Folks

BULLETIN

DFK INTERNATIONAL

October 2003 No.1/03 KDN PP 10572/9/2003

2004 Budget Proposals Highlights

- Exemption on remittance by resident individuals, a trust body, a co-operative and a Hindu joint family
- Review of child relief
- Deduction of entertainment expenses
- Treatment on issuance of Islamic securities
- Review of threshold on chargeable income subject to 20% tax rate
- Treatment for asset-backing securities

Tax Incentives & Economic Stimulus Package

- Additional incentives for the machinery and equipment industry
- Enhancing incentives for utilisation of oil palm biomass
- Additional incentives for hotels and tourism projects
- Enhanced incentives for small companies
- Real property gains tax exemption

Folks Management Services Sdn Bhd
Suite 4024, 4th Floor, President House, Jalan Sultan Ismail, 50250 Kuala Lumpur
Tel : 03-21412555 Fax : 03-21426355

FOREWORD

On 12 September 2003, the Budget 2004 proposals were presented by Y.A.B Dato Seri Dr. Mahathir Bin Mohamad, the Prime Minister and Minister of Finance I of Malaysia.

The thrust of the 2004 budget will continue with policies and strategies to stimulate and accelerate domestic activities in the economic growth while focusing on strengthening small and medium industries, stimulating private consumption and enhancing competitiveness to face challenges of globalization.

The strategies adopted in the 2004 budget are as follows :-

(a) Accelerating domestic private sector and stimulating the services sector to spearhead economic growth;
(b) Implementing fiscal consolidation towards a balanced budget in the near term;
(c) Implementing monetary policy that can support and harness private consumption and investment;
(d) Enhancing the nation’s competitiveness to enable Malaysia to become a truly trading nation; and
(e) Strengthening the social agenda and caring society to enhance the quality of life and well-being of Malaysians.

Towards these ends, the budget has proposed various incentives, measures and fiscal packages to make the domestic private sector as the engine of domestic growth.

Prior to the 2004 Budget, the Economic Stimulus Package has been announced by the Prime Minister on 21 May 2003 to cushion the adverse impact on our economy arising from the crisis of September 11, War on Iraq as well as the SARS epidemic. Under the package, various tax incentives and liberalisation of the equity requirements has been introduced to encourage the flow of foreign investments into the country. The package has also introduced several tax measures as well as relaxations with a view to assist numerous affected industries during this difficult period.

1.1 TAX EXEMPTION ON INCOME REMITTED INTO MALAYSIA

Present
Income remitted from overseas by a non-resident individual is not subject to tax, while income remitted by a resident company and a unit trust is exempted from tax. However, income remitted by a resident individual, a trust body, a cooperative and a Hindu joint family is subject to tax.

Proposed
The remittance of income (derived from sources outside Malaysia) into Malaysia by a resident individual, a trust body, a co-operative and a Hindu joint family will be exempted from income tax.

Effective
Year of assessment 2004

1.2 INCENTIVE FOR INVESTMENT IN MERDEKA BONDS

Present
Interest derived from investment in bonds is subject to income tax, except the following :-

1. Securities or bonds issued or guaranteed by the government; or
2. Debentures, other than convertible loan stocks, approved by the Securities Commission; or
3. Bon Simpanan Malaysia issued by the Central Bank of Malaysia.

Proposed
Exemption is extended to interest income from investment in Merdeka Bonds issued by the Central Bank of Malaysia.

Effective
Year of assessment 2004

1.3 REVIEW OF CHILD RELIEF

Present
A tax relief of RM800 for each child under the age of 18 years is given to individual tax payers. For a child who is over the age of 18 years and the child is studying at a local institution of higher learning, the tax payer is eligible for a relief of RM3,200 for each child.

Proposed
The child relief be increased from RM800 to RM1,000 for each child. Child relief of RM4,000 (i.e. 4 times the normal relief of RM1,000) will be given for each child who is over the age of 18 years and is studying in a local institution of higher learning.

Effective
Year of assessment 2004

1.4 INCENTIVE FOR LECTURERS PROVIDING SERVICES IN THE ACCREDITATION OF FRANCHISED EDUCATION PROGRAMMES

Present
Fees or honorarium received by lecturers/experts for services provided for validation, moderation or accreditation of approved franchised education programmes is subject to income tax.

Proposed
Fees or honorarium received by lecturers/experts from the National Accreditation Board (LAN) for services provided for validation, moderation or accreditation of approved franchised education programmes be exempted from income tax.

The exemption shall not apply where payment arises to the individuals as part of his emoluments in the exercise for his official duties.

Effective
Year of assessment 2004

1.5 INCENTIVE FOR RESEARCHERS TO COMMERCIALISE RESEARCH FINDINGS

Present
Income such as honorarium and royalty earned by researchers from commercialisation of their research findings is subject to tax.

Proposed
Researchers be given 50% tax exemption on income such as honorarium and royalty received from the commercialisation of their research findings for 5 years from the date of such payment provided that such undertaking has been verified by the Ministry of Science, Technology and Environment.

Effective
Year of assessment 2004

1.6 TAX RELIEF FOR INTEREST PAYMENTS FOR HOUSING LOANS

Relief to be given for interest expended on individuals for purchase of residential properties subject to the following:-

a) First residential property purchased to be occupied by individual;
b) Purchase from developer, statutory body or co-operatives;
c) Purchase price of RM100,000 to RM180,000;
d) Sale and purchase agreement executed from 1 June 2003 to 31 May 2004; and
e) Amount of maximum relief :-
    i. RM5,000 for the year of assessment 2003;
    ii. RM3,000 for the year of assessment 2004; and
    iii. RM2,000 for the year of assessment 2005.

