FOREWORD

On 27 October 2000, the first Malaysian Budget of the twenty-first century was tabled by the Minister of Finance. The new concept of ‘K-economy’ was introduced to lead the nation in moving towards a more competitive global economy and also aimed at ensuring Malaysia in achieving a developed nation status by the year 2020.

The 2001 Budget strategy focuses on :-

1. stimulating the nation’s economic growth;
2. identifying new sectors of growth;
3. continuing fiscal and monetary policies to support growth;
4. strengthening further the nation’s competitiveness; and
5. enhancing the quality of life of the people.

The government recognised that achievement of ‘K-economy’ comes from the root of the society, i.e. within families. Several measures have been put forward to increase the level of computer literacy, including the Smart Schools programme, EPF withdrawal for purchase of computers by parents and tax incentives for employers to provide personal computers to employees.

In the quest for a world-class workforce, the nation also requires leadership and contribution from a pool of the best talents from within as well as abroad. In this aspect, the government has placed great importance in encouraging skilled Malaysian citizens abroad to rejoin the nation in our vision for the 21st century.

Overall, the 2001 Budget has sent good news to all sectors of the economy, from working group to large multi-national corporations. It seeks to lead the whole nation in moving forward to the new era of global economy where every Malaysian will enjoy fruitful rewards for achievement of the nation.

TAXATION ON INDIVIDUALS

Tax rebate

Present
An individual taxpayer who has chargeable income not exceeding RM10,000 for a year of assessment will be given a rebate of RM110 and RM60 for the wife.

Proposed
The rebates will be increased to RM350 for the taxpayer and RM350 for the wife if their chargeable income respectively does not exceed RM35,000.

In the case of combined assessment, the combined chargeable income must not exceed RM35,000.

Effective
Year of assessment 2001.

Medical relief

Present
Tax relief up to a maximum of RM5,000 per annum is given to individual taxpayer on medical expenses incurred on himself, his spouse and his children suffering from serious illnesses.

Proposed
The present scope of medical relief for individual taxpayer of RM5,000 per annum will be extended to include expenses for a complete medical examination for the taxpayer, his spouse and his children for an amount not exceeding RM500 per annum.

Effective
Year of assessment 2001.

Further studies

Present
Individual pursuing further studies in science, technical, vocational and industrial skills at local institutions of higher learning are eligible for a personal relief on the study fees up to a maximum of RM2,000 per annum.

Proposed
1. The maximum relief on study fees be increased to RM5,000 per annum;
2. The fields of study are extended to include courses in information and communication technology (ICT); and
3. The relief also covers courses up to postgraduate level.

Effective
Year of assessment 2001.

Donations towards medical treatment expenses

Proposed
Tax deductions for individuals who contribute toward the medical expenses of a seriously ill person in need of financial assistance. Tax deductions will be given provided the donations are deposited into an account approved by the Inland Revenue Board.

Effective
Year of assessment 2001.

Equalisation of tax treatment

Present
Only the wife may elect for her income to be aggregated to the income of her husband (normally if wife earns nil or minimal income) and upon the election, the husband is entitled to claim wife relief of RM3,000 in addition to his personal relief of RM8,000. There is no such election given to the husband if a wife elects for a separate assessment and there is no avenue for the wife to claim any husband relief.

Proposed
In order to equalise the tax treatment to individual taxpayers (both husband and wife), a husband may elect for his income to be aggregated to her wife's income if she elects to be assessed under her own name. Upon such election by her husband, the wife will be entitled to claim a personal relief of RM8,000 and a husband relief of RM3,000 plus RM2,500 if the husband is a disabled person.

The following provisions are introduced in line with the new tax treatment :-

1. The husband to elect to combined his assessment under the wife's name;
2. The wife may claim a relief for the purchase of basic supporting equipment for her disabled husband;
3. The wife may claim expenses as set out below which were incurred by the husband under a combined assessment :
    - medical expenses in respect of a serious disease and medical examination expenses;
    - life insurance and EPF; and
    - premium paid for any insurance on education or for medical benefits;
4. To give husband's rebate equivalent to the wife's rebate;
5. In the case of combined assessment in the wife's name, the residence owned and occupied by him is deemed to be owned by the wife in determining the exemption on owner occupied residential premises; and
6. In the case of the husband or wife electing for combined assessment, the portion of the husband's or wife's tax which can be collected from the husband or wife shall be based on the following formula :-

$$\frac{A}{B} \times C$$

Where A is the husband's or wife's total income for a year of assessment;
B is the aggregate of the husband's and wife's total income; and
C is the tax charged for the year of assessment where the husband or wife elects for combined assessment.

