TAX BULLETIN

2011 Budget Highlights

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FOREWORD

On Friday, 15 October 2010, our Prime Minister, YAB Dato' Sri Mohd. Najib B. Tun Abdul Razak, presented his second national budget speech in his capacity as Finance Minister.

With the theme "Transformation Towards a Developed and High-Income Nation", the 2011 Budget emphasises efforts in transforming the country into a developed and high-income economy with inclusive and sustainable development, spearheaded by the private sector as well as the focus on the well-being of the *Rakyat*. The four key strategies outlined to achieve the objectives are as follows: -

(1) Reinvigorating Private Investment;

(2) Intensifying Human Capital Development;

(3) Enhancing Quality of Life of the *Rakyat*; and

(4) Strengthening Public Service Delivery.

Some of the notable tax measures as proposed in the Budget 2011 are as follows: -

- Double deduction for insurance premiums incurred for export credit insurance based on *Takaful* concept

- Extension of application period for various tax incentives in relation to:

    - the generation of energy from renewable resources;
    - energy conservation;
    - reduction of greenhouse emissions;
    - approved food production projects; and
    - last mile network facilities provider for broadband.

- Deductions for expenses incurred in the issuance of Islamic Securities

- Extending the scope of deduction for discount/premium on bonds incurred by non-financial institutions

- Section 113(2) penalty on deduction of expenses on which withholding tax thereon has not been paid on due dates

- Time limit of 3 years for raising of assessment on executor amended to commence from the date DG was informed of the death of an individual

- Some of the changes that affect individuals:

  - Relief for contribution made to private pension fund;
  - Expansion of relief on medical expenses and care for parents;
  - Taxability of voluntary pension and extension of exemption on approved pension to widowers; and
  - Withdrawal of relief on annuity premium.

- 50% stamp duty exemption on instruments of transfer and loan agreements incurred for the purchase of residential properties

- Sales tax exemption on mobile phones

- Increase in the rate of service tax on all taxable services from 5% to 6%

- Full exemption of import and excise duties on the importation of new completely built-up (CBU) hybrid cars, electric cars as well as hybrid and electric motorcyles

Again, the Government has decided to postpone the implementation of goods and services tax (GST) further to provide more breathing space to the *Rakyat*. Despite no indication of any new date of implementation, the Government has maintained that the GST is still important in ensuring a strong and sustainable fiscal position to support the country's long-term economic growth.

Overall, there were no new sources of tax revenue as proposed in the Budget 2011, other than the unexpected 1% increase in service tax from 5% to 6%, and the increase of the service tax scope to include telecommunication services that adopt satellite applications, such as paid television broadcasting like Astro.

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1. TAX SYSTEMS AND ADMINISTRATION

1.1 ***Tax Information Exchange Arrangements***

Present
Pursuant to Section 132 of the Income Tax Act 1967 ("The Act"), the Government may exchange information in relation to tax under the Act with the Government of any territory outside Malaysia under the Double Taxation Arrangements.

There is no specific provision for tax information exchange arrangements for non-treaty countries.

Proposed
The existing Section 132 will be widened to cover tax information exchange arrangements with tax treaty countries on other taxes of every kind under any written law, and a new Section 132A be introduced to facilitate tax information exchange arrangements with non-treaty countries.

Effective
Upon the coming into operation of the Finance (No. 2) Act 2010.

1.2 ***Utilisation Of Tax Paid In Excess***

Present
Where there is tax paid in excess by a person for any year of assessment, the person is entitled to have the excess refunded by the Government.

Proposed
The DG is empowered to utilise any tax paid in excess by a person against any other amount of tax due and payable by that person (including any amount of instalments which are due and payable) under the Act, Petroleum (Income Tax) 1967 ("PITA") or the Real Property Gains Tax Act 1976 ("RPGT").

Similarly, any taxes paid in excess under the PITA and RPGT may be utilised for the payment of tax which is due and payable under the Act.

Effective
Upon the coming into operation of the Finance (No. 2) Act 2010.