Where property is shared, interest is to be apportioned.

2. TAXATION ON COMPANIES

2.1 CORPORATE TAX RATE FOR SMALL AND MEDIUM SCALE COMPANIES

Present
Small and medium scale companies with paid up capital of RM2.5 million and less are currently subject to corporate tax rate of 20% on chargeable income up to RM100,000 and at the rate of 28% for chargeable income in excess of RM100,000.

Proposed
The threshold for chargeable income with corporate tax rate of 20% will be increased to RM500,000. Dividends distributed out of profit will be given a tax credit of 28% in the hands of the shareholders.

Effective
Year of assessment 2004

2.2 TAX TREATMENT ON ISSUANCE OF ISLAMIC SECURITIES

Present
The tax treatment on the issuance of Islamic securities is not comprehensive and it is considered on a case-by-case basis and this has resulted in various tax implications and therefore, Islamic securities are unable to compete with conventional securities

Proposed
The transaction relating to financing through the issuance of Islamic securities be given the following tax treatments :-

a) the sale of asset by the party that needs financing to the SPV and the resale of the asset to the said party will not be deemed as sales for the purpose of income tax;

b) the lease back of the same asset by the SPV to the said party will not be deemed as sales under the Income Tax Leasing Regulations 1986;

c) the issuance of Islamic securities by the SPV will follow the same treatment as for the asset-backed securities;
d) financing transactions carried out by the SPV will be treated in the same manner as for any financial transactions carried out by any person under the Income Tax Act 1967; and
e) the party that needs the financing continues to enjoy the tax incentives and allowances under the Income Tax Act 1967 and Promotion of Investment Act 1986 provided that it is still in the business of the approved activity.

In addition:

a) The party that needs financing continues to enjoy tax exemptions under the Customs Act 1967, the Sales Tax Act 1972 and the Excise Act 1976, provided that the said party is still in the business of the approved activity.
b) Gains from the disposal of Islamic securities, which are chargeable assets, by investors be exempted from real property gains tax.
c) Stamp duty is exempted on instrument of transfer of asset by the party that needs financing to the SPV for the purpose of lease back relating to financing through the issuance of Islamic securities.
d) Tax deduction be given for 5 years on expenses incurred in the issuance of “Istisna” securities where the real property asset under construction could be used to back the securities.

Effective
Year of assessment 2003

2.3 TAX REBATE ON ZAKAT FOR LABUAN OFFSHORE COMPANIES

Present
According to Labuan Offshore Business Activity Tax Act 1990 (LOBATA), offshore companies in Labuan are subject to income tax of 3% on net profit or RM20,000.

Proposed
For offshore companies in Labuan, an income tax rebate be given equivalent to the amount of zakat paid to the Labuan religious authority, subject to a maximum of 3% on net profit or RM20,000.

Effective
Year of assessment 2004

2.4 TAX DEDUCTION OF ENTERTAINMENT EXPENSES	**Present** Entertainment expenses incurred in relation to business do not qualify for tax deduction in arriving at the Company's adjusted income with the exception of certain entertainment as set out in Section 39(l) of the Income Tax Act,1967. **Proposed** Entertainment expenses incurred for sales promotions will be given full tax deduction whereas for other entertainment expenses incurred in relation to the business will be given 50% deduction. **Effective** Year of assessment 2004
2.5 REVIEW OF TAX DEDUCTION ON INCORPORATION EXPENSES	**Present** Companies with authorised share capital not exceeding RM250,000 are currently given deduction on the following incorporation expenses pursuant to Income Tax (Deduction of Incorporation Expenses) Rules 1974. **Proposed** The tax deduction for incorporation expenses is to be extended to companies with authorised share capital not exceeding RM2.5 million. **Effective** Year of assessment 2004
2.6 REVIEW TAX DEDUCTION ON CONTRIBUTION TO SPONSOR ARTS AND CULTURAL PERFORMANCES	**Present** Tax deduction is allowed on expenditure, up to RM200,000, incurred for sponsoring local and foreign arts or cultural performance held in Malaysia and approved by the Ministry of Culture, Arts and Tourism. **Proposed** To encourage the sponsorship of approved local performances by local artist in the field of arts and culture, the allowable expenditure be increased to RM300,000. **Effective** Year of assessment 2004
2.7 DOUBLE DEDUCTION ON SALARIES TO HIRE UNEMPLOYED GRADUATES	**Present** Salaries paid by an employer to its employees are allowed for normal tax deduction.

Proposed
Double deduction is to be given for two years on salaries paid by an employer who hires the unemployed graduates who are registered with the Economic Planning Unit.

Effective
Year of assessment 2004

2.8 TAX DEDUCTION ON EXPENSES FOR OBTAINING ACCREDITATION FOR A LABORATORY OR AS A CERTIFICATION BODY

Present
Revenue expenditure incurred in obtaining certification for recognised quality systems and standards, and "halal" certification is allowed to be claimed for deduction in the year of assessment where the certificate is issued by a certification body as determined by the Minister of Finance.

Proposed
Tax deduction be extended to revenue expenditure incurred for obtaining accreditation for a laboratory or as a certification body, as evidenced by a certificate issued by the Department of Standards Malaysia.