Effective
Year of assessment 2001.

Incentives for Malaysian experts to return from abroad

Present

The following rules apply :-

1. Income remitted from abroad by resident individuals is subject to income tax;
2. All imported personal effects except motorcars are exempted from duties and taxes;
3. Unskilled husbands who are non-citizens are not accorded permanent resident status; and
4. Non-citizen wives can only apply for permanent resident status after residing in Malaysia for 5 years.

Proposed

The following incentives are proposed in order to encourage Malaysian experts to return and serve the nation :-

1. Income remitted within 2 years from the date of arrival will be exempted from income tax.
2. Two motorcars registered in the country of origin for at least 6 months in the name of either the husband/wife/children will be exempted from import duty and sales tax.
3. Husband/wife and children of a Malaysian citizen will be given permanent resident status within 6 months from the date of arrival.

Effective

1 January 2001.

Incentives for individuals to increase accessibility to information and communication technology (ICT) and enhancing their knowledge

Present

1. A tax rebate of RM400 on the purchase of a computer for the family (allowed once in 5 years);
2. Loan facility for Government servants to purchase a computer is given once in their tenure of service;
3. EPF contributors are eligible to withdraw their contributions to purchase a computer for their children aged 10 years and above; and
4. Gifts of computers by companies to their employees are deemed as benefit-in-kind and are subject to income tax.

Proposed

1. Government employees are allowed to apply for a computer loan once in every 5 years, effective from 28 October 2000;
2. EPF contributors are also allowed to withdraw their contributions to purchase a computer for their own use;
3. Gifts of new computers by companies to their employees are not deemed as benefit-in-kind and thereby should not be subjected to income tax. However, this relief is only effective from year of assessment 2001 to 2003;
4. A relief of up to RM500 per year is given to individual taxpayers for purchase of books, including text books with effect from 28 October 2000.

TAXATION ON COMPANIES

Deductions for employers

Present
Companies had to demonstrate that gift of new computers to employees was part of the employee remuneration package in order for the cost to be tax-deductible.

Proposed
Companies giving new computers to its employees will be allowed a specific deduction for the cost of the computers and the gift of computers will not be taxable in the hand of the employees as benefit in kind.

Effective
Year of assessment 2001 to year of assessment 2003.

Information and communications technology ("ICT") to the community

Present
A person is allowed for deduction the costs of providing services, public amenities and contributions to an approved charity or community project involved in education, health, housing and infrastructure.

Proposed
The list of approved charity or community projects be expanded to include approved charities or community projects involved in ICT. A deduction be granted for costs (cash or in kind) incurred.

Effective
Year of assessment 2001 to year of assessment 2003.

Contribution to scholarship

Present
Contributions made by companies to an approved scholarship fund qualify for tax deduction. However contributions made by companies providing scholarship directly to students will not be eligible for tax deductions.

Proposed
Companies providing scholarships to a student be given tax deductions provided that

(a) Scholarships are granted to full-time students enrolled in higher educational institutions registered in Malaysia (including twinning programs with foreign universities) for courses up to post-graduate level;
(b) The students do not earn any income; and
(c) The monthly household income of parents/guardians of students do not exceed RM5,000.

Effective
Year of assessment 2001.