1.3 ***Prevention From Leaving Malaysia***

Present
The Director General of Malaysia ("DG") may prevent any person from leaving Malaysia if the DG is of the opinion that the person is about or likely to leave Malaysia without paying the outstanding taxes which excludes any late payment penalty imposed on instalment payments under Section 107B(3) and 107C(9) of the Act.

1.3 ***Prevention From Leaving Malaysia*** *(Cont'd)*

Proposed

The DG is empowered to restrain a person from leaving Malaysia if the person fails to pay the late payment penalties imposed on any tax instalments under Section 107B(3) and 107C(9) of the Act.

Effective

Upon the coming into operation of the Finance (No. 2) Act 2010.

2. TAXATION – INDIVIDUALS

2.1 ***Tax Relief On Medical Expenses And Care For Parents***

Present

The medical expenses relief for parents of up to RM5,000 claimable by an individual resident taxpayer is limited to treatment in clinics and hospitals, treatment in nursing homes, and dental treatment (excluding cosmetic dental treatment).

Proposed

The existing tax relief be extended to include expenses on medical treatment and care for parents who suffer from diseases or with physical or mental disabilities and who need regular treatment certified by a qualified medical practitioner. Such treatment and care provided include treatment and care at home, day care centres or home care centres.

Qualifying expenses related to the treatment and care are as follows:-

(i) treatment and medical expenses supported with receipts issued by registered medical centres, pharmacies or licensed medical stores; or

(ii) expenses for care of parents supported by receipts or written certification by carers certifying that the care was provided and the total payment involved ('Carers' exclude the taxpayer claiming the relief, the spouse and the child of the taxpayer. Foreign hired carers are required to possess a valid visa/special work permit for the care of parents of taxpayers); or

(iii) expenses on special needs for parents certified by a qualified medical practitioner and supported by receipts as proof of purchase.

Effective

Year of assessment 2011.

2.2 ***Withdrawal Of Rebate For Levy/Fees***

Present

A tax rebate is given to an individual on the fees paid to the Government for the issuance of an employment pass, visit pass or work pass.

Proposed

The rebate given above is to be withdrawn.

Effective

Year of assessment 2011.

2.3 *Time Limit For Raising An Assessment On Executor*

Present
Any assessment or additional assessment on income arising up to the time of the deceased's death shall be made not later than the end of the 3rd year of assessment following the year of assessment in the basis year for which:

(i) the individual died;

(ii) the estate duty affidavit (if any) was filed in Malaysia with respect to any part of the estate of that individual; or

(iii) where such an estate duty affidavit has been filed, the last of any corrective affidavits relating to that estate duty affidavit was filed,

being the basis year in which the last of those events took place.

Proposed
Section 74(3)(a) of the Act in relation to Item (i) above to be amended from the 'basis year in which the individual died' to the 'basis year in which the DG is informed by the executor of the individual's death' in the prescribed form under the Act.

Effective
Upon the coming into operation of the Finance (No. 2) Act 2010.

2.4 *Tax Treatment On Pension Received By Widowers*

Present
A pension or other periodical payment made voluntarily to any person who has permanently ceased to exercise an employment (or to his widow, child, relative or dependent) by his former employer or successor of his former employer, shall be deemed to be the gross income of that person or his widow, child, relative or dependant.

Proposed
The above provision to include any pension or other periodical payment received by a widower.

Effective
Year of assessment 2011.

2.5 ***Exemption On Approved Pension To Widowers***

Present
Pension granted to any person under any written law relating to widows' and orphans' pensions (or under any approved scheme within the meaning of any such law) and pensions paid under an approved scheme to or for the benefit of the widow, child or children of a deceased contributor to the scheme, are given tax exemption.

Proposed
The above exemption be extended to a widower.

Effective
Year of assessment 2011.

2.6 ***Withdrawal Of Relief On Annuity Premium***

Present
A relief of RM1,000 is given for annuity premiums paid by a resident individual for the purchase of annuity through the Employees Provident Fund (EPF) annuity scheme.

