

2002 Budget Proposals Highlights

- Reduction of income tax rates for individuals and co-operative societies
- Review of persons responsible for compliance
- Bonus restriction abolished
- Review of industrial building allowance
- Deduction of practical training for non-employees

Tax Incentives

- Review of reinvestment allowance
- Tax incentives for offshore trading via websites
- Tax incentives for poultry farming
- Tax incentives for machinery and equipment industry
- Tax incentives for extended agricultural projects
- Tax incentives for luxury yacht industry
- Tax incentives for organising international trade exhibition
- Tax incentives on promotion of exports for manufacturing and service sector

FOREWORD

On 19 October 2001, the Budget 2002 proposals were presented by Y.A.B. Dato Seri Dr. Mahathir Bin Mohamad, the Prime Minister and Minister of Finance of Malaysia.

The budget strategies, in the light of the weak global economic condition are summarised as follows :-

First strategy : Strengthening of the nation's economic growth through increased domestic expenditure, enhancing the private sector role and increasing competitiveness.

Second strategy : Diversifying sources of growth through trade and industrial activities and ensuring continued growth in export in addition to the role of foreign direct investments

Third strategy : Ensuring equitable distribution of wealth in the nation.

To these ends, the Government has introduced and proposed various fiscal packages as well as a wide variety of incentives which it hopes will stimulate growth and particularly the private sector to act positively.

While many favourable tax amendments have been proposed, it is important to take immediate notice of the following :-

- (a) The proposed amendments to Section 75 of the Act which is widely interpreted to lift the veil of incorporation and limited liability and to place the onus of tax payment on principal officers should the company not pay;
- (b) The lowering of the Service Tax threshold to RM300,000 for food and beverages outlets, private clubs and advertising firms and to RM150,000 for a wide range of professional and consultancy services.

The tax authorities have provided frequent public training over the past two years and are actively carrying out tax field audits. The penalty on any additional tax arising from such audits is set at 60%. Penalties will also be imposed on inadequate records as well as accounts that are not kept up to date (within 60 days).

The message to the taxpayers is clear. YOU CAN NO LONGER BE IGNORANT OR JUST MINIMALLY AWARE OF TAXATION!

IMPORTANT NOTE

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TAXATION ON INDIVIDUALS

TAX RATE FOR RESIDENT INDIVIDUALS

	Chargeable Income (RM)	Present Structure		Proposed Structure	
		Tax Rates (%)	Tax payable (RM)	Tax Rates (%)	Tax payable (RM)
First	2,500	0	0	0	0
Next	2,500	1	25	1	25
On	5,000		25		25
Next	5,000	3	150	3	150
On	10,000		175		175
Next	10,000	5	500	3	300
On	20,000		675		475
Next	15,000	9	1,350	7	1,050
On	35,000		2,025		1,525
Next	15,000	15	2,250	13	1,950
On	50,000		4,275		3,475
Next	20,000	20	4,000	19	3,800
On	70,000		8,275		7,275
Next	30,000	25	7,500	24	7,200
On	100,000		15,775		14,475
Next	50,000	28	14,000	27	13,500
On	150,000		29,775		27,975
Next	100,000	29	29,000	27	27,000
On	250,000		58,775		54,975
Exceeding	250,000	29		28	

Effective

Year of assessment 2002.

TAX RATE FOR NON-RESIDENT INDIVIDUALS

Present

The income of non-resident individuals is taxed at a flat rate of 29%.

Proposed

It is proposed that the income tax rates of non-resident individuals be reduced to 28%.

Effective

Year of assessment 2002.

TAXATION ON COMPANIES

PERSONS RESPONSIBLE FOR COMPLIANCE

Present

Section 75(1) of the Income Tax Act provides that “Responsibility for doing all acts and things required to be done by or on behalf of a company or body of persons for the purposes of this Act shall lie jointly and severally (with the key officers)”.

Proposed

Section 75(1) is proposed to be amended to “**Notwithstanding anything to the contrary to this Act or any other written law, the responsibility** for doing all acts and things required to be done by or on behalf of a company or body of persons for the purposes of this Act **including the payment of tax** shall lie jointly and severally (with the key officers)”.

Effective

Not stated in the Finance Bill 2001.

BONUS RESTRICTION ABOLISHED

Present

Tax deduction for bonus paid to each employee is restricted to two-twelfths of the employee’s annual salary or wages.

Proposed

It is proposed that the bonus restriction be abolished.

