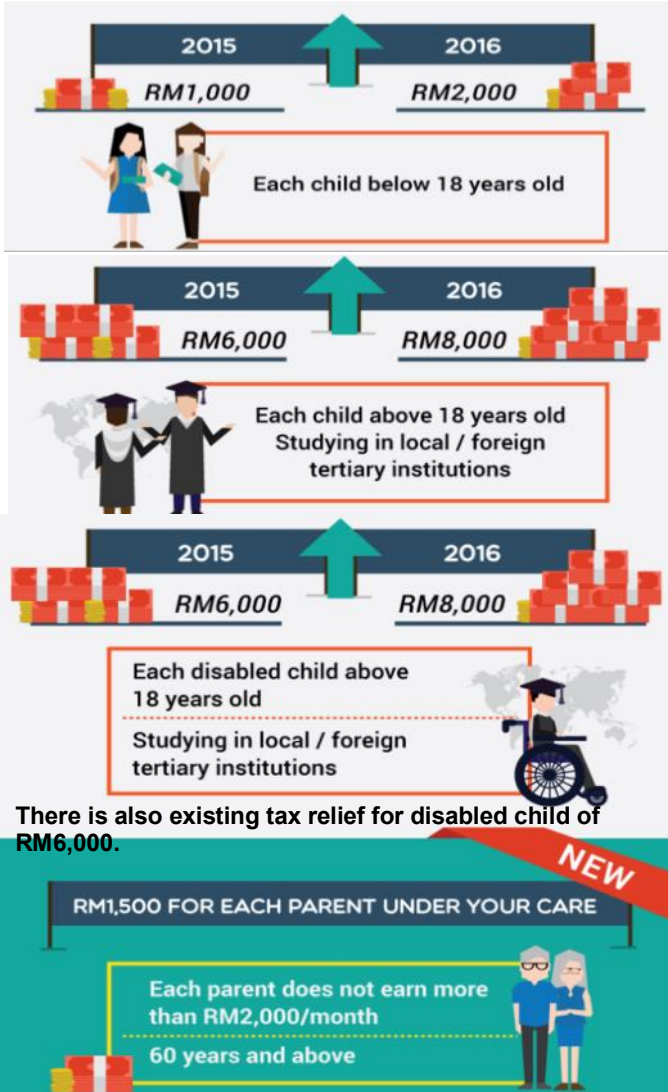
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For the M40 and Rakyat

M40 refers to households with monthly income between RM3,860 to RM8,320 where they can be referred as middle income earners.

There will be increase in personal tax reliefs which will effectively reduce the amount of income tax payable.

Tax relief for Child



There is also existing tax relief of RM5,000 for medical treatment and care for parents

Other reliefs include:

- Increase of tax relief for spouse who has no income from RM3,000 to RM4,000.
- Increase of tax relief for tertiary education from RM5,000 to RM7,000 to further encourage life-long learning.
- Expansion of food items subject to zero rate GST.
- Expansion of drugs (pharmaceuticals) subject to zero rate GST.
- Domestic air passenger transport services (economy class) under Rural Air Services in Sabah, Sarawak and Labuan be exempted from GST.

Review of Personal Income Tax Rate

- The income tax rate for resident individuals with chargeable income from RM600,000 to RM1 million will be increased by 1% to 26%.
- Residents with chargeable income above RM1 million

Chargeable Income (RM)	Current Tax Rate (%)	Proposed Tax Rate (%)
1 – 5,000	0	0
5,001 – 20,000	1	1
20,001 – 35,000	5	5
35,001 – 50,000	10	10
50,001 – 70,000	16	16
70,001 – 100,000	21	21
100,001 – 250,000	24	24
250,001 – 400,000	24.5	24.5
400,001 – 600,000	25	25
600,001 – 1,000,000	25	26
Exceeding 1,000,000	25	28

will be taxed at 28% (an increase of 3%).

- Non resident individuals will be taxed at a fixed income tax rate of 28% (increase from 25% previously).
- The above is effective from year of assessment 2016.

At present, Singapore's maximum tax rate for resident individual is 20% for chargeable income above SGD320,000 (approximately RM960,000 assuming an exchange of 1SGD= RM3.00).