Proposed
The above relief is to be withdrawn due to the abolishment of the insurance policy which was determined by the EPF Board since 5 October 2001.

Effective
Year of assessment 2011.

2.7 ***Relief For Contribution Made To Private Pension Fund***

Present
A personal relief of up to RM6,000 is given to an individual taxpayer for contributions made to the Employee Provident Fund or an approved scheme.

Proposed
The above relief be extended to contributions made to a Private Pension Fund which will be launched by the Government in 2011.

Effective
Year of assessment 2011.

3. TAXATION – COMPANIES & UNINCORPORATED BUSINESSES

3.1 ***Estimate Of Tax Payable***

Present

Section 107C(8) of the Act empowers the DG to direct any company, trust body or co-operative society to make payment by instalments on account of tax which is or may be payable by the company, trust body or co-operative society for a year of assessment.

The total amount of instalments as directed by the DG above is deemed to be an estimate of tax payable by that company, trust body or co-operative society for a year of assessment if the direction is made before the 6th month of the basis period for a year of assessment.

Proposed

The direction by the DG to make payment by instalments can be made any time during the basis period for a year of assessment and such amount as directed is deemed to be the revised estimate of tax payable by that company, trust body or co-operative society for the purpose of computing the excessive difference penalty under Section 107(10) of the Act.

The company, trust body or co-operative society may furnish a revised estimate of tax payable for a year of assessment provided that the direction by the DG is made before the 9th month of the basis period for a year of assessment.

Effective

Year of assessment 2012.

3.2 ***Computation Of Permitted Expenses***

Present

For the purpose of computing the permitted expenses, there is no clear definition as to whether income from unit trust is to be taken as part of the gross income of an investment holding company, closed-end fund company or unit trust.

Proposed

Income distributed by a unit trust (including Real Estate Investment Trusts) is deemed to be dividend income and hence, to be taken as part of the gross income of an investment holding company, closed-end fund company or unit trust under Section 60F, 60H and 63B of the Act.

Effective

Year of assessment 2011.

3.3 *Double Deduction On Export Credit Insurance Premium Based On Takaful Concept*

Present
Double tax deduction is given on payment of conventional insurance premium for export credit insurance to companies approved by the Minister of Finance ("MOF").

Proposed
The double deduction be extended to payment of insurance premium for export credit insurance based on *takaful* concept. Such insurance premium based on *takaful* concept must be purchased from *takaful* operators approved by the MOF.

Effective
Year of assessment 2011.

3.4 *Reinvestment Allowance ("RA")*

Present
Schedule 7A, Paragraph 7(a) of the Act provides that RA shall not apply to a company for "the period" during which the company: -

(i) has been granted pioneer status under the Promotion of Investment Act 1986 in respect of any promoted activity or promoted product and which is applying or intends to apply for the grant of a pioneer certificate; or

(ii) has been granted pioneer certificate under the Promotion of Investment Act 1986 in respect of any promoted activity or promoted product and whose tax relief period has not ended or ceased.

Proposed
The words 'the period' in Schedule 7A, Paragraph 7(a) is to be replaced by the words 'the basis period'.

Effective
Year of assessment 2011.

3.5 *Payment To Non-Approved Fund Or Society*

Present
Payment made to any pension, provident, savings, widows and orphans or other similar fund or society which is not an approved scheme is not deductible from the gross income.

Proposed
The word 'widowers' is added to the description of any non-approved fund or society mentioned above.

Effective
Year of assessment 2011.

3.6 ***Dividend Paid In Excess Of Section 108 /Revised Section 108 Balance***

Present
Where a company: -

(i) pays a dividend in excess of its 108 balance or the revised 108 balance, the excess shall be a debt due to the Government; or

(ii) is not entitled to deduct tax from a dividend payment, and it issues a dividend certificate showing tax has been deducted or deemed deducted, that amount purportedly deducted shall be increased further by an amount of up to 100%, and the total amount shall be a debt due to the Government.

Proposed
The above debt due to the Government shall be recoverable as if it were tax due and payable under the Act.