The proposed amendment also covers chargeable persons governed under the Petroleum (Income Tax) Act 1967.

Effective

Year of assessment 2002.

INCREASE IN DEDUCTION FOR RENTAL OF PRIVATE MOTOR VEHICLES USED FOR BUSINESS

Present

Expenses incurred on rental of private motor vehicles, other than motor vehicles licensed for commercial transportation of goods or passengers, which exceeds RM50,000 per vehicle are not deductible under Section 39(1)(k) of the Income Tax Act 1967.

Proposed

It is proposed that the total deduction for expenses incurred on rental of private motor vehicles for business use be increased to RM100,000 per vehicle, subject to the following conditions :

- 1) The motor vehicle has not been used previously; and
- 2) The total cost of the motor vehicle does not exceed RM150,000.

The proposed amendment also covers chargeable persons governed under the Petroleum (Income Tax) Act 1967.

Effective

Year of assessment 2002.

**DEDUCTION FOR
PRACTICAL
TRAINING FOR
NON-EMPLOYEES**

Present

Tax deduction is only allowed on expenses incurred on training of employees.

Proposed

Tax deduction is to be granted on expenses incurred in providing practical training to residents who are not employees.

The proposed amendment also covers chargeable persons governed under the Petroleum (Income Tax) Act 1967.

Effective

Year of assessment 2002.

**DEDUCTION ON
COST OF
DEVELOPING
WEBSITES**

Present

There are various tax treatment on the cost incurred in developing website. It has been interpreted either as capital expenditure that may qualifies for capital allowances or advertising & promotional expenses that qualifies for tax deduction.

Proposed

It is proposed that the cost of developing websites be allowed as an annual deduction of 20% for 5 years.

Effective

Year of assessment 2002.

**DEDUCTION FOR
PROPRIETARY
RIGHTS
EXPENDITURE**

Present

Capital expenditure incurred to acquire proprietary rights such as patents, industrial designs and trademarks used for the purpose of the business of manufacturing company which is at least 70% Malaysian owned, is allowed an annual deduction of 10% against the adjusted income over a period of 10 years.

Proposed

It is proposed that the annual deduction allowed for capital expenditure incurred to acquire proprietary rights be increased from 10% to 20% for a period of 5 years.

Effective

Year of assessment 2002.

**REVIEW OF
INDUSTRIAL
BUILDING
ALLOWANCE (IBA)**

Present

The IBA on qualifying expenditure incurred in the construction or purchase of industrial buildings is as follows :

Industrial building	IA	AA	Claim period
1) Constructed buildings	10%	2%	45 years
2) Purchased buildings	-	Permitted fraction	50 years
3) Certain other buildings	-	10% - 20%	5 – 10 years

Hotel buildings are treated as IB under the Promotions of Investment Act 1976 where the hotels eligible for Pioneer or Investment Tax Allowance incentives.

Proposed

It is proposed that :

- 1) For buildings purchased from persons who constructed it and has not been used for any purpose prior to purchase
 - Qualifying building expenditure = purchase price
 - Initial allowance (IA) of 10% be granted.
- 2) The annual allowance (AA) for industrial buildings be increased to 3%.
- 3) The claim of IBA is to be extended to :
 - (a) All hotels that are registered with the Ministry of Culture, Arts and Tourism;
 - (b) Airport and motor racing circuit.

The proposed amendment in items (1) and (2) also covers chargeable persons governed under the Petroleum Income Tax) Act 1967.

Effective

- 1) Items (1), (2), and (3)(a) – year of assessment 2002;
- 2) Item (3)(b) – year of assessment 2001;

**DOUBLE
DEDUCTION FOR
PROMOTION OF
MALAYSIAN
BRAND NAMES**

Present

The following advertising expenses incurred within the country for the promotion of Malaysian brand names registered as a trademark locally are given double deduction.

- 1) On the internet where the host website is located in Malaysia ;
- 2) In magazines and newspapers printed in Malaysia ;
- 3) On local licensed television stations ;
- 4) Approved by relevant local authorities on advertisement hoardings located in Malaysia ;
- 5) In trade publications printed in Malaysia ;
- 6) In any form in the course of sponsoring an approved international sporting event in Malaysia ; and
- 7) In any form in the course of sponsoring an approved international trade conference or an approved international trade exhibition held in Malaysia.

Professional fees paid to companies promoting Malaysian brand names are allowed as a single deduction.