In Hong Kong, the maximum tax rate for resident individuals is 17% for chargeable income above HKD120,000. Both countries have a much lower top rate for high income earners.

- Allocation of RM1.1 billion for salary adjustments equivalent to one annual increment which will benefit 1.6 million civil servants.
- Set minimum starting salary for civil service at RM1,200.
- Set minimum pension at RM950 a month for pensioners with at least 25 years of service.
- Effective from 1 July 2016, the national minimum wage will be increased from RM900 to RM1,000 per month for Peninsular Malaysia and RM800 to RM920 for Sabah and Sarawak and Labuan.
- Special assistance of RM500 to all civil servants and RM250 to pensioners.



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BizWatch

The 2016 Budget was crafted on the premise of striking a balance between the Capital Economy and People Economy.

This is to ensure that Malaysia will achieve an inclusive and sustainable growth as well as build a competitive, progressive and a morally strong nation, with a society that is united.

The end game plan remained the same, for Malaysia to move towards a high income advanced economy based on knowledge, high skills, expertise, creativity and innovation.

In the context of Iskandar Malaysia, the 2016 Budget will bring about several positive effects directly and indirectly although there is no major announcement specifically for Iskandar Malaysia.

Investment of RM6.7 billion by Khazanah Nasional Berhad in nine high-impact domestic projects in sectors such as healthcare, education, tourism as well as communication software and infrastructure will likely have an impact to Iskandar Malaysia especially in the areas of **healthcare, tourism, creative and financial & business services sectors.**

Tourism

The development of hotels and leisure products in Desaru and the building of oil and gas hub in Pengerang will have a positive impact to the tourism sector. With the announcement of incentives for the tourism sector such as extension of income tax exemption to tour operators and the introduction of online visa application, we hope to see more visitors to Iskandar Malaysia and more tourism products being developed in 2016.

Healthcare

The opening of Gleneagles Medini in November as well as new public hospital to be built in Pasir Gudang will set the pace for private and public healthcare development.

Creative

IRDA is working closely with Khazanah and MDEC to bring in more companies in the creative eco-system leveraging on the growing reputation of Pinewood Iskandar Malaysia Studios which is now seeing the production of second season Netflix's Marco Polo.

Financial & Business Services

IRDA is working closely with i2M in their marketing and promotion activities to bring in new investments in this sector.

BizWatch

Connectivity and Accessibility

PM reaffirmed the commitment to work on the High Speed Rail (HSR) project between Malaysia and Singapore. And we expect more announcements later on the progress of the Bus Rapid Transit (BRT) for Iskandar Malaysia as well as the Rail Transit System (RTS) between Johor and Singapore.

Increase in personal income tax for high income earners

There will be increase in the individual income tax for income above RM600,000 from 25% to 26% and to 28% for income above RM1 million. This will impact individuals earning more than RM50,000 per month.

The announcement was unexpected especially when GST is increasing the cost of living and when our neighbor country Singapore has a top rate of 20% and the trend is lowering income tax rate across the region.

Currently, Singapore's top rate is 20% for chargeable income above SGD320,000 (approximately RM960,000) making it an attractive workplace to attract talents and multinationals. Singapore also has a very good live and play eco-system for businesses and individuals.

However, we believe that within Malaysia, Iskandar Malaysia would be attractive with our 15% individual income tax for eligible knowledge workers. This will make better our value propositions to attract foreign knowledge workers and/or Malaysians now working overseas.

SME and Social Inclusiveness

With focus on SME and prospering the rakyat, there is need to work closely with the various Ministries to tap on the funds and allocations and to bring the initiatives to Iskandar Malaysia.

Iskandar Malaysia is making good progress in our various social programmes (Kawan Iskandar Malaysia, Sungai Melayu Eco Tourism Projects, IM Coop, among others) and are expected to make Iskandar Malaysia an ideal location to roll out programmes and initiatives.

We believe that 2016 will be an exciting but challenging years. The programmes and allocation under 2016 Budget will set the stage for our roll out of the initiatives under our enhanced Comprehensive Development Plan.

MALAYSIA BUDGET 2016

Editorial

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