Effective
Year of assessment 2004

2.9 TAX DEDUCTION FOR PARTICIPATION IN INTERNATIONAL STANDARDISATION ACTIVITIES

Present
There is no specific legislation to allow deduction for the participation in international standardisation activities.

Proposed
Tax deduction is allowed on expenses incurred by a company for participating in international standardisation activities approved by the Department of Standards Malaysia.

Effective
Year of assessment 2004

2.10 TAX TREATMENT FOR ASSET-BACKED SECURITIES

Present
There is no comprehensive tax treatment for securitisation transaction that involves issuance of asset-backed securities, except that they are given exemption from stamp duty and real property gains tax.

Asset-backed securities are issued arising from a securitisation transaction that enables the conversion of an illiquid asset into a tradable instrument. The asset has to be transferred form an originator to a special purpose vehicle (SPV) that is established to issue asset-backed securities. The 3 main categories of assets which could be used to issue asset-backed securities are as follows :-

a) Sales of receivables that do not include the transfer of physical asset such as industrial building, plant and machinery and stock-in-trade;
b) Sales of receivables that include the transfer of physical asset (underlying asset) such as industrial building, plant and machinery and stock-in-trade; and
c) Sales of receivables which have been recognised as company's asset such as debts, loans, hire purchase and credit cards receivables.

There is income tax implication on securitisation transactions. Service tax is also imposed on the originator who provides asset management services to the SPV after the transfer of the asset.

Proposed
The issuance of asset-backed securities would stimulate the capital market and diversify sources of financing for economic development. The following has been proposed to promote the development of the capital market :-

1) Tax treatment based on the principle of tax neutrality between asset-backed securities and other securities approved by the Securities Commission be provided as follows :-

    a) The originator is taxed on the proceeds from the sales of receivables that do not include the transfer of physical asset over the tenure of the securitisation transaction. The SPV is given deduction on expenses incurred to purchase the receivables over the tenure of the securitisation transaction;
    b) The originator is not taxed on the proceeds from the sales of receivables that include the transfer of fixed asset. The SPV is not allowed deduction on payments made to purchase these receivables;
    c) The originator is taxed on the proceeds from the sales of receivables accompanied by the transfer of trading stocks over the tenure of the securitisation transaction. If the originator has a call option on trading stocks, income tax will be imposed when the call option expires;

d) Balancing charge and balancing allowance computed on the sale of qualifying fixed assets is spread over the tenure of the securitisation transaction;
e) Capital allowance on an asset that has been transferred and leased-back is given to the originator of the asset based on the residual value for the purposes of income tax (residual expenditure); and
f) Payment for the asset management services rendered by the originator to the SPV be exempted from service tax from 1 January 2004.

2) Deduction for purpose of income tax is given on expenses incurred to issue asset-backed securities for a period of 5 years.

Effective
Year of assessment 2003

2.11 QUALIFYING EXPENDITURE FOR AGRICULTURE ALLOWANCES

Present
The expenditure as set out below are considered to be qualifying expenditure for the claims of agriculture allowance :-

a) The clearing and preparation of land for the purpose of agriculture;
b) The planting (except replanting) of crops on land cleared for planting;
c) The construction of roads and bridges on a farm;
d) Building for the welfare of persons or as living accommodation for persons employed for the working of a farm; and
e) Any other building where it would be of little or no value upon the cessation of the farm except with the working of another farm.

Proposed
The Minister of Finance shall be empowered to prescribe any expenditure incurred by a person in his business to be qualifying agricultural expenditure and the amount of allowance in respect of such expenditure.

Effective
Year of assessment 2003

2.12 REDUCTION IN TIME LIMIT FOR MAKING AGRICULTURE CHARGE

Present
An agriculture charge is imposed if asset qualifying for agriculture allowance is disposed of within 10 years.

Proposed
The time limit for agriculture charge on disposal of asset has been shortened to 6 years.

Effective
13 September 2003

2.13 FILING OF TAX RETURN AND STATEMENT OF DIVIDEND FRANKING CREDIT (FORM R)

Present
All companies, trust bodies and co-operative societies must file their tax return and statement of dividend franking credit (for companies) within 6 months from the end of the accounting period.

Proposed
The submission of tax return and Form R has been extended to 7 months from the end of accounting period.

The due date for payment of balance of tax payable for a year of assessment will also be extended to 7 months from the end of the accounting period.

Effective
Year of assessment 2003

2.14 REVISION OF TAX ESTIMATE

Present
All companies, trust bodies and co-operative societies are allowed to revise their tax estimate in the 6 month of the basis period.

Proposed
An additional revision of tax estimate is allowed in the 9 months of the basis period.

Effective
Year of assessment 2003

2.15 COMPUTATION OF COMPARED AGGREGATE AND COMPARED TOTAL IN THE DIVIDEND FRANKING CREDIT ACCOUNT

Present
The computation of compared aggregate and compared total under Section 108 of the Income Tax Act ("ITA") 1967 would not take into account any remission of tax by the Director General or the Minister on the grounds of poverty or justice and equity under Section 129, ITA 1967.

Proposed
Tax remitted under Section 129(2), ITA 1967 will reduce the dividend franking credit and be included in the computation of compared aggregate and compared total.

Effective
1 January 2001

2.16 REVIEW OF EFFECTIVE DATE FOR THE TAXATION OF ACTUARIAL SURPLUS

Present
Since year of assessment 1999, the adjusted income of the shareholder's fund of a resident life insurer and a non-resident life insurer is computed by including the amount of actuarial surplus from the life fund that is transferred to the shareholders' fund.