Effective
Deemed to have effect from year of assessment 2008.

3.7 ***Amendments Of Statement To Director General***

Present
Pursuant to Section 48 of the Finance Act 2009, notwithstanding that no dividend is paid by a company, it shall within 7 months following the close of the accounting period which constitutes the basis period of the company for the year of assessment 2008 to 2014 (if applicable), furnish to the DG a statement in the prescribed form.

Where the company fails to render a statement, the DG may compute the amount of excess referred to in Section 48 (Finance Act 2007) or Section 49 (Finance Act 2009) and shall serve on the company a written requisition in the prescribed form calling upon the company to pay an amount equal to that excess and an amount of an increase not exceeding the amount equal to that excess, and the amount equal to that excess and the increase on that amount shall be a debt due from the company to the Government and that debt shall be payable forthwith to the DG upon the service of the requisition.

Proposed
Any debt due to the Government under the above Section shall be recoverable as if it were tax due and payable under the Act.

Effective
Deemed to have come into operation on 9 January 2009 (on coming into operation of the Finance Act 2009).

3.8 ***Failure To Remit Withholding Tax***

Present
Where payments are made to a non-resident and where the payer fails to deduct and remit withholding tax attributable under any of the following categorisation under the Act, the DG is empowered to impose a penalty of 10% on the unpaid withholding tax and the gross payment would be disallowed as a deduction for tax purposes: -

(i) contract payments under Section 107A of the Act;

(ii) interest or royalties under Section 109 of the Act;

(iii) special classes of income such as technical fees or rental under Section 109B of the Act; or

(iv) any gains or profits (*Paragraph 4(f)*) under Section 109F of the Act.

However, if the withholding tax and the late payment penalty applicable has been subsequently paid to the DG, the gross payment would then be allowed for as a tax deduction.

Proposed
The DG is empowered to impose a further penalty for incorrect returns under Section 113(2) of the Act if a tax deduction on the payments under Item (i) to (iv) above is claimed and where the withholding tax (and related penalty) are not paid by the due date for submission of the tax return for a year of assessment that relates to such payments.

Effective
1 January 2011 for the year of assessment 2011 and subsequent years of assessment.

3.9 ***Deduction For Discount /Premium On Bonds***

Present
Discount or premium incurred as an expense on bonds issued or subscribed by a company (non-financial institutions) are allowed for tax deduction on an annual basis based on the accrual principle, provided that the company has a source consisting of discount or premium.

3.9 ***Deduction For Discount /Premium On Bonds***
(Cont'd)

Proposed
When a company has insufficient or an absence of gross income from a source consisting of discount or premium, such discount or premium that have not been so deducted shall be allowed as a deduction against the adjusted income of that company from any sources consisting of a business, subject to the following conditions: -

(i) the proceeds from the issuance of the bond must be utilised by that company wholly for the production of gross income from any source or sources consisting of that business; and

(ii) the bond issued or subscribed must not form part of the stock in trade of the business of a company.

Effective
Year of assessment 2011.

4. TAX INCENTIVES

4.1 ***Extension Of Application Period For Tax Incentives For Energy Conservation***

Present

Tax incentives for energy conservation (Energy Efficiency – EE) activities are as follows: -

1. **Companies providing energy conservation services:**

   (i) Pioneer Status with income tax exemption of 100% of statutory income for 10 years; or

   (ii) Investment Tax Allowance of 100% on the qualifying capital expenditure incurred within a period of 5 years. The allowance to be set-off against 100% of the statutory income for each year of assessment;

   AND

   (iii) Import duty and sales tax exemption on energy conservation equipment that are not produced locally and sales tax exemption on the purchase of locally produced equipment.

2. **Companies which incur capital expenditure for energy conservation for own consumption:**

   (i) Investment Tax Allowance of 100% on the qualifying capital expenditure incurred within a period of 5 years. The allowance to be set-off against 100% of the statutory income for each year of assessment; and

   (ii) Import duty and sales tax exemption on energy conservation equipment that are not produced locally and sales tax exemption on the purchase of locally produced equipment.