Proposed

It is proposed that double deduction be extended on :

- 1) Advertisement expenses incurred in promoting Malaysian brand names, registered overseas ; and
- 2) Professional fee paid to companies promoting Malaysian brand names.

Effective

Year of assessment 2002.

**INCENTIVES FOR
DEDUCTION OF
EXPENSES
INCURRED ON
ROSETTANET**

Present

RosettaNet is an open internet-based common business-messaging standard for supply chain management link-ups with global suppliers.

Currently, contributions and expenditure incurred by companies in assisting the local small and medium scale companies in the adoption, management and operation of *RosettaNet Malaysia* is not allowed as a deduction for purposes of income tax.

Proposed

It is proposed that contributions and expenditure incurred by companies in the management and operation of *RosettaNet Malaysia* and in assisting local small and medium scale companies to adopt *RosettaNet* be allowed as a deduction for purposes of income tax.

Effective

Year of assessment 2002

**INCENTIVES FOR
OFFSHORE
TRADING VIA
WEBSITES IN
MALAYSIA**

Present

The Labuan Offshore Business Activity Tax Act 1990 provides that only offshore trading activities in Labuan are eligible for tax incentive at a concessionary rate of 3% on the net profit or RM20,000 for a year of assessment, upon election by the Company.

Proposed

It is proposed that :

- 1) Income received by companies undertaking offshore trading via websites in Malaysia is taxed at a concessionary rate of 10% for a period of 5 years, provided it is approved by the Minister of Finance (MOF) ; and
- 2) Income after tax, which is distributed to the shareholders, be exempted from tax.

Effective

For applications received by the MOF from 20 October 2001.

**EXEMPTION ON
ROYALTY UNDER
FRANCHISED
EDUCATION
SCHEME**

Present

Royalty payment to non-residents, including royalty payment made by educational institutions to non-residents for franchised scheme programme, is subject to 10% withholding tax.

Proposed

It is proposed that royalty income received by non-residents (franchisor) for franchised education schemes approved by the Ministry of Education be exempted from withholding tax.

Effective

20 October 2001

**EXEMPTION ON
RENTAL OF ISO
CONTAINERS**

Present

Income received from the rental of ISO containers by non-residents from any lessee in Malaysia, which is classified under income of moveable property, is subject to withholding tax at 10% on the gross rental received.

Proposed

It is proposed that income from the rental of ISO containers received by non-residents from shipping companies in Malaysia is exempted from income tax.

Effective

From 20 October 2001

**TAX EXEMPTION
ON INCOME OF
TRADE
ASSOCIATIONS**

Present

Trade associations are only granted 50% exemption on their income for a period of 5 years.

Subscription fees received by trade association are regarded as part of the gross income subject to income tax (tax rates are similar to individual tax rates ranging from 0% to 29%)

Proposed

It is proposed that statutory income from subscription fees received by trade associations be exempted from income tax indefinitely. However, if the tax exemption is less beneficial compared to the current tax treatment of 50% exemption, then the trade associations can continue to enjoy the prevailing tax exemption until the expiry of the period and subsequently enjoy the tax exemption on statutory income from subscription.

Effective

Year of assessment 2002

TAXATION ON CO-OPERATIVE SOCIETIES

REVIEW OF TAX RATES

Chargeable Income Brackets (RM)	Present Tax Rate (%)	Proposed Tax Rates (%)
1 – 10,000	0	0
10,001 – 20,000	1	0
20,001 – 30,000	4	3
30,001 – 40,000	7	6
40,001 – 50,000	10	9
50,001 – 75,000	13	12
75,001 – 100,000	17	16
100,001 – 150,000	21	20
150,001 – 250,000	24	23
250,001 – 500,000	27	26
Above 500,000	29	28

Effective

Year of assessment 2002.

TAX INCENTIVES

REINVESTMENT ALLOWANCE (RA)

Present

RA is granted to tax residents in the manufacturing and agricultural sector on qualifying capital expenditure incurred in an expansion, modernisation, diversification or automation project.

From year of assessment 1998, RA is limited to 5 years commencing from the year of assessment in which the first reinvestment is made.

Proposed

It is proposed that the RA period be extended from the present 5 years to 15 years, commencing from the year of assessment in which the first reinvestment is made.

For assets acquired under control transfer, the qualifying expenditure in respect of an asset under control transfer shall be the residual value of the disposer.