Proposed
The taxation of actuarial surplus from the life fund that is transferred to the shareholders' fund be effective from year of assessment 1995 onwards.

Effective
1 January 1999

3. TAX INCENTIVES

3.1 ENHANCING TAX INCENTIVES FOR PROMOTED AREAS

Present
Manufacturing, agriculture and tourism companies in the promoted areas i.e. eastern corridor of Peninsular Malaysia (Kelantan, Terengganu, Pahang and Mersing district in Johor), Sarawak, Sabah and the Federal Territory of Labuan (for hotel and tourism industry only) are entitled to the following incentives:-

a) Pioneer Status with tax exemption of 85% of statutory income for 5 years; or
b) Investment Tax Allowance of 80% of the qualifying capital expenditure incurred within a period of 5 years, which can be used to set off against 85% of statutory income in each year of assessment

Proposed
To further encourage investment in the promoted areas, the incentives will be further enhanced as follows:

a) Pioneer Status with tax exemption of 100% of statutory income for 5 years; or

b) Investment Tax Allowance of 100% of the qualifying capital expenditure incurred within a period of 5 years, which can be used to set off against 100% of statutory income in each year of assessment.

Effective
For application received by the Malaysian Industrial Development Authority (MIDA) with effect from 13 September 2003. Companies which have been granted with this incentive but have not commenced commercial production or with applications still under consideration, are also eligible for the enhanced incentive.

3.2 ADDITIONAL INCENTIVES FOR THE HEAVY MACHINERY INDUSTRY

Present
Companies manufacturing heavy machinery such as cranes, quarry machinery, batching plant and port material handling equipments are currently enjoying the following incentives:-

a) Pioneer Status with tax exemption of 70% (85% for promoted areas) of statutory income for 5 years; or
b) Investment Tax Allowance of 60% (80% for promoted areas) on the qualifying capital expenditure incurred within a period of 5 years, which can be used to set off against 70% (85% for promoted areas) of statutory income in each year of assessment.

Proposed
To further encourage existing locally owned companies to reinvest in the production of heavy machinery, the following incentives are proposed:

a) Pioneer Status with tax exemption of 70% (100% for promoted areas) on **increased** statutory income arising from reinvestment for 5 years; or
b) Investment Tax Allowance of 60% (100% for promoted areas) on the **additional** qualifying capital expenditure incurred within a period of 5 years, which can be used to set off against 70% (100% for promoted areas) of statutory income in each year of assessment.

Effective
For application received by the Malaysian Industrial Development Authority (MIDA) from 13 September 2003.

3.3 ADDITIONAL INCENTIVES FOR THE MACHINERY AND EQUIPMENT INDUSTRY

Present
Manufacturers of machinery and equipment are given the following incentives:

1. Specialised machinery and equipment:
   a) Pioneer Status with tax exemption of 100% of statutory income for 10 years; or
   b) Investment Tax Allowance of 100% on the qualifying capital expenditure incurred within a period of 5 years, which can be used to set off against 100% of statutory income in each year of assessment.

2. Machinery and equipment, other than specialised machinery and equipment
   a) Pioneer Status with tax exemption of 70% (85% for promoted areas) of statutory income for 5 years; or
   b) Investment Tax Allowance of 60% (80% for promoted areas) on the qualifying capital expenditure incurred within a period of 5 years, which can be used to set off against 70% (85% for promoted areas) of statutory income in each year of assessment.

Proposed
To encourage existing locally owned companies to reinvest in the production of machinery and equipment, including specialised machinery and equipment and machine tools, the following incentives are proposed:

a) Pioneer Status with tax exemption of 70% (100% for promoted areas) on **increased** statutory income arising from reinvestment for 5 years; or
b) Investment Tax Allowance of 60% (100% for promoted areas) on the **additional** qualifying expenditure incurred within a period of 5 years, which can be used to set off against 70% (100% for promoted areas) of statutory income in each year of assessment.

Effective
For application received by the Malaysian Industrial Development Authority (MIDA) from 13 September 2003.

3.4 ENHANCING INCENTIVES FOR UTILISATION OF OIL PALM BIOMASS

Present
Companies utilising oil palm biomass to produce value added products are eligible for the following incentives:-

a) Pioneer Status with tax exemption of 70% (85% for promoted areas) of statutory income for 5 years; or

b) Investment Tax Allowance of 60% (80% for promoted areas) on the qualifying capital expenditure incurred within a period of 5 years, which can be used to set off against 70% (85% for promoted areas) of statutory income in each year of assessment.

Proposed
To further encourage the utilisation of oil palm biomass to produce value added products such as particleboard, medium density fibreboard, plywood, pulp and paper, it is proposed that companies be given the following incentives:

1. New companies
   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, which can be used to set off against 100% of statutory income in each year of assessment.

2. Existing companies that reinvest
   a) Pioneer Status with tax exemption of 100% on **increased** statutory income arising from reinvestment for a period of 10 years; or
   b) Investment Tax Allowance of 100% on **additional** qualifying capital expenditure incurred within a period of 5 years, which can be used to set off against 100% of statutory income in each year of assessment.

Effective
a) New Companies
For application received by the Malaysian Industrial Development Authority (MIDA) with effect from 13 September 2003. Companies, which have been granted with this incentive but have not commenced commercial production or with applications still under consideration are also eligible for the incentive.

b) Existing Companies
For application received by MIDA from 13 September 2003.