Deductions on expenses for obtaining halal and quality certification and accreditation	**Present** Expenditure incurred for obtaining halal and quality certification and accreditation are not deductible expenses. **Proposed** The expenditure (not being capital expenditure) incurred shall be allowed as tax deduction in the basis period for the year of assessment in which the certificate is issued. **Effective** Year of assessment 2001.
Increased qualifying expenditure for capital allowance claim on private motor vehicles used for business	**Present** Qualifying expenditure for motor vehicles used for business purposes other than those licensed for commercial transportation of goods or passengers qualify for capital allowances up to a maximum of RM50,000. **Proposed** The qualifying expenditure on private motor vehicles be increased from RM50,000 to RM100,000 provided that :- 1. The expenditure is incurred on a motor vehicle purchased on or after 28 October 2000; 2. The vehicle has not been used prior to purchase; and 3. Its on the road price is less than RM150,000. It was further provided that for motor vehicles purchased during the period from 28 October 2000 to 31 December 2000 for which it does not fall within the basis period of a company for the year of assessment 2001, the expenditure shall be deemed incurred in the basis year period for the year of assessment 2001. **Effective** Year of assessment 2001 for motor vehicle purchased on or after 28 October 2000.
Deduction of rental for motor vehicles	**Present** Any sum paid by way of rentals in respect of a motor vehicle (other than a lorry, truck, bus, mini bus, van or station wagon licensed or permitted by appropriate authority for commercial transportation of goods or passengers) in excess of RM50,000 is not allowed for tax deduction. **Proposed** This deduction does not apply (as compared to specific type of vehicles) to those licenced by the appropriate authority for commercial transportation of goods or passengers. **Effective** Year of assessment 2001.

Cessation of tax exemptions under repealed law

Present
Certain exemptions allowed under the repealed Income Tax Ordinances were deemed to continue under the transitional and saving provisions under Schedule 9 of the Income Tax Act 1967.

Proposed
Where an income of a person is exempt by virtue of a repealed law, that exemption shall cease.

Effective
Year of assessment 2001.

Contribution to seriously ill persons

Present
No deduction is given for a donation made directly to a seriously ill person to help finance the medical expenses.

Proposed
Tax deductions be given on contribution made by donors provided that the donations are deposited into an account approved by the Inland Revenue Board.

Effective
Year of assessment 2001.

Restriction on deduction of gift of money

Present
A full tax deduction from the aggregate income is given to a person in respect of any gift of money made to an approved institution or organisation.

Proposed
The deduction of any gift of money made by a company to an approved institution or organisation shall not exceed 5% of its aggregate income in the relevant year.

Effective
Year of assessment 2001.

Additional powers of relief

Present
The Minister has powers under Section 127(3)(b) of the Income Tax Act 1967 to exempt any person or a class of persons, from the provision in the Act in respect of income of a particular kind or any class of income.

Proposed
The minister’s powers to be expanded to provide for specific relief in relation to the treatment of expenses, losses and capital allowances in arriving at the chargeable income of a person, as he thinks fit.

Effective
Year of assessment 2001.

Expanded definition of approved organisations

Present

(a) The term "organisation" for the purposes of approval is defined under Section 44(6).

Proposed

The term "organisation" for the purposes of approval under Section 44(6) be widened to include the following :

(a) an international organisation as defined under the International Organisation (Privileges and Immunities) Act 1992 carrying out such charitable activities as determined by the Minister of Finance; or
(b) an organisation established and maintained exclusively to administer or augment a fund established or held for the purpose of carrying out projects towards the acculturation of the community in information and communication technology, approved by the Minister of Finance; or
(c) a benevolent fund or trust account established or held for the sole purpose of providing relief or aid to an individual who has no, or insufficient means, or in the case of a dependent individual whose parents or guardian has no, or insufficient means to pay for the cost of the medical treatment required by such individual to treat a serious disease as defined in Section 46(2).

Effective

Year of assessment 2001.

TAX INCENTIVES

Additional incentives for reinvestment

Present

Manufacturing companies and promoted food producing companies which undertake expansion, modernization, diversification and automation are eligible for reinvestment allowance.

Reinvestment allowance incentive – income tax exemption on 60% of capital expenditure incurred in a period of 5 years. Reinvestment made after the 5 year period is not eligible for reinvestment allowance.

Proposed

Upon expiry of the reinvestment allowance incentive period, companies be given accelerated capital allowance on capital expenditure to be utilised within 3 years.

Application for this incentive should be forwarded to the Inland Revenue Board by submitting the income tax declaration forms, together with a letter from MIDA certifying that the companies are manufacturers of promoted products or producers of promoted food items.

Effective

Year of assessment 2001.

Export incentive – professional fees for packaging design

Present
Double deduction for expenses incurred in the promotion of export do not include expenses on professional fees for packaging design.

Proposed
Professional fees incurred for packaging design will be eligible for double deduction provided :-

(a) The goods are of export quality; and
(b) The company employs local professional services.