Effective

- 1) Extended period of RA – year of assessment 1998.
- 2) Assets acquired under control transfer – year of assessment 2002.

**INCENTIVES FOR
LUXURY YACHT
INDUSTRY**

Present

The construction of luxury yacht is currently eligible for Pioneer Status with income tax exemption of 70% for a period of 5 years. However, for repair and maintenance activities of luxury yachts, income tax exemption of 100% is eligible to be granted only if such activities are undertaken in Langkawi.

Proposed

It is proposed that income derived by the company in providing chartering services of luxury yachts be granted income tax exemption of 100% for a period of 5 years. This exemption applies to yachts of 40 metres and above in length.

Effective

For applications received by the MOF from 20 October 2001.

**INCENTIVES FOR
TOUR OPERATORS**

Present

Tax exemption (valid until year of assessment 2001) on the income derived from the business of operating:

- 1) Group inclusive inbound tours that bring in at least 500 foreign tourists per year; and
- 2) Domestic tour packages with at least 1,200 local tourists per year.

Proposed

The present incentives for tour operators organising domestic tours for foreign and local tourists be extended for another 5 years.

Effective

Years of assessment 2002 to 2006

**TAX INCENTIVES
FOR ORGANISERS
OF
INTERNATIONAL
TRADE
EXHIBITIONS IN
MALAYSIA**

Present

Statutory income derived from organising conferences held in Malaysia by a resident conference promoter is exempted from income tax provided that in the basis period for a year of assessment, not less than 500 foreign participants are brought in.

Proposed

The activities whereby the income is exempted be extended to income derived from organising international trade exhibition in Malaysia, provided that the international trade exhibition organised:

- 1) Is approved by MATRADE ; and
- 2) Managed to bring in at least 500 foreign participants into Malaysia in the basis period for a year of assessment.

Effective

Year of assessment 2002.

**REVISION OF TAX
INCENTIVES FOR
INTERNATIONAL
TRADING
COMPANIES**

Present

Currently, a Malaysian international trading company is given income tax exemption of 70% of its statutory income based on the increased export sales for a period of 5 years, with the conditions that the company :

- 1) Is incorporated in Malaysia, with at least 70% of its issued share capital is owned by Malaysian ;
- 2) Achieved annual sales of more than RM25 million ;
- 3) Exports manufactured products especially from Malaysian small and medium size companies ;
- 4) Should not have more than 20% of its annual sales which is derived from trading of commodities ;
- 5) Should not have more than 20% of its annual sales which is derived from sales of goods to related companies ;
- 6) Uses local services for the purposes of banking, finance and insurance ; and
- 7) Uses local ports and airports for logistic purposes.

Proposed

The tax incentives be amended to exempt income tax equivalent to 10% of the increased export value for a period of 5 years, and the following conditions be liberalised :

- 1) Equity holdings by Malaysian in the company be reduced from 70% to 60% ;
- 2) Annual sales turnover be reduced from more than RM25 million to more than RM10 million ; and
- 3) Export of goods to related companies is allowed without any restrictions.

Effective

Year of assessment 2002.

**INCENTIVES FOR
POULTRY
FARMING IN
PROMOTED AREAS**

Present

The rearing of chicken and ducks are not eligible for Pioneer Status or Investment Tax Allowance.

Proposed

The rearing of chicken and ducks in the Eastern Corridor of Peninsular Malaysia, Sabah and Sarawak, be given the following incentives: -

- 1) Pioneer Status with tax exemption of 85% of statutory income for a period of 5 years; or
- 2) Investment Tax Allowance of 80% of capital expenditure incurred within a period of 5 years with the allowance deducted in each year of assessment be limited to 85% of statutory income.

Effective

For applications received by the MIDA from 20 October 2001.

**INCENTIVES FOR
MACHINERY AND
EQUIPMENT
INDUSTRY**

Present

Companies which intend to produce machinery and equipment is eligible for: -

- 1) Pioneer Status with 70% income tax exemption for a period of 5 years; or
- 2) Investment Tax Allowance of 60% for a period of 5 years,

On condition that it complies with the value added criteria of at least 30% and the Managerial, Technical and Supervisory index of at least 15%.