3. **Companies importing or purchasing locally manufactured energy efficient equipment for third party consumption:**

   (i) Import duty and sales tax exemption on energy efficiency equipment such as high efficiency motors and insulation materials given to importers including authorized agents approved by the Energy Commission; and

   (ii) Sales tax exemption on the purchase of energy efficiency consumer goods such as refrigerator, air conditioner, lightings, fan and television which are produced by local manufacturers.

4.1 ***Extension Of Application Period For Tax Incentives For Energy Conservation*** *(Cont'd)*

The above incentives are given for applications received by Malaysian Industrial Development Authority (MIDA) from 8 September 2007 to 31 December 2010.

Proposed
The application period for the above incentives for EE activities is to be extended.

Effective
Item 1 & 2: Application received until 31 December 2015.
Item 3: Application received until 31 December 2012.

4.2 ***Extension Of Application Period For Tax Incentives For The Generation Of Energy From Renewable Sources***

Present
Tax incentives for companies generating energy from renewable sources are as follows: -

1. **Companies generating energy from renewable sources:**

   (i) Pioneer status with tax exemption of 100% of statutory income for 10 years; or

   (ii) Investment Tax Allowance of 100% on the qualifying capital expenditure incurred within a period of 5 years which can be set-off against 100% of statutory income for each year of assessment.

   AND

   (iii) Import duty and sales tax exemption on equipment used to generate energy that is not produced locally and sales tax exemption on equipment purchased from local manufacturers.

   Other companies within the same group undertaking the same activities are also eligible for the above incentives even though a company within the group has been granted such incentives.

2. **Companies generating renewable energy for own consumption:**

   (i) Investment Tax Allowance of 100% on the qualifying capital expenditure incurred within a period of 5 years which can be set-off against 100% of statutory income for each year of assessment; and

4.2 ***Extension Of Application Period For Tax Incentives For The Generation Of Energy From Renewable Sources*** *(Cont'd)*

(ii) Import duty and sales tax exemption on equipment used to generate energy that is not produced locally and sales tax exemption on equipment purchased from local manufacturers.

3. **Non-energy generating companies which import or purchase equipment to generate energy from renewable sources for third party consumption:**

   (i) Import duty and sales tax exemption on solar photovoltaic system equipment for usage by third parties given to importers, including photovoltaic service providers approved by Energy Commission; and

   (ii) Sales tax exemption on the purchase of solar heating system equipment from local manufacturers.

The above incentives are given for applications received by the Malaysian Industrial Development Authority (MIDA) until 31 December 2010.

Proposed
The application period for the above incentives for generation of energy from renewable sources is to be extended.

Effective
Item 1 & 2: Application received until 31 December 2015.
Item 3: Application received until 31 December 2012.

4.3 ***Extension Of Application Period For Tax Incentives For Food Production Projects***

Present
The company which invests in a subsidiary that is engaged in the food production activities are given tax incentives as follows: -

1. The company which invests in its subsidiary company that is engaged in food production activities is granted tax deduction equivalent to the amount of investment made in that subsidiary; and

2. The subsidiary company undertaking food production activities is granted income tax exemption of 100% on its statutory income for 10 years of assessment for a new project or 5 years of assessment for an expansion project. The exemption period commences from the first year of assessment the company derives statutory income.

4.3 ***Extension Of Application Period For Tax Incentives For Food Production Projects***
(Cont'd)

In addition,

(i) Losses incurred before the exemption period is allowed to be carried forward after the exemption period;

(ii) Losses incurred during the exemption period are also allowed to be carried forward after the exemption period.

The incentives are granted on the following conditions:

(a) the investing company should own at least 70% equity in the subsidiary company that undertakes food production activities;

(b) the approved food production activities are the cultivation of kenaf, vegetables, fruits, herbs, spices; aquaculture; rearing of cattle, goats, sheep, and deep sea fishing; and

(c) the food production project should commence within a period of one year from the date the incentive is approved.