3.5 REVIEW OF INCENTIVES FOR VENTURE CAPITAL INDUSTRY

Present
Tax incentives for the venture capital industry are as follows:-

a) Income tax exemption for 10 years for venture capital company (VCC) which invest at least 70% of its funds in venture companies (VCs) in the form of seed capital, start-up or early stage financing; or

b) Income tax deduction for companies including VCC or individuals equivalent to the value of investment in the VCs with the condition that the investment is disposed only through the exit mechanism of an Initial Public Offerings (IPO) in stock exchange.

Venture capital management company (VCMC) is a company which manages venture capital funds that derives its income from management fees and profit sharing agreement between a VCMC and a VCC. There is no tax incentive granted to a VCMC currently.

Proposed
To encourage more private investment in venture capital industry, the tax incentives be enhanced as follows:-

a) The method to determine the 70% investment requirement in VCs for the VCCs to qualify for tax exemption be relaxed by taking into account only the value of fund invested and not the total gross fund which includes cash, fixed deposits and interest earned;
b) The condition that investment in VCs is disposed through the exit mechanism of an Initial Public Offering to qualify for tax exemption be extended to include any exit mechanisms approved by the Securities Commission; and
c) VCMC be given tax exemption on income arising from profit sharing agreements with the VCC.

Effective
Year of assessment 2003

3.6 ENHANCING INCENTIVES FOR OPERATIONAL HEADQUARTERS

Present
An approved operational headquarter (OHQ) is granted full tax exemption for 10 years on statutory income arising from qualifying services provided to its related companies overseas, but the income arising from such services provided to its related companies in Malaysia is subject to income tax.

In contrast, Regional Distribution Centre (RDC) and International Procurement Centre (IPC) are enjoying full tax exemption for 10 years in respect of their income arising from local sales provided that the local sales income does not exceed 20% of their total income.

Proposed
Since an OHQ is deemed to be in the similar category as RDC and IPC in respect of the provision of services it is proposed that income arising from qualifying services provided by OHQ to its related companies in Malaysia be given tax exemption provided that such income does not exceed 20% of the OHQ income from the qualifying services.

Effective
Year of assessment 2003

3.7 ADDITIONAL INCENTIVES FOR HOTELS AND TOURISM PROJECTS

Present
Expansion, modernisation and renovation undertaken by hotel and tourism project operators are eligible for the following incentives:-

a) Pioneer Status with tax exemption of 70% (85% for promoted areas) of statutory income for 5 years; or
b) Investment Tax Allowance of 60% (80% for promoted areas) on the qualifying capital expenditure incurred within a period of 5 years, which can be used to set off against 70% (85% for promoted areas) of statutory income in each year of assessment.

These incentives are given only once.

Proposed
Investment in expansion, modernisation and renovation undertaken by hotel and tourism project operators be given another round of pioneer status or investment tax allowance.

For hotels and tourism projects in promoted areas, the incentives are enhanced as follows:-

a) Income tax exemption under the pioneer status be increased from 85% to 100% or;
b) Investment Tax Allowance be increased from 80% to 100%. The allowance to be set off against statutory income in each year of assessment is increased from 85% to 100%.

Effective
For application received by the Malaysian Industrial Development Authority (MIDA) from 13 September 2003.

3.8 ADDITIONAL INCENTIVES FOR COMPANIES PROVIDING COLD CHAIN FACILITIES AND SERVICES FOR PERISHABLE AGRICULTURAL PRODUCE

Present
Locally owned companies providing cold chain facilities and services for perishable agricultural produce are entitled for the following incentives:-

a) Pioneer Status with tax exemption of 70% (85% for promoted areas) of statutory income for 5 years; or
b) Investment Tax Allowance of 60% (100% for promoted areas) on the qualifying capital expenditure incurred within a period of 5 years, which can be used to set off against 70% (85% for promoted areas) of statutory income in each year of assessment.

The perishable agricultural produce that qualify for these incentive are fruits, vegetables, flowers, ferns, meat and aquatic products.

Proposed
The incentives for locally owned companies providing cold chain facilities and services for perishable agricultural services are further enhanced as follows:-

a) Pioneer Status with tax exemption of 70% (100% for promoted areas) on **increased** statutory income arising from reinvestment for 5 years; or
b) Investment Tax Allowance of 60% (80% for promoted areas) on **additional** qualifying capital expenditure incurred within a period of 5 years, which can be used to set off against 70% (100% for promoted areas) of statutory income in each year of assessment.

Effective
For application received by the Malaysian Industrial Development Authority (MIDA) from 13 September 2003.

3.9 INCENTIVES FOR PROPERTY TRUST FUNDS AND REAL ESTATE INVESTMENT TRUSTS

Property Trust Funds (PTF) and Real Estate Investments Trusts (REITs) mobilise funds of small investors to enable them to invest in real property. These funds are managed by professionals to generate better returns

Present
Gains from disposal of real properties are subject to Real Property Gains Tax (RPGT).

Instrument of transfer of real properties from individuals or companies to any parties including PTF's and REITs are subject to stamp duty.

Proposed
To promote the development of PTF's and REITs, it is proposed that :-

a) Gains from disposal of real property by individuals or companies to PTFs and REITs be exempted from RPGT; and
b) Instruments of transfer of real property from individuals or companies to PTFs and REITs be exempted from stamp duty.