Proposed

- 1) Companies undertaking activities relating to the production of machinery and equipment are eligible for the above Pioneer Status or Investment Tax Allowance on condition that it complies with the residual value added criteria of at least 20% and the Managerial, Technical and Supervisory Index criteria, be maintained at a minimum of 15%;

and

- 2) Companies undertaking activities in the production of the following machinery and equipment: -
 - Machine tools;
 - Plastic injection machines;
 - Material handling equipment;
 - Robotics and factory automation equipment; and
 - Parts and components of the above machines and equipment

Be granted the following incentives: -

- a) Pioneer Status with tax exemption of 100% of statutory income for a period of 10 years; or
- b) Investment Tax Allowance of 100% on qualifying capital expenditure incurred within a period of 5 years with the allowance deducted for each year of assessment to be set off against 100% of statutory income;

On condition that the companies comply with the value added criteria of at least 30% and the Managerial, Technical and Supervisory Index criteria of at least 15%.

Effective

For applications received by the Malaysian Industrial Development Authority (MIDA) from 20 October 2001.

**INCENTIVES FOR
RESOURCE BASED
INDUSTRIES**

Present

Generally, the incentives provided to promoted products or activities are as follows : -

- 1) Pioneer Status with 70% or 100% tax exemption for a period of 5 years or 10 years; or

- 2) Investment Tax Allowance of 60% or 100% for a period of 5 years.

Reinvestment for purposes of expansion, modernisation, diversification and automation is given tax incentives in the form of :

- 1) Reinvestment Allowance (RA) of 60% for a period of 5 years; and
- 2) Accelerated Capital Allowance for a period of 3 years upon the expiry of RA.

Proposed

It is proposed that local companies involved in downstream resource based activities such as rubber, oil palm and wood based industries, which have export potential and which reinvest for expansion purposes be granted the following incentives: -

- 1) Located outside promoted areas :
 - (a) Pioneer Status with tax exemption of 70% of statutory income for a period of 5 years; or
 - (b) Investment Tax Allowance of 60% on capital expenditure incurred with a period of 5 years with the allowance deducted for each year of assessment limited to 70% of statutory income.
- 2) Located in promoted areas :
 - (a) Pioneer Status with tax exemption of 85% if statutory income for a period of 5 years; or
 - (b) Investment Tax Allowance of 80% of capital expenditure incurred within a period of 5 years with the allowance deducted for each year of assessment limited to 85% of statutory income.

Effective

For applications received by the MIDA from 20 October 2001.

**APPROVED
AGRICULTURAL
PROJECTS**

Present

The following approved agriculture project is eligible for 100% capital expenditure deduction against the aggregate income.

Project	Period (year)	Minimum area (Hectare)
1) Prawns	2	40
2) Cultivation of :		
(a) Papaya, banana and passion fruit	1	40
(b) Star fruit and guava	2	8
(c) Mangosteen	7	8
3) Floriculture	2	8

Proposed

Scope of approved agricultural projects be extended to include the following agricultural projects:

Project	Period (year)	Minimum area (Hectare)
1) Cultivation of vegetables, tubers, roots, herbs, spices, crops for animal feed and hydroponic based products.	3	40.0
2) Ornamental fish culture – open system (land/concrete pond)	2	5.0
3) Ornamental fish culture – enclosure system	2	0.25
4) Pond culture – fish and prawns (brackish water/fresh water)	2	20.0
5) Tank culture – fish (brackish water/fresh water)	2	1.0
6) Off-shore marine cage culture – fish	2	0.5
7) Marine cage culture – fish (brackish water/fresh water)	2	0.5
8) Cockle culture	1	10.0
9) Mussel and oyster culture	2	0.5
10) Seaweed culture	1	5.0
11) Shrimp hatchery	2	0.25
12) Prawn hatchery	2	0.25
13) Fish hatchery (sea water/brackish water/fresh water)	2	0.5

Effective

Year of assessment 2002.

**TAX INCENTIVES
ON
MANUFACTURING
RELATED
SERVICES**

Present

No specific tax incentives granted to the following value added services:

- 1) Integrated logistics services which comprise the entire supply chain management, including procurement of software and hardware, warehousing, distribution (transportation and freight services), packaging activities and custom clearance; and
- 2) Integrated market support services which comprise the activities of brand development, consumer development, packaging design, advertising and promotion.

Integrated central utility facilities which provide services including the supply of steam, demineralised water and industrial gas are eligible for import duty and sales tax exemptions on equipment used in their projects.