Effective
Year of assessment 2001.

Investment in venture companies

Present
Companies which invest in venture capital business such as VCC are given full income tax exemption for a period of 10 years provided that 70% of the funds invested in approved venture companies are at start-up, seed capital and early stage financing.

Proposed
Investment in approved venture companies at start-up, seed capital and early stage financing be given a deduction equivalent to the value of the investment and the deductions to be allowed to carried forward should the company does not have sufficient statutory income to offset the investment. This incentive is given provided that the investing company does not dispose its equity in the venture company until the venture company is listed.

Effective
Year of assessment 2001.

Extension of incentives for promoted areas

Present
Manufacturing, agriculture and tourism projects located in the Eastern Corridor of Peninsular Malaysia, Sabah, and Sarawak enjoy the following tax incentives which will expire on 31 December 2000.

(a) Pioneer status with exemption of 85% of statutory income for a period of 5 years; or
(b) Investment Tax Allowance of 80% on the qualifying expenditure to be utilised against 85% of the statutory income; **And**
(c) 100% infrastructure allowance on capital expenditure incurred for the provision of infrastructure such as bridges, roads or ports.

Proposed
The above incentives be extended for another 5 years until 31 December 2005.

Incentives for conservation of energy

Present
Activities related to energy conservation are not eligible for tax incentives.

Proposed
Companies which incur capital expenditure for conserving own energy consumption be given the following incentives :-

(a) Accelerated capital allowances on related equipment to be fully written off within 3 years (effective from year of assessment 2001); and
(b) Import duty and sales tax exemption on imported equipment (please refer to section under Indirect Tax for further details).

Companies providing energy conservation services be given the following incentives :

(a) Income tax exemption of 70% on statutory income for 5 years; or
(b) Investment allowance of 60% of capital expenditure incurred within a period of 5 years and to be utilised against 70% of the statutory income;

and

(c) Import duty and sales tax exemption on imported equipment (please refer to section under Indirect Tax for further details).

Applicable for applications received from 28 October 2000 to 31 December 2002 and the project must be implemented within 1 year from date of approval.

Additional incentive to encourage waste recycling activity

Present
Companies undertaking waste recycling activities which are of high value added using high technology are given pioneer status or investment tax allowance.

Proposed
Additional incentives be given to companies undertaking waste recycling activities :

(a) Accelerated capital allowances on related equipment to be fully written off within 3 years (effective from year of assessment 2001); and
(b) Import duty and sales tax exemption on imported equipment (please refer to section under Indirect Tax for further details).

Export incentive – publishing and ICT services

Present
An exemption of 10% of the value of the increased export against statutory income is given to the following companies that export services :

(a) legal;
(b) accounting;
(c) engineering consultancy;
(d) architecture;
(e) marketing;
(f) business consultancy;
(g) office services;
(h) construction management;
(i) building management;
(j) plantation management;
(k) private health care; and
(l) private education.

Proposed
The present incentive for promoting export of services be extended to include publishing services and ICT services.

Effective
Year of assessment 2001.

Incentives for utilising biomass as a new source of energy

Present
The government is adopting four fuel strategy i.e. water, oil, gas and coal to generate electricity supply. To further diversify the energy sources, the government is promoting biomass as a new energy source which is renewable and environmental friendly.

Proposed
Companies generating energy using biomass will be given the following incentives :

(a) Income tax exemption of 70% on statutory income for 5 years; or
(b) Investment tax allowance of 60% of capital expenditure incurred within a period of 5 years and to be utilised against 70% of the statutory income;

and

(c) Import duty and sales tax exemption on imported machinery and equipment (please refer to section under Indirect Tax for further details).

Applicable for applications received from 28 October 2000 to 31 December 2002 and the project must be implemented within 1 year from date of approval.

SPECIFIC INDUSTRIES

Incentives for provision of cold chain facilities and services for food products

Present
Companies providing cold room and refrigerated truck facilities and related services such as collection and treatment of locally produced perishable food products have not been granted any tax incentives.

Proposed
Companies providing such services be given the following incentives :-

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

Effective
From 28 October 2000.