Effective
13 September 2003

4. INDIRECT TAXES AND STAMP DUTY

4.1 REDUCTION OF ROAD TAX ON MOTORCYCLE

Present
Road tax on motorcycles is based on engine capacity as set out below:-

Engine capacity	RM/Year	
	Peninsular Malaysia	Sarawak
Below 75 c.c.	50.00	12.00
75 – 100 c.c	55.00	12.00
101 – 150 c.c	65.00	24.00
151 – 200 c.c	100.00	24.00
201 – 250 c.c	150.00	36.00
251 – 500 c.c.	200.00	36.00 – 60.00
501 – 800 c.c.	300.00	60.00 – 90.00
801 c.c. and above	400.00	>96.00

However, the road tax in Sabah is only RM50.00 per year.

Proposed
Motorcycles with engine capacity not exceeding 150 c.c. be exempted from road tax.

Effective
1 January 2004

4.2 REVIEW OF ROAD TAX ON VEHICLES FOR THE PHYSICALLY DISABLED

Present
Three-wheeled motorcycle for the disabled is subject to a token road tax of RM1, while cars and vans are subject to the normal road tax.

Proposed
Road tax be exempted on cars, vans and motorcycles owned by the disabled subject to the following conditions:-

a) Cars, vans and motorcycles are manufactured locally;
b) The applicant is registered with the Social Welfare Department;
c) The applicant possesses a valid driving license;
d) The vehicle is registered under the name of the applicant; and
e) Exemption is only given to one vehicle at any one time.

Effective
1 January 2004

4.3 REVIEW OF IMPORT DUTY ON SELECTED GOODS

Present
Import duty on certain goods such as food supplements, plastic products, intermediate products of plastics and wood, solid tyres and batteries for computer notebooks are not harmonised.

Proposed
It is proposed that import duty on 104 tariff items be reduced while import duty on 7 items be abolished.

Effective
From 4.00pm on 12 September 2003

4.4 REVIEW OF EXPORT DUTY

Present
Certain unprocessed agricultural produce, food products, minerals and construction materials are subject to export duty of 2.5%, 5% or 10%.

Proposed
Export duty on certain items of the above products be either reduced or abolished.

Effective
From 4.00pm on 12 September 2003.

4.5 REVIEW OF ROAD TAX ON BUS FOR WORKERS

Present
Road tax on buses for workers is as follows:-

	A. Peninsular Malaysia	**Per Month**	
	Petrol		
	a) not exceeding 2,000 c.c.	RM1.50	Plus RM2.00 per passenger authorized to be carried in the vehicle.
	b) exceeding 2,000 c.c.	RM2.25	
	Diesel		
	a) not exceeding 1,500 c.c.	RM12.00	
	b) exceeding 1,500 c.c. but not exceeding 2,500 c.c	RM15.00	
	c) exceeding 2,500 c.c. but not exceeding 3,500 c.c.	RM18.00	
	d) exceeding 3,500 c.c.	RM33.00	
B.	**Sabah and Sawarak**		
	RM25.00 per annum for each passenger seat.		

Proposed
The road tax on bus for workers be reduced by 50%.

Effective
1 January 2004

4.6 TAX EXEMPTION ON SPARES AND CONSUMABLES

Present
Import duty and sales tax exemption are given to manufacturing and approved services sectors on certain spares and consumables that are not locally produced. However, this exemption scheme is due to expire on 31 December 2003.

Proposed
To assist companies to reduce the cost of doing business, the exemption scheme for spares and consumables be extended indefinitely.

Effective
1 January 2004

4.7 IMPOSITION OF EXCISE DUTY ON IMPORTED CARS

Present
Excise duty is imposed on certain goods manufactured in Malaysia. However, effective from 1 January 2003, Section 6 of the Excise Act 1976 was amended to impose excise duty on imported goods.

Proposed
Excise duty be imposed on imported motor cars.

Effective
1 January 2004

4.8 REVIEW OF TAX ON CIGARETTES AND LIQUOR

Import duty and excise duty on tobacco products and import duty on various types of liquor and materials for making liquor have been increased effective from 4.00pm on 12 September 2003.

5.1 ENHANCED INCENTIVES FOR SMALL COMPANIES

Present
A "small company" is currently given the following incentives :-

a) Pioneer status with 70% income tax exemption for 5 years; or
b) Investment Tax Allowance of 60% on capital expenditure incurred within 5 years to be offset against 70% of statutory income.

The conditions to qualify for the above incentives are as follows :-

a) resident in Malaysia;
b) having shareholders' fund not exceeding RM500,000 where 70% of the equity are held by Malaysians;
c) producing raw materials or components for the manufacturing sector;
d) product is for import substitution with local material content exceeding 50%;
e) exporting at least 50% of its product; and
f) contributing to socio-economic development of the rural population.

Proposed
The existing incentives will be improved as follows :-

a) Pioneer status incentive will be enhanced to 100% exemption of statutory income for 5 years;

b) Investment Tax Allowance of 60% on capital expenditure incurred within 5 years to be offset against 100% of statutory income.

A "small company" is now only required to have 60% Malaysian equity and only need to satisfy one of the following criteria :-

a) achieves at least 15% value-added; or
b) the activities of the Company contributes towards the socio-economic development of the rural areas in Malaysia.

Effective
Not mentioned

5.2 GROUP RELIEF

Present
Company engaged in an approved food production project may surrender its adjusted loss for the basis period for the year of assessment to another related company within the same group.