The above incentives are given for applications received by the Ministry of Agriculture and Agro-based Industry until 31 December 2010.

Proposed
The application period for the above tax incentives for food production activities is to be extended for another 5 years.

Effective
For application received by Ministry of Agriculture and Agro-based Industry from 1 January 2011 until 31 December 2015.

4.4 ***Extension Of Application Period For Tax Incentives For Last Mile Network Facilities Provider For Broadband***

Present
Companies investing in last mile broadband infrastructure are given tax incentives as follows: -

(i) Income tax exemption equivalent to 100% of the qualifying expenditure incurred for broadband infrastructure for the period of 5 years with the allowance to be set off against 70% of statutory income for each year of assessment.

4.4 ***Extension Of Application Period For Tax Incentives For Last Mile Network Facilities Provider For Broadband*** *(Cont'd)*

The above incentive is given for applications received by the Ministry of Finance (MOF) until 31 December 2010.

(ii) Import duty and sales tax exemption on broadband equipment and consumer access devices which are basic in providing the broadband services and which are not produced locally.

The above incentives are given for applications received by MIDA until 31 December 2010.

Proposed
The application period for the above incentives is to be extended for another 2 years.

Effective
For application received from 1 January 2011 to 31 December 2012.

4.5 ***Tax Incentive For The Issuance Of Islamic Securities***

Present
Expenses incurred in the issuance of Islamic securities under the principles of *Mudharabah*, *Musyarakah*, *Ijarah* and *Istisna'* or other *Syariah* principles approved by the Minister of Finance are eligible for tax deduction if the issuance of such Islamic securities are approved by the Securities Commission or the Labuan Financial Services Authority.

The incentive is given from year of assessment 2003 until year of assessment 2015.

Proposed
The incentive be extended to include expenses incurred in the issuance of Islamic securities under the principles of *Murabahah* and *Bai' Bithaman Ajil* based on *tawarruq*. The issuance of such securities must be approved by the Securities Commission or the Labuan Financial Services Authority.

Effective
Years of assessment 2011 to 2015.

4.6 ***Extension of Tax Incentive Period for Reduction of Greenhouse Gas Emission***

Present

Income derived from the trading of Certified Emission Reductions ("CERs") certificates by companies involved in Clean Development Mechanism ("CDM") projects approved by the Ministry of Natural Resources and Environment is given tax exemption from the year of assessment 2008 until year of assessment 2010.

Proposed

The tax exemption period be extended for another 2 years.

Effective

Years of assessment 2011 to 2012.

5. REAL PROPERTY GAINS TAX

5.1 ***Conditional Contracts***

Present
Where a contract for the disposal of an asset is conditional and the condition is satisfied by the exercise of a right under an option or otherwise, the acquisition and disposal of the asset shall be regarded as taking place at the time the contract was made, unless such acquisition or disposal requires the approval by the Government or an authority or committee appointed by the Government. Under such circumstances, the date of disposal shall be the date of such approval.

Proposed
The date of disposal of an asset under a conditional contract as explained above will be the date of approval obtained from the Government or a State Government or an authority or committee appointed by the Government or State Government.

Effective
Year of assessment 2011.

5.2 ***Assessment Of Deceased Chargeable Person***

Present
The DG may raise an assessment or additional assessment on the executor of a deceased person in respect of disposals made by the deceased person before his death provided that the assessment is made not more than 3 years after the end of the year of assessment in which the death took place.

Proposed
The DG is empowered to raise an assessment or additional assessment on the executor of a deceased person, in respect of disposals made by the deceased person before his death provided that the assessment is made not more than 3 years after the end of the year of assessment in which the DG is informed in writing by the executor of the death of that chargeable person in a prescribed form.

Effective
Upon the coming into operation of the Finance (No. 2) Act 2010.