Proposal

It is proposed that integrated logistic, marketing support and utility services be given the following tax incentives:

- 1) Income tax exemption of 70% of the statutory income for a period of 5 years;

- 2) Income tax exemption of 85% of the statutory income for a period of 5 years for projects in the Eastern Corridor of Peninsular Malaysia, Sabah and Sarawak; and
- 3) Exemption of import duty and sales tax on equipment in the related projects.

Effective

Applications received by the MIDA from 20 October 2001.

**INCENTIVES FOR
APPROVED FOOD
PRODUCTION**

Present

The incentives available for companies involved in food production are as follows: -

First Alternative

- 1) The company which invests in the subsidiary company engaged in food production be granted tax deduction equivalent to the amount of investment made in that subsidiary; and
- 2) The subsidiary company undertaking food production be given income tax exemption of 100% on its statutory income for 10 years commencing from the first year the company enjoys profit.

OR

Second Alternative

- 1) The company which invests in the subsidiary company engaged in food production be given group relief for the losses incurred by the subsidiary company before it records any profit; and
- 2) The subsidiary company undertaking food production be given income tax exemption of 100% on its statutory income for 10 years commencing from the first year the company enjoys profit.

The above incentives announced in the 2001 Budget were for companies that have not commenced the food production activity.

Proposed

- 1) The tax incentives announced in the 2001 Budget for the company which invests and undertakes food production of approved food products be extended to any company which reinvests in the production of the same approved food products; and
- 2) The incentive is given for a period of 5 years subject to the same conditions as announced in the 2001 Budget.

Effective

For applications received by the Ministry of Agriculture from 20 October 2001 until 31 December 2003.

**REVISION OF TAX
INCENTIVES FOR
PROMOTION OF
EXPORTS FOR THE
MANUFACTURING
AND SERVICE
SECTOR**

Present
Manufacturing Sector

Currently, double deduction is given to the following expenses incurred on :

- 1) Publicity and advertisements in any media outside Malaysia ;
- 2) Provision of samples to prospective customers outside Malaysia, including the cost of delivery of the samples ;
- 3) Preparation of tenders for the supply of goods or agricultural products to prospective customers outside Malaysia ;
- 4) Fares for overseas travel by company representatives for the purpose of negotiations / signing of contracts, or for the purpose of participating in trade / industrial exhibitions. Additional deduction is limited to RM200 per day for accommodation and RM100 per day for sustenance ;
- 5) Supply of technical information to prospective customers outside Malaysia related to goods or agricultural products of the company which are offered for sale, but excluding expenses relating to the supply of technical information after purchase ;
- 6) Participation in trade / industrial exhibitions overseas approved by the Minister ;
- 7) Cost of maintaining sales offices overseas for the promotion of exports from Malaysia ; and
- 8) Local professional services for packaging design subject to condition that the product is of export quality.

Service Sector

Currently, double deduction is given to the expenses incurred similar to those incurred in promotion of exports for the manufacturing sectors (as described above).

There is also exemption of statutory income equivalent to 10% of increased export value for the following services :

- 1) Legal ;
- 2) Accounting ;
- 3) Architecture ;
- 4) Marketing ;
- 5) Business consultancy ;
- 6) Office services ;
- 7) Construction management ;
- 8) Building management ;
- 9) Plantation management ;
- 10) Health ;
- 11) Education ;
- 12) Publishing ; and
- 13) Information and communication technology.

Proposed
Manufacturing Sector

Double deduction be expanded to the following expenses :

- 1) Participation in virtual trade show ;

- 2) Participation in trade portals for the promotion of local products ; and
- 3) Cost of maintaining warehouses overseas.

Service Sector

- 1) Double deduction be expanded to the following expenses:
 - (a) Feasibility studies for overseas projects identified for the purpose of tender ;
 - (b) Participation in trade / industrial exhibitions locally or overseas ; and
 - (c) Participation in exhibitions held in Malaysian Permanent Trade & Exhibition Centres overseas.
- 2) The income tax exemption of the services specified above be increased from 10% to 50% of the increase in export value.

Others

In addition to the above, a single deduction will be allowed on payments for :

- 1) Registration of patents, trade marks and product licensing overseas ; and
- 2) Hotel accommodation for a maximum of 3 nights to companies providing hospitality to potential importers invited to Malaysia as a follow-up to trade and investment missions organised by government agencies or industrial and trade association.

Effective

Year of assessment 2002.

STAMP DUTY

APPEAL PROCESS

Present

An appeal against an assessment should be made to the High court within 21 days after the date of the assessment and upon payment of duty.