Incentives for food production projects

Present
Companies engaged in food production qualify for incentives such as pioneer status or investment tax allowance under the Promotion of Investments Act 1986 and 100% capital allowance (Schedule 4A of the Income Tax Act 1967).

Proposed
Tax incentives be given to a company invests in the subsidiary company engaged in food production project as well as that subsidiary company as follows :-

First alternative :
(a) the investing company be granted tax deductions equivalent to the amount of investment made in that subsidiary; and
(b) 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 in which –
   (i) losses incurred before the exemption period is allowed to be brought forward after the exemption period of 10 years;
   (ii) losses incurred during the exemption period is also allowed to be brought forward after the exemption period of 10 years; and
   (iii) dividends paid from the exempt income be exempted in the hands of the shareholders.

OR

Second alternative :
(a) The investing company be given group relief for the losses incurred by the subsidiary company before it records any profit; and
(b) 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 in which –
   (i) losses incurred during the exemption period is also allowed to be brought forward after the exemption period of 10 years; and
   (ii) dividends paid from the exempt income be exempted in the hands of the shareholders.

The incentive are granted with the following conditions :-
I. the investing company should own 100% of the company that undertakes food production;
II. the eligible food products are as approved by the Minister of Finance. For a start, the approved food products are kenaf, vegetables, fruits, herbs, spices, acquaculture, beef and mutton; and
III. the food production project should commence within a period of one year from the date the incentive is approved.

Application for these incentives should be submitted for the approval of Ministry of Finance through the Ministry of Agriculture before 31 December 2003.

REAL PROPERTY GAIN TAX

RPGT on issuance of asset-backed securities

Present
RPGT on transactions relating to the issuance of asset-backed securities are exempted until 31 December 2000.

Proposed
RPGT relating to the issuance of asset-backed securities be abolished.

Effective
1 January 2001.

STAMP DUTY

Stamp duty on issuance of asset-backed securities

Present
Stamp duty on transactions relating to the issuance of asset-backed securities are exempted until 31 December 2000.

Proposed
Stamp duty relating to the issuance of asset-backed securities be abolished.

Effective
1 January 2001.

Stamp duty on all share transactions by foreign investors in the Kuala Lumpur Stock Exchange (KLSE)

Present
Stamp duty is imposed to a maximum of RM200 on contract notes relating to shares transaction at the KLSE by foreign stockbroking firms. If the shares are transacted by foreign investors through local stockbroking firms, the stamp duty is imposed at 0.1% of the share value without any maximum limit.

Proposed
Stamp duty at a maximum rate of RM200 on share transactions regardless of whether the transactions are done through local or foreign broking firms.

Effective
1 January 2001.

Stamp duty on instruments of transfer of property

Currently, the rate of stamp duty on instruments of transfer of property is as follows :
1% on the first RM100,000
2% on the next RM400,000
3% on the next RM1,500,000
4% on the remaining amount

It is proposed that the rate of stamp duty on instruments of transfer of property be reviewed as follows :
1% on the first RM100,000
2% on the next RM400,000
3% on the remaining amount

Effective
1 January 2001.

Rate of stamp duty on selected instruments

Present
The specific stamp duty rates imposed under the First Schedule, Stamp Act 1949, varies from 15 sen for a cheque to RM100 for a Memorandum and Articles of Association.

Proposed
To simplify the stamping process, the specific stamp duty rate on all documents, except for cheques and Memorandum and Articles of Association will be standardised at RM10.

Effective
1 January 2001.

Penalty rates	**Present** Stamp duty is generally required to be paid within 30 days of the execution of an instrument or if the instrument is sent for adjudication purposes, within 14 days of the notice of assessment or order of the Court. A penalty equivalent to RM25 or four times the amount of deficient duty, whichever is the greater, is imposed if the instrument is not stamped within the specific period. In addition, the Collector of Stamp Duties is permitted, if he thinks fit, to reduce or remit any penalties that do not exceed RM500. However, reduction or remittance of penalties beyond RM500 require authorisation from the Minister of Finance or any person authorized by him. **Proposed** An instrument which is not stamped within the specific period may be stamped on payment of the unpaid duty and a penalty of :- 1. RM25 or 50% of the amount of deficient duty, whichever is greater, if the instrument is stamped within 3 months after the specified period; 2. RM50 or 100% of the amount of deficient duty, whichever is greater, if the instrument is stamped after 3 months but before 6 months after the specified period; or 3. RM100 or 200% of the amount of deficient duty, whichever is greater, in any other case. In addition, the Collector of Stamp Duties may, if he thinks fit, reduce or remit any penalties that do not exceed RM5,000 including those relating to the compounding of duty or unstamped cheques, contract notes or insurance policies. **Effective** 1 January 2001.