6. OTHERS

6.1	***Review Of Service Tax Rate***	**Present** Service tax of 5% is charged on all taxable services provided by service providers, except for the service tax on credit card which is charged at specific rate of RM50 per year on principal cards and RM25 per year on supplementary cards. **Proposed** The rate of service tax on all taxable services be increased from 5% to 6%. **Effective** 1 January 2011.
6.2	***Service Tax On Paid Broadcasting Services***	**Present** Service tax is charged on all telecommunication services including facsimile, leased line, and bandwidth effective 1 January 2001. Telecommunication services adopting satellite applications such as paid television broadcasting services are not subject to service tax. **Proposed** Service tax of 6% is to be imposed on monthly subscription fees paid for television broadcasting services. **Effective** 1 January 2011.
6.3	***Exemption Of Sales Tax On Mobile Phones***	**Present** Ordinary mobile phones are subject to sales tax of 10%, whereas Personal Digital Assistant (PDA) with Global System Mobile (GSM) which may function as mobile phones is given sales tax exemption under the Sales Tax (Exemption) Order 2008. **Proposed** All mobile phones be exempted from sales tax. **Effective** From 4.00pm, 15 October 2010.

6. OTHERS

6.4 ***Stamp Duty Exemption On Loan Agreements For Residential Property***

Present
Loan agreement instruments for residential properties priced at not exceeding RM250,000 are given 50% stamp duty exemption.

The exemption is granted to each individual Malaysian citizen for the purchase of one residential property with sale and purchase agreements executed from 30 August 2008 to 31 December 2010.

Proposed
The 50% stamp duty exemption be given on loan agreement instruments for residential properties priced at not exceeding RM350,000. Such loan agreements are made between purchaser with the bank, financial institutions, insurance companies, cooperatives or employer under the employee housing loan scheme.

The exemption given is subject to the following conditions: -

(i) It is the first residential property purchased by a Malaysian citizen; and

(ii) The exemption is to be claimed once only within the exemption period.

The first residential property [Item (i) above] refers to a situation whereby an individual does not own any residential property (or does not own a part of a residential property in the case of joint ownership) in his name at the time he applies for the 50% stamp duty exemption. A residential property includes a house, condominium, apartment or flat built as a dwelling house.

Effective
For sales and purchase agreements executed from 1 January 2011 to 31 December 2012.

6.5 ***Stamp Duty Exemption On Instruments Of Transfer Of Residential Property***

Present
Instruments of transfer of residential properties priced at not exceeding RM250,000 are given 50% stamp duty exemption.

The exemption is granted to each individual Malaysian citizen for the purchase of one residential property with sale and purchase agreements executed from 8 September 2007 to 31 December 2010.

6.5 *Stamp Duty Exemption On Instruments Of Transfer Of Residential Property* *(Cont'd)*

Proposed
The 50% stamp duty exemption be given on instruments of transfer of residential properties priced at not exceeding RM350,000, subject to the following conditions: -

(i) It is the first residential property purchased by a Malaysian citizen; and

(ii) The exemption is to be claimed once only within the exemption period; and

The first residential property [Item (i) above] refers to a situation whereby an individual does not own any residential property (or does not own a part of a residential property in the case of joint ownership) in his name at the time he applies for the 50% stamp duty exemption. A residential property includes a house, condominium, apartment or flat.

Effective
For sales and purchase agreements executed from 1 January 2011 to 31 December 2012.

6.6 *Mode Of Payment For Stamp Duty*

Present
The Minister of Finance can authorise any person to pay the duty on any of the instruments specified in the Fifth Schedule of the Stamp Act 1949 by means of a postal franking machine.

Proposed
The mode of payment for the above duty on the instruments under the Fifth Schedule is to be extended to a digital franking machine.

The instruments as specified in the Fifth Schedule be extended to include the followings: -

(i) Letter of indemnity;
(ii) Letter of guarantee;
(iii) Letter of allotment;
(iv) Education loan agreement;
(v) Articles of Association of a company;
(vi) Memorandum of Association of a company; and
(vii) Any other agreement approved by the Collector.

Effective
Upon the coming into operation of the Finance (No. 2) Act 2010.