Proposed
The group relief will be extended under the pre-packaged scheme to forest plantations, including rubber plantations and for selected products in the manufacturing sectors, such as biotechnology, nanotechnology, optics and photonics.

Effective
Not mentioned

5.3 EXTENSION OF PIONEER STATUS AND INVESTMENT TAX ALLOWANCE UNDER PRE-PACKAGED SCHEME

Present
Under the pre-packaged scheme, Pioneer Status with 100% tax exemption for 10 years or Investment Tax Allowance of 100% for 5 years is given on a case-by-case basis by the Minister.

Proposed
The incentives under the scheme will be improved as follows :-

a) Extending the maximum period for Pioneer Status from 10 to 15 years commencing on the first year the company registers profit;
b) Extending the period for Investment Tax Allowance from 5 to 10 years.

Effective
Not mentioned

5.4 DOUBLE DEDUCTION FOR RESEARCH & DEVELOPMENT (“R & D”) EXPENSES

Present
Approved R & D expenditure incurred during the Pioneer period is not allowed to be accumulated and carried forward for the purpose of offsetting against income after the pioneer period. In addition, the deduction is only allowed for R & D expenditure incurred in the country.

Proposed
Approved R & D expenditure incurred during the Pioneer period will be allowed to be accumulated and carried forward and be given another deduction after the Pioneer period.

Expenditure on R & D activities undertaken overseas, including the training of Malaysia staff, will be considered for double deduction, on a case-by-case basis.

Effective
Not mentioned

5.5 SECOND ROUND OF PIONEER STATUS OR INVESTMENT TAX ALLOWANCE FOR R & D COMPANIES

Present
R & D companies are eligible for either Pioneer Status with 100% income tax exemption for 5 years or Investment Tax Allowance of 100% on capital expenditure incurred within 10 years.

Proposed
R & D companies will be eligible for either a “second round” of the Pioneer Status for another 5 years or the Investment Tax Allowance for a further 10 years.

Effective
Not mentioned

5.6 INCENTIVES FOR HYPERMARKETS AND DIRECT SELLING COMPANIES THAT EXPORT LOCALLY PRODUCED GOODS

Present
Hypermarket and direct selling companies that export locally produced goods are not given any tax incentives.

Proposed
Hypermarket and direct selling companies that export locally produced goods will be given income tax exemption on statutory income equivalent to 20% of their increased export value.

Effective
Not mentioned

5.7	**INCOME TAX EXEMPTION FOR OPERATIONAL HEADQUARTERS ("OHQ")**	**Present** Companies granted operational headquarters status in respect of application received by MIDA :- a) prior to 21 September 2002, are subject to income tax rate of 10% on income from qualifying services for a period of 5 years; and b) after 21 September 2002, income are fully exempted from tax on qualifying income for a period of 10 years. **Proposed** Companies granted operational headquarters status will be given 100% income tax exemption for the remaining exemption period. (The proposed exemption may be referring to companies with applications prior to 21 September 2002). **Effective** Year of assessment 2003
5.8	**INTERNATIONAL PROCUREMENT CENTRES ("IPC")**	**Proposed** IPC which comply with existing criteria will be eligible for 100% income tax exemption for 10 years. (The proposed exemption may be referring to applications to MIDA prior to 21 September 2002 for which there were no incentives). **Effective date** Not mentioned
5.9	**DOUBLE DEDUCTION FOR LEAVE PASSAGE FOR DOMESTIC TRAVEL PROVIDED BY EMPLOYERS**	**Present** Employers are not given any income tax deduction for expenses incurred on leave passage provided to the employees. **Proposed** Employers will be given a double deduction for cost of leave passage for domestic travel provided to employees for a period of 1 year starting from 1 June 2003. **Effective** 1 June 2003 to 31 May 2004

5.10 REDUCTION / EXEMPTION OF CONSTRUCTION INDUSTRY DEVELOPMENT BOARD ("CIDB") LEVY

Present
Developers contribute a levy of 0.25% to CIDB.

Proposed
Full exemption will be given to low, medium-low and medium-cost housing developers.

Reduction of 50% on the levy to 0.125% for developers of other projects.

Effective
21 May 2003

5.11 REDUCTION OF EPF CONTRIBUTION BY EMPLOYEE

Present
The employees contribution to the EPF at the rate of 11%.

Proposed
The employees contribution to the EPF will be reduced to 9%.

Effective
1 June 2003 to 31 May 2004

5.12 EXEMPTION OF HUMAN RESOURCE DEVELOPMENT FUND (HRDF) LEVY FOR TOUR OPERATING BUSINESS AND HOTEL INDUSTRY

Present
Employers in the tour operating business and hotel industry are required to pay HRDF levy on their employees.

Proposed
Employers involved in the tour operating business and hotel industry will be given an exemption of the HRDF levy.

Effective
1 June 2003 to 31 December 2003

5.13 REAL PROPERTY GAINS TAX EXEMPTION

Present
Real property gains tax is applicable on gains from disposal of real property.

Proposed
The Minister exempts any person from payment of real property gains tax in respect of chargeable gains accruing on the disposal of chargeable asset from 1 June 2003 to 31 May 2004.