Proposed

It is proposed that an objection against an assessment be made by way of a written notice to the Collector of Stamp Duty within 30 days from the date of assessment. Notwithstanding any objection, the duty assessed is still required to be paid.

An appeal against the decision of the Stamp Duty Collector following the notice of objection should be made to the High Court within 21 days after notification in writing of the decision of the Collector and upon payment of duty.

Effective

1 January 2002

**PENALTY FOR
LATE STAMPING**

Present

Presently, reduction and remission of penalty for late stamping can be made by the following bodies :

- 1) Amount not exceeding RM5,000 : by Collector of Stamp duty
- 2) Amount exceeding RM5,000 : by Minister of Finance.

Proposed

It is proposed that Collector of stamp duty can reduce or remit any penalty for late stamping.

Effective

1 January 2002

INDIRECT TAXES

SERVICE TAX

Taxable person/ services (RM)	Annual sales turnover threshold	
	Present (RM)	Proposed (RM)
1) Restaurants, bars, snack-bars, coffee-houses located in hotels (having 25 rooms or less) or located outside hotels or food courts.	500,000	300,000
2) Private clubs.	500,000	300,000
3) Advertising firms.	500,000	300,000
4) Persons providing management or consultancy services.	300,000	150,000

Item (4) above includes professional and consultancy services provided by accounting, legal, engineering, architectural, surveyor, consultancy firms and companies providing management services including project management/ coordination services.

Effective

1 January 2002

SELECTED GOODS

Present

High import duty is imposed on selected goods to protect local producers from competition with imported goods. Generally, the import duty rates imposed do not exceed 30%.

There are also intermediate goods where the import duties are higher than the finished goods, as well as, goods on which import duty rates are not consistent with other goods in the same category.

In addition, there are goods that are not produced locally but are subject to import duty, as well as, goods that are competitive but are still protected.

Proposed

It is proposed that :

- 1) Import duty on 55 goods that have long been protected be reduced from between 20% and 105% to between 10% to 50%;
- 2) Import duty on 25 intermediate goods with duties higher than finished goods be reduced from between 10% and 30% to between 5% and 25%;
- 3) Import duty on 109 goods where rates inconsistent with those in the same category be reduced from between 25% and 30% to between 0% and 25%; and
- 4) Import duty on 37 goods that are competitive or not produced locally be abolished.

Effective

19 October 2001

**CIGARETTES AND
TOBACCO
PRODUCTS**

Present

The import duty and excise duty on cigarettes and tobacco products are RM180 and RM40 per kilogramme respectively.

Proposed

It is proposed that the rate on cigarettes and tobacco products be increased as follows :

- 1) Import duty, to RM216 per kilogramme; and
- 2) Excise duty, to RM48 per kilogramme.

Effective

19 October 2001

**PETROL AND
DIESEL PRICE**

Present

Retail prices for petrol is RM1.20 per litre respectively.

Proposed

It is proposed that retail price for petrol be increased by 10 cents per litre.

Effective

20 October 2001

**EDUCATIONAL
EQUIPMENT**

Present

Private institutions of higher learning (IPTS) that undertake vocational and technical training are granted import duty, sales tax and excise duty exemptions on educational equipment whereas other IPTS do not enjoy tax exemption on such equipment.

Proposed

It is proposed that all private institutions of higher learning and language institutions be granted import duty, sales tax and excise duty exemptions on all educational equipment including laboratory equipment, workshop, studio and language laboratory.

Effective

Application received from 20 October 2001

CARS FOR RENTAL

Present

Car rental operators are not granted excise duty and sales tax exemptions on purchase of cars for rental.

Proposed

It is proposed that car rental operators be granted excise duty exemption on the purchase of national car.

Effective

Applications received by MOF from 20 October 2001

MOTORCYCLES

Present

Completely built-up motorcycles are subject to import duty at rates ranging from 60% to 120% depending on the engine capacity.

Proposed

It is proposed that the import duty rate on motorcycle be reduced from rate ranging from 80% - 120% to 60% for all engine capacity exceeding 200cc.

Effective

19 October 2001

FOOD PRODUCTS

Present

Food products are still subject to import duty ranging from 5% to 30%. Under the ASEAN Free Trade Area (AFTA), Common Effective Preferential Tariff (CEPT) rates for food products range from 2% to 15%.

Proposed

It is proposed that import duty rates on selected food items such as fish and fruit, be reduced between 2% to 15%.

Effective

19 October 2001

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