INDIRECT TAXES

Item	Present	Proposed	Effective
Cigarettes and alcohol	The sales tax rate on cigarettes and tobacco products, and on alcoholic beverages is 15%. .	The sales tax rate on such items be increased as follows: • on cigarettes and tobacco products, to 25%; and • on alcoholic beverages, to 20%.	27 October 2000
Golfing and golf driving range facilities	Golfing and golf-driving range facilities and related services provided by private clubs are subject to service tax at the rate of 5% but similar services provided by other than such clubs are not subject to service tax.	Service tax on golfing and golf-driving range facilities and other related services be rationalised to cover all such facilities which are provided by private clubs as well as those provided by other than such clubs even if they are currently below the specified threshold.	1 January 2001

Telecommunication services	Basic telecommunication services such as telephone, facsimile, telemail, paging cellular phone and telex are subject to service tax at the rate of 5%, with the exception of new telecommunication services such as leased lines/bandwidth and value added services.	It is proposed that service tax be rationalised to cover all forms of telecommunication services, with the exception of the internet.	1 January 2001
All classes of public and beer houses	Premises which are licensed as First Class Public House or First Class Beer House which provide alcoholic beverages and beer are subject to a 5% service tax whereas other premises licensed as Second and Third Class Public and Beer Houses are not subject to the service tax.	Service tax be rationalised to cover all classes of Public and Beer Houses.	1 January 2001
Forwarding agents	Forwarding agents approved under the *Customs Act 1976* are subject to a 5% service tax if their annual turnover exceeds the threshold of RM150,000 but approved forwarding agents with annual turnover below the threshold are not subject to service tax.	Service tax be rationalised to cover all forwarding agents and that the threshold be abolished.	1 January 2001
Cost to hauliers	Prime movers and trailers are subject to high import duties of 30% and 25% respectively, an imposition designed to protect local manufacturers. On top of the import duties, they are also subject to a sales tax of 10%.	The costs of operation of the hauliers be reduced by the introduction of the following measures: 1. exemption on import duty and sales tax on prime movers and trailers, provided that such vehicles are not produced locally; and 2. exemption from sales tax for prime movers and trailers that are produced locally.	28 October 2000
Machinery and equipment in the plantation sector	There are no exemptions on import duty and sales tax on machinery and equipment of established plantation sectors.	The machinery and equipment used in the plantation sector will be given import duty and sales tax exemption.	28 October 2000

		Machinery and equipment that are produced locally will be given sales tax exemption. (Application to MIDA is required).	
Spares and consumables	Import duty and sales tax exemptions on qualifying manufacturing spares & consumables are due to expire on 31 December 2000. The scope of the tax exemptions available do not include companies providing promoted services.	Extension of the current import duty and sales tax exemptions for another 3 years to 31 December 2003. The scope of the tax exemptions be widened to include companies providing promoted services.	1 January 2001 to 31 December 2003
Waste recycling activities	Machinery and equipment for waste recycling activities may be subject to import duty and/or sales tax.	Import duty and sales tax exemptions on machinery and equipment provided that they are not produced locally. For machinery and equipment that are locally produced, sales tax exemptions will be given.	28 October 2000
Machinery and Equipment for generation of energy using Biomass	Machinery and equipment for generation of energy using biomass may be subject to import duty and/or sales tax.	Import duty and sales tax exemption on machinery and equipment which are not produced locally. Machinery and equipment which are produced locally will be exempted from sales tax.	This incentive is applicable for applications received from 28 October 2000 until 31 December 2002, on the condition that the company implements the project within one year from the date of approval.
Provisions for the disabled persons	Import duty and sales tax on equipment such as walking stick, aluminium adjustable folding cane, aluminium commode, battery for hearing aids are currently still subject to import duty and sales tax.	The import duty and sales tax of these items be abolished. The Government also proposed that the following exemptions be afforded to the disabled: 1. Full exemption on all medical fees at government hospitals; 2. Full exemptions on fees on travel documents;	28 October 2000