Effective
1 June 2003 to 31 May 2004

5.14 IMPROVED INCOME TAX EXEMPTION FOR MALAYSIAN INTERNATIONAL TRADING COMPANIES ("MITC")	**Present** MITC are provided with an income tax exemption on statutory income equivalent to 10% of the value of their increased exports. **Proposed** MITC will be given an improved income tax exemption on statutory income equivalent to 20% of the value of their increased exports. **Effective** 1 June 2003
5.15 SERVICE TAX EXEMPTION FOR HOTEL AND RESTAURANT OPERATORS	**Present** Hotels and Restaurant operators are charging service tax at a rate of 5%. **Proposed** Hotels and Restaurant operators are exempted from charging service tax for 6 months starting from 1 June 2003 to 31 December 2003. Hotel operators are also exempted from charging service tax on complimentary rooms provided with effect from 1 June 2003. **Effective** 1 June 2003
5.16 STAMP DUTY EXEMPTION ON LOAN DOCUMENTS	**Present** Loan documents are subject to stamp duty. **Proposed** Employees whose remuneration have been reduced by employers in the tourism sector will be given an exemption on stamp duty on loan documents in relation to mortgages. Stamp duty exemption will also be given on loan documents for borrowers in the tourism sector (such as travel agents and operators of hotels, restaurants and shopping centres). **Effective** 1 June 2003
5.17 STAMP DUTY EXEMPTION ON PROPERTY LOANS	**Present** Loan documents related to purchase of residential houses are subject to stamp duty.

Proposed

Stamp duty exemption will be given on completed loan documents related to purchase of residential houses costing not more than RM180,000 per unit from housing developers / government agencies / co-operatives, on condition the sales and purchase agreement is executed within 1 year starting from 1 June 2003.

Effective

1 June 2003

5.18 SUSPENSION OF TAX INSTALMENT PAYMENTS

Present

Companies are obliged to pay its monthly tax instalments payment upon furnishing its company's estimate of tax payable to the tax authorities.

Proposed

Travel agencies will be given suspension of the monthly tax instalments payments between 1 June 2003 to 31 December 2003.

Effective

1 June 2003 to 31 December 2003

6. LIBERALISATION OF FOREIGN INVESTMENT COMMITTEE ("FIC") GUIDELINES

1. **Present**

Equity condition in Malaysian company is as follows :-

a) 70% by Malaysians with at least 30% are Bumiputras; and
b) Foreign interests restricted to 30%.

Proposed

Bumiputra equity shall be at least 30%. Foreign interest may hold up to 70%.

However, FIC approval is still require for acquisition of 15% or more of equity interest by foreign interest.

The requirement of at least 30% Bumiputra equity participation will be applied by all Ministries except where exemptions have been granted by the Government.

2. **Present**
FIC approval is required when there is an acquisition of assets or interests by Malaysian and Foreign interest exceeding RM5 million.

Proposed
The new threshold level is raised to RM10 million.

For acquisition exceeding RM100 million, companies can apply for exemptions from FIC Guidelines, subject to the approval of the Minister of Finance and on a case-by-case basis. This exemption is given for applications received before 31 May 2004.

3. **Present**
FIC consideration is required for processing of proposals on acquisitions by licensed manufacturing companies.

Proposed
Processing of proposals on acquisition by licensed manufacturing Companies will now be centralised at the Ministry of International Trade and Industry ("MITI") and corporate proposals at the Securities Commission.

4. **Present**
The equity condition for companies seeking listing on the Kuala Lumpur Stock Exchange ("KLSE") are as follows :-

a) Bumiputra equity participation of at least 30% upon listing; and
b) Foreign equity restricted to 30%.

Proposed
Foreign equity condition will be liberalised to attract more foreign companies to be listed on the KLSE in line with the Capital Market Masterplan.

5. **Present**
Compliance period for the equity condition is 1 year for the first approval.

Proposed
Compliance period will be further relaxed to :-

a) Extension to 2 years for the first approval and subsequently can be extended on a yearly basis;
b) Compliance period will be based on cash flow for companies with substantial and high-risk investments; and
c) Equity conditions for companies incurring losses and undertaking debt restructuring will be waived, however the waiver will be reviewed after 3 years.

6. **Present**
Foreign interest will be allowed to acquire residential and commercial properties exceeding RM250,000 per unit.

Proposed
Foreign interest are now allowed to acquire properties exceeding RM150,000 per unit.

7. **Present**

Direct investment by foreign interests into Malaysian real property is permitted where the property is acquired from developers, either ready-built existing buildings or newly launched projects which are valued above RM250,000 per unit. The property covers all types of residential property, shop houses, office space and business space. These acquisitions may be locally funded.

Proposed

No change except that foreign interests are allowed to acquire properties exceeding RM150,000 per unit.

8. **Present**

Where the properties are acquired from persons other than developers, the following rules applies :-

a) A local company must be formed to acquire business property (business space, office space or shophouses in Malaysia) valued above RM250,000 per unit, where the permitted foreign equity is 51%; and
b) Foreigners can acquired directly up to two residential property (condominiums / apartments) valued above RM250,000 per unit. For the third unit onwards, a local company must be formed where the permitted foreign equity is 30%.

Proposed

Foreign interests are now allowed to acquire properties exceeding RM150,000 per unit and the permitted foreign equity in the local company is now 70%.

9. **Present**

Acquisition of a hotel property must be made through a local company where a 100% foreign equity is permitted for the first 5 years; thereafter the foreign equity must be brought down to 51%.

Proposed

The permitted foreign equity in the local company is now 70% in the sixth year.

10. **Present**

Acquisitions of land for the purpose of development into a housing project, business property or industrial area must be made through a local company in which the permitted foreign equity is 30%.

Proposed

The permitted foreign equity in the local company is now 70%.