6.7 ***Excise Duty Exemption On National Vehicles For Disabled Persons***	**Present** 50% excise duty exemption is given to a disabled person (with certain physical disabilities, namely handicapped limbs) on the purchase of a national vehicle, subject to the following conditions: - (i) The applicant must be registered as a disabled person and possesses a Registration Certificate from the Social Welfare Department; (ii) The applicant must have a valid driving licence; (iii) The vehicle bought must be from the stock of unpaid duty and tax; (iv) The vehicle should not be sold or its ownership transferred until the expiry of 5 years except with a written approval from the Treasury; and (v) The exemption is given only for one vehicle within a period of 5 years. This exemption is given from 28 October 2000. **Proposed** The excise duty exemption is to be increased from 50% to 100% on the purchase of national vehicles by physically disabled persons subject to the existing conditions as stipulated above. The exemption is also extended to disabled persons who have hearing and speaking disabilities. **Effective** For applications received by the MOF from 18 October 2010.
6.8 ***Abolishment Of Import Duty On Tourism Products and Daily Used Products***	**Present** Import duty on most tourism products such as cameras, watches and perfumes has been abolished. Tourism dutiable products such as apparel, handbags, wallets and footwear with Free On Board ("FOB") value exceeding RM200 are given exemption under Item 174, Customs Duties (Exemption) Order 1988. **Proposed** Import duty on the following tourism products and daily used products is to be abolished: -

6.8 ***Abolishment Of Import Duty On Tourism Products and Daily Used Products***
(Cont'd)

(i) Handbags, wallets suitcases, briefcases, apparel, footwear and hats (with duty of between 5% and 20%);

(ii) Jewellery, costume jewellery and ornaments (with duty of between 5% and 20%);

(iii) Toys such as dolls and small scale recreational models (with duty of between 5% and 20%);

(iv) Talcum powder, face powder and shampoo (with duty of between 10% and 20%); and

(v) Bedspreads, blankets, curtains and table cloth (with duty of between 10% and 20%).

Effective
From 4.00 pm, 15 October 2010.

6.9 ***Excise Exemption On Hybrid Cars***

Present
100% import duty exemption and 50% excise duty exemption are given to franchise holders of hybrid cars on new completely-built-up (CBU) hybrid cars, subject to the following conditions:-

(i) Definitions of hybrid cars should comply with the United Nations as follows:

'A vehicle with at least 2 different energy converters and 2 different energy storage systems (gasoline and electric) on-board the vehicle for the purpose of vehicle propulsion';

(ii) Limited to new CBU hybrid passenger cars with engine capacity below 2000cc;

(iii) Engine specification of at least Euro 3 technology;

(iv) It should be certified by the Ministry of Transport, obtaining Vehicle Type Approval and is certified to have achieved not less than 50% increase in the city-fuel economy or not less than 25% increased in a combined city-highway fuel economy relative to a comparable vehicle that is an internal combustion gasoline fuel; and

(v) Emission of carbon monoxide of less than 2.3 gram per kilometre.

6.9 ***Excise Exemption On Hybrid Cars*** *(Cont'd)*

The exemption is given for applications received by the Ministry of Finance from 30 August 2008 until 31 December 2010.

Proposed

Full exemption on import duty and excess duty are given on new CBU hybrids cars, electric cars as well as hybrid and electric motorcycles.

Effective

For applications received by the Ministry of Finance from 1 January 2011 and 31 December 2011.

6.10 ***New Definition Of Offshore Activity***

Amendments were made to existing Labuan laws and four new Acts ("the Labuan Acts") which came into effect from 11 February 2010.

In line with the above amendments, the following amendments to the definitions in the Act have been proposed: -

Present	**Proposed**
Labuan Offshore Business Activity Tax Act 1990	Labuan Business Activity Tax Act 1990
Labuan Offshore Financial Services Authority	Labuan Financial Services Authority
Offshore business activity	Labuan business activity
Offshore Companies Act 1990	Labuan Companies Act 1990
Offshore company	Labuan company

Effective

11 February 2011.

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