		3. 50% excise duty exemption on the purchase of national motorcars and motorcycles by the disabled person to ease the financial burden of the physically disabled who wish to purchase a motor vehicle, subject to the following conditions: ▪ the applicant is registered with the Social Welfare Department; ▪ the applicant has a valid driving licence; ▪ the vehicle is not allowed to be sold or its ownership transferred for a period of 10 years except with the approval of the Treasury; and ▪ the exemption is given for a vehicle once every 10 years.	
Energy conservation activities	Machinery and equipment for energy conservation activities may be subject to import duty and/or sales tax.	For companies providing energy conservation services, import duty and sales tax exemption on equipment used in the project provided that the equipment is not available locally. For equipment that is produced locally, sales tax exemption will be given For companies which incur capital expenditure for conserving their own energy consumption, import duty and sales tax exemption on equipment that is not produced locally. For equipment that is produced locally, sales tax exemption will be given.	28 October 2000

MISCELLANEOUS

Exit levy

Present
A levy of 10% on profits repatriated from short-term portfolio investments to discourage large outflows of short-term capital.

Proposed
The levy on portfolio profits repatriated after one year be abolished.

EPF – wider scope of withdrawals

Present
EPF savings can only be withdrawn under the following circumstances :-

(a) for retirement purposes at age of 55;
(b) for purchase of house (limited to one);
(c) for withdrawal at age of 50;
(d) for health and medical;
(e) the EPF contributor is leaving Malaysia permanently;
(f) for investment in approved unit trust funds;
(g) for tertiary education of children; and
(h) for purchase of computers for those with children above age 10.

Proposed
The EPF contributors be given additional flexibility to withdraw a portion of their EPF contributions :-

(a) for purchase of computers for own use (effective from 28 October 2000);
(b) for purchase of a second house provided that the first house is sold; and
(c) to further their own education.

UPDATE ON THE SELF ASSESSMENT SYSTEM

Basis period for companies

Present
The basis period for income of a company in a year of assessment is dependent on the source of income; i.e. business income is assessed on financial year basis while non-business income (e.g. dividends, interest, rental) is assessed on a calendar year basis.

Proposed
The basis period for the assessment of income of a company, whether business or non-business sources, shall be the accounting year of the company.

Effective
Year of assessment 2001.

Comments
The proposed amendment introduces a change in the basis of assessment for companies with non-business income from basis year to basis period. This will facilitate companies including investment holding companies to comply with the self assessment system.

Imputation system & dividend franking credit

It has been proposed that the existing section 108 of the Income Tax Act, 1967 will be substituted with a new provision with effect from the year of assessment 2001 for companies. A summary of the proposed legislation is as follows :-

1. <u>Dividend franking statement</u>

   A resident company shall submit to DGIR the dividend franking credit statement showing the compared total and compared aggregate of the company within 6 months following the close of its accounting period.

   Failure to submit the statement may result in fine between RM200 and RM2,000 and/or imprisonment for officers of the company for a period up to 6 months.

   For year of assessment 2000 current year basis, a company shall submit the dividend franking credit statement within three months after the end of the year of assessment

2. <u>Compared total</u>

   Compared total will be computed based on the tax deducted from dividends paid, credited or distributed to its shareholders in a basis period for a year of assessment (accounting year end of the company).

3. <u>Compared aggregate</u>

   The calculation of compared aggregate will now be based on tax paid which includes instalment payments during the basis period for a year of assessment.

4. <u>Excess of compared total over compared aggregate</u>

   Should there be an excess of compared total over compared aggregate at the end of the basis period for a year of assessment, the shortfall shall be due to the government and is payable within 6 months from the close of the accounting period. If the amount has not been paid by the due date, a 10% penalty will be imposed on the amount unpaid.

5. <u>Other penalties</u>

   Where a company fails to render the section 108 statement or provide information required in the statement and has paid dividend in excess of the S108 credit available, the IRB will issue requisition to pay the excess and a maximum penalty of 100%.

6. <u>Transitional provision</u>

   A company may have to maintain 2 section 108 dividend franking accounts concurrently, i.e.
   i. Existing S108 for tax credits up to 31 December 2000; and
   ii. New S108 for tax credit from year of assessment 2001.

   Utilisation of existing S108 credit takes precedence of the new S108, until exhaustion of the existing S108 credit balance.

Special provision

Dividends paid, credited or distributed between 1 January 2000 until the end of the basis period for year of assessment 2001 shall be included in the compared total under the new S108.

Assessment of dividend income

Present
Dividend paid, credited or distributed in a basis year by a resident company will be deemed to be derived from Malaysia for the year of assessment.

Proposed
Dividend income will be assessed on accounting year basis. Where there is an overlapping of basis period with that of the immediate preceding year of assessment, dividend income shall only be taxed in the immediate preceding year of assessment to avoid double taxation.

Effective
Year of assessment 2001.

Regrossing of dividend income

It is proposed that where a company pays, credits or distributes dividend

i. without deduction of tax a dividend from which it is entitled to deduct tax; or
ii. when there is a revision in the rate of tax for companies for that year of assessment;

the dividend shall be deemed to be a dividend of such a gross amount as determined in accordance with the formula :

$$\frac{1}{(1-A)} \text{ X } B$$

A (i) the tax rate applicable to the company for a year of assessment at the time of payment, crediting or distribution of the dividend, or
(ii) the revised tax rate applicable to the company for a year of assessment at the time of payment, crediting or distribution of the dividend and

B the amount actually paid or credited or where the dividend consists of property other than money, the amount of the market value of that property at the time of the distribution of the dividend.

Tax set off under S110 for dividend income

Present
DGIR is not empowered to deal with a recipient of dividend from a company that has insufficient section 108 dividend franking credits.

Proposed
Where the DGIR discovers that the company had paid, credited or distributed dividend with insufficient section 108 dividend franking credit, the net amount receivable shall be assessed as gross dividend income and no section 110 relief is to be given.

Effective
Year of assessment 2001.

Best-judgment assessments	**Present** The DGIR may make an assessment of a person according to the best of his judgment if he is of the opinion that the person who has not delivered a return for a year of assessment is chargeable to tax for that year of assessment. **Proposed** Where a company fails to furnish a return for a year of assessment, the DGIR may according to the best of his judgment make an assessment on the company. **Effective** Year of assessment 2001.
Advance assessment and appeal	**Present** The DGIR may issue an advance assessment in respect of business of a person with a basis period ending on a day other than 31 December. The taxpayer may appeal against the assessment in the first 3 months of the year of assessment. **Proposed** The DGIR may issue an advance assessment in respect of income, business or non-business, of a person with a basis period ending on a day other than 31 December. The taxpayer may appeal against the assessment in the first 3 months of the following year of assessment. **Effective** Year of assessment 2000 current year basis.
Furnishing of forms by electronic medium	**Present** Taxpayers are allowed to furnish income tax return on an electronic medium or by way of electronic transmission. **Proposed** Taxpayers are allowed to furnish any other forms prescribed under the Income Tax Act on an electronic medium or by way of electronic transmission. **Effective** Year of assessment 2001.
Record keeping	**Proposed** The proposed amendments in respect of record keeping requirement by a person who carry on a business are summarised below :- 1. Records pertaining to the business of a person must be retained for 7 years from the end of the year to which any income from that business relates. Where a person carrying on a business has not forwarded return for a year of assessment, the record relating to the year of assessment shall be retained for a period of 7 years after the end of the year in which the return is furnished.

2. Any person who keep records electronically shall retain them in an electronically readable form and shall keep the records in such a manner as to enable the records to be readily accessible and convertible into writing. Where records has originally be kept in a manual form and subsequently converted into an electronic form, those records shall be retained in its original form prior to the conversion.

3. All records that relate to any business in Malaysia shall be kept and retained in Malaysia.

4. "Records" have been defined to include –
   a. books of account recording receipts and payments or income and expenditure;
   b. invoices, vouchers, receipts and such other documents as in the opinion of the DGIR are necessary to verify the entries in any books of account; and
   c. any other records as may be specified by the DGIR.

5. Any person who without reasonable excuse fail to comply with the retention of records, may be prosecuted and on conviction, be liable to a fine of between RM300 and RM10,000 or imprisonment for a term of 1 year or both.

Effective
1 January